STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

DE 09-035

In the Matter of:
Public Service of New Hampshire
Request for Permanent Distribution Rates

Direct Testimony

of

Steven E. Mullen
Assistant Director – Electric Division

January 15, 2010

TABLE OF CONTENTS

LIST OF ATTACHMENTS

I. INTRODUCTION AND SUMMARY

Q. Please state your name, position and business address.

A. My name is Steven E. Mullen. I am employed by the New Hampshire Public Utilities Commission as the Assistant Director of the Electric Division. My business address is 21 South Fruit Street, Suite 10, Concord, New Hampshire.

Q. Please summarize your educational background and work experience.

A. In 1989, I graduated *magna cum laude* from Plymouth State College with a Bachelor of Science degree in Accounting. I attended the NARUC Annual Regulatory Studies Program at Michigan State University in 1997. In 1999, I attended the Eastern Utility Rate School sponsored by Florida State University. I am a Certified Public Accountant and have obtained numerous continuing education credits in accounting, auditing, tax, finance and utility related courses.

From 1989 through 1996, I was employed as an accountant with Chester C. Raymond, Public Accountant in Manchester, NH. My duties involved preparation of financial statements and tax returns as well as participation in year-end engagements. In 1996, I joined the Commission as a PUC Examiner in the Finance Department. In that capacity I participated in field audits of regulated utilities' books and records in the electric, telecommunications, water, sewer and gas industries. I also performed rate of return analysis, participated in financing dockets and presented oral testimony before the Commission. In 1998, I was promoted to the position of Utility Analyst III and continued to work in all of the regulated industry fields, although the largest part of my time was concentrated on electric and water issues. As part of an internal reorganization of the Commission's Staff in 2001, I became a member of the Electric Division. I was promoted to Utility Analyst IV in 2007 and then Assistant Director of the Electric Division in 2008. Working with the Electric Division Director, I am responsible for the day-to-day management of the Electric Division including decisions on matters of policy. In addition, I evaluate and make recommendations concerning rate, financing, accounting and other general industry filings. I represent Staff in meetings with company officials, outside attorneys, accountants and consultants relative to the Commission's policies, procedures, Uniform System of Accounts, rate case, financing and other industry and regulatory matters.

Q. Have you previously testified before this Commission?

A. Yes. I have testified before the Commission on numerous occasions.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide Staff's recommendation for a distribution service revenue requirement for Public Service Company of New Hampshire ("PSNH" or "Company"). On June 30, 2009, PSNH filed testimony and schedules requesting a $51.1 million increase in distribution service revenues based on a test year ending December 31, 2008. As part of this testimony, I will also be providing comments and recommendations regarding PSNH's Reliability Enhancement Program (REP), PSNH's costs incurred in restoring power as a result of the December 2008 ice storm and the subject of attrition.

Q. Are other members of Staff presenting testimony in this proceeding?

A. Yes. The following Staff witnesses are also providing testimony:

- Pradip K. Chattopadhyay presents Staff's recommendations for the appropriate capital structure, return on equity and overall rate of return for PSNH;

- George R. McCluskey discusses recommendations concerning certain rate design and tariff revisions proposed by PSNH; and
- James J. Cunningham, Jr. provides testimony on the issues of depreciation and amortization as well as PSNH's costs in the areas of pensions, other post-employment benefits (OPEBs) and medical costs.

Q. Did PSNH update its revenue requirements schedules during the course of discovery?

A. Yes. On December 15, 2009, PSNH filed updated schedules to reflect adjustments related to issues that arose during discovery as well as modifications required due to information that was acquired subsequent to PSNH submitting its original filing. As a result of those adjustments and modifications, PSNH's requested increase in distribution revenue changed slightly from $51.1 million to $50.9 million. I have included those updated adjustments in my schedules and have used PSNH's updated rate base and income statement balances as the starting point for my calculations.

Q. What is Staff's recommended increase to PSNH's distribution service revenues?

A. As shown on Attachment SEM-1, Schedule 1, line 12 Staff recommends an increase to distribution revenues of $31,994,000. This represents an increase of 12.28% as compared to the proformed test year operating revenues of $260,606,000.

Q. In addition to its $51 million permanent rate increase request did PSNH also request a step increase?

A. Yes. As described in the testimony of PSNH witness Robert Baumann, PSNH is also requesting a $17 million step increase, effective July 1, 2010, to recover the revenue requirements associated with the following items, as slightly revised in its December 15, 2009 updated filing (amounts in 000s):

Reliability Enhancement Program	$ 4,000
Capital Recovery Calculation	$ 5,760
Major Storm Reserve	$ 2,700
Net 2009 Capital Additions (incl. depreciation)	$ 4,311
Total	$ 16,771

These items will be discussed in greater detail later in my testimony. Overall, PSNH is seeking approximately $68 million through a combination of the permanent rate increase and the step increase.

Q. What is Staff's recommendation with regard to the recommended July 1, 2010 step increase?

A. Staff recommends a step increase of $8,860,000 effective July 1, 2010. Details will be provided later in my testimony.

Q. Did PSNH request temporary rates in this proceeding?

A. Yes. In its April 17, 2009 filing, PSNH requested a $34 million temporary increase in distribution revenues. In Order No. 24,997 (July 31, 2009), the Commission approved a settlement agreement whereby PSNH was allowed to increase its distribution revenues by $25.6 million on a temporary basis, effective August 1, 2009, subject to the final decision on permanent rates. Taking the prior temporary increase into consideration, Staff is now recommending an additional increase to distribution revenues of $6,383,000 (SEM-1, Schedule 1, line 14. This revenue requirement is calculated on a total rate base of $769,725,000, as computed on Schedule 2, and provides for an overall rate of return of 7.335% percent, as detailed on Attachment SEM-1, Schedule 1B and described in the testimony of Dr. Chattopadhyay.

Q. What do Staff's recommended increases to PSNH's distribution revenues represent as percentage increases when compared to existing revenue levels?

A. As stated above, the $31,994,000 recommended increase represents an overall 12.28% percent increase above pre-rate case distribution revenues. The current incremental $6,383,000 accounts for a 2.45% percent increase while the prior $25,611,000 temporary rate increase was a 9.83% increase. As shown on line 19 of SEM-1, Schedule 1, Staff's recommended step adjustment of $8,860,000 effective July 1, 2010, would represent an additional increase of 3.03% above then-current revenue levels.

Q. Please summarize your other recommendations.

A. Staff recommends approval of PSNH's request for $4 million of annual funding for an REP program, but does not fully agree with PSNH's plans regarding its existing REP. Regarding the costs incurred by PSNH in restoring power as a result of the December 2008 ice storm, Staff recommends a ten-year recovery period with an accelerated recovery method and a decreased rate of return. Finally, Staff proposes the implementation of a five-year earnings sharing mechanism.

Q. Please describe how you've organized your testimony.

A. My testimony begins with comments regarding PSNH's REP including recommendations regarding the related impact on revenue requirements. Next, I discuss the costs incurred by PSNH to restore power as a result of the December 2008 ice storm and provide recommendations concerning the amounts to be recovered and a proposed recovery methodology. I then provide testimony concerning a proposed distribution requirement, with supporting detailed calculations. Finally, I discuss the subject of attrition and offer a proposal for establishing PSNH's distribution rates for the next five years.

Q. Do you have any preliminary comments?

A. Yes. I'd like to thank the Commission's Audit Staff for their thorough work in reviewing PSNH's test year and ice storm data. Many of their findings have been reflected either in PSNH's updated schedules or in the schedules that are attached to my testimony.

II. RELIABILITY ENHANCEMENT PROGRAM

Q. When was PSNH's REP first established and when did it become effective?

A. The REP originated in PSNH's last delivery rate proceeding, Docket No. DE 06-028, and became effective on July 1, 2007.

Q. What is the purpose of the REP?

A. The REP was established to address declining reliability being experienced on PSNH's distribution system. The REP provides targeted incremental funding to address activities such as the replacement of aging equipment, distribution line vegetation management, distribution inspection and repairs, and various other repair and maintenance activities. The funds provided by the REP are over and above the funds provided in base distribution rates for distribution system maintenance and repair activities.

Q. What is the existing funding level of the REP?

A. PSNH's REP, which was established as a five-year program, currently has an annual funding level of $10 million. The $10 million is intended to cover the revenue requirements associated with approximately $10 million of certain annual REP-eligible capital projects (approximately $1.2 million per year) with the remainder of the funding targeted to REP-eligible operation and maintenance (O&M) expenses.

Q. Has PSNH proposed any changes to the REP?

A. Yes. Specifically, PSNH has proposed the following changes[1]:

---

[1] PSNH June 30, 2009 filing, Volume I, Testimony of Stephen M. Johnson, Bates page 26.

- Recovering the revenue requirements associated with accumulated REP capital investments as part of its distribution rates rather than using REP funding;
- Moving \$8.2 million of REP-related test year O&M expenses out of the specific REP funding and into distribution revenue requirements; and
- Re-establishing the REP annual increment at \$4 million (REP II) for four years to allow for expanded reliability initiatives and allow for the development of a Geographic Information System (GIS).

Q. Please provide your comments regarding the first proposal mentioned above.

A. I agree with PSNH's proposal to recover the revenue requirements associated with its REP-related capital investments as part of its distribution revenue requirements. When the REP was initially established, the intent was to provide annual funding targeted to specific capital and O&M projects to improve PSNH's overall distribution system reliability. However, what has happened is that the revenue requirements associated with capital investments in one year continue to be met with REP funding in succeeding years. As the capital projects accumulate, the amount available for REP O&M programs declines each year. To address this problem, PSNH has included its REP capital investments in distribution rate base.

Q. What are your thoughts concerning PSNH's proposal to shift \$8.2 million of REP O&M costs to distribution revenue requirements?

A. I do not agree with PSNH's proposal to move \$8.2 million of its test year REP O&M costs to distribution revenue requirements. PSNH has justified its proposal by stating that it considers the REP O&M activities it has performed over the last two years to be standard business practices. PSNH has also stated that some of the O&M activities are either cyclical or require continued annual work, such as switch maintenance cycles or reduced vegetation maintenance trimming cycles.

Q. Do you disagree with PSNH's comments?

A. While PSNH has recognized the value of the REP O&M activities and now considers them standard business practice, by moving those activities to base distribution revenue requirements the targeted nature of the REP funding is lost. While it is true that certain of the O&M activities are either cyclical or require continued annual work, the primary purpose of having dedicated REP funding is to ensure that the funds are spent only on the targeted REP and are not diverted elsewhere within the company. On this subject, PSNH confirmed Staff's understanding that if the $8.2 million of test year REP O&M expenses are transferred to base distribution revenue requirements, nothing would prohibit the management of PSNH's parent company, Northeast Utilities (NU), from directing that the funds be spent elsewhere. While PSNH has stated its intent to remain committed to the REP maintenance program, it is possible that future economic considerations and/or management directives could alter or derail those plans if the targeted nature of the REP funding is not held intact.

Q. What specific projects would be covered under what you have identified as REP II?

A. The specific capital and O&M projects are discussed in Mr. Johnson's June 30, 2009 prefiled testimony.[2] To summarize Mr. Johnson's testimony, the $4 million annual REP increment would cover the following activities:

Activity	Annual Cost	Annual Revenue Requirements
"Base REP' capital projects	$ 4,000,000	$ 480,000
New REP capital projects	$ 8,860,000	$ 1,063,200
New REP O&M expenses	$ 2,457,250	$ 2,457,250
Annual Revenue Requirements		$ 4,000,450

Q. What are the "Base REP" capital additions that are referred to above?

A. As I understand PSNH's proposal, those capital additions represent projects included in the capital spending program in the existing REP, with that program continuing under REP II.

Q. Do you recommend that PSNH's request to re-establish the annual REP increment at $4 million be approved?

A. Yes, but with a slight variation. Consistent with my earlier comments, I recommend that the $8.2 million of test year REP O&M expenses continue to be included as part of the REP program. Therefore, my recommendation is for a REP program, effective beginning July 1, 2010, at an annual funding level of $12.2 million. As the $8.2 million is already included in PSNH's annual costs, this would require no change to PSNH's proposal to include the $4 million of incremental REP II funding in the July 1, 2010 step increase.

Q. PSNH proposed a four-year period for REP II. Do you agree with that recommendation?

A. Later in my testimony I describe a proposed five-year earnings sharing mechanism. Consistent with that testimony, I recommend that the total $12.2 million annual REP funding continue for five years. This recognizes the ongoing and cyclical nature of the $8.2 million of test year O&M activities. As PSNH has only proposed the $4 million incremental funding for a four-year period, I recommend that PSNH revise its plans to incorporate a fifth year.

Q. Do you have any comments regarding any of the proposed new REP activities?

A. Yes. One of the major projects PSNH plans to undertake with the additional funding is to implement a GIS. As became evident during the December 2008 ice storm restoration

---

[2] Ibid, Bates pages 27-30.

effort, PSNH's lack of a GIS and an accompanying GIS-based outage management system (OMS), among other things, hampered its ability to be able to provide town-by-town outage and restoration information to state and local officials on a timely basis. The information PSNH was able to provide was more circuit-based rather than specific to geographic boundaries. Having town-by-town specific information for outage and restoration status is important for state and local officials to be able to plan and coordinate such things as the need for emergency shelters, emergency supplies, additional labor and equipment resources, etc. In contrast, those NH utilities with GIS-based OMS were able to provide more meaningful information.

Q. Do you have any comments regarding PSNH's GIS implementation plans and proposed time schedule?

A. Implementation of a GIS is a subject Staff has discussed with PSNH personnel a number of times over the past few years. Due to a combination of factors, including funding issues and corporate philosophy, PSNH has been slow to embrace the operational efficiencies and opportunities a GIS can provide. The Commission's after-action review of the 2008 ice storm identified the following action items in relation to PSNH's OMS[3]:

- 3.1 The Commission will consider, as part of PSNH's pending rate case, the adequacy of PSNH's outage management system;
- 6.9 PSNH should implement a GIS system with a state of the art OMS to facilitate emergency restoration communications; and
- 6.10 PSNH should reconsider the long term viability of its existing [OMS] system and reevaluate the feasibility of expedited implementation of a new OMS.

In this proceeding, PSNH has stated that fully implementing a GIS will take at least five years. This means that a GIS-based OMS system will not be installed until more than five years in the future. I am not an expert on GIS implementation, and I understand that

[3] December 3, 2009 New Hampshire Public Utilities Commission "December 2008 Ice Storm After Action Review and Electric Utility Self Assessments," Tab 1, Appendix A, pages 66 and 69.

as part of the implementation process PSNH will face some challenges as it will have to integrate approximately a dozen of its existing computer systems with the GIS. However, given the Commission's attention to PSNH's existing OMS, PSNH should explore ways to either speed up its existing GIS implementation plan or develop a new plan that more quickly addresses the Commission's concerns. Staff is willing to discuss the pros and cons of alternative plans with PSNH. Whatever plan is adopted, it is paramount that it be carefully thought out to allow for efficient operation post-installation.

Q. As part of its request to re-establish the REP at a new annual funding level, PSNH also proposed step increases to recover the revenue requirements associated with the REP capital investments that would be funded with the $4 million annual REP II funding. What are your comments on that proposal?

A. PSNH proposed filing for adjustments to its distribution rates effective July 1, 2011 (the end of the first year of the program) and July 1, 2013 (the end of the third year of the program). I support that request as it will avoid the situation currently experienced with the existing REP where the capital investment revenue requirements continually erode the funding available to perform REP O&M activities. As will be explained later in my testimony, the step adjustments I recommend here are one of the limited exceptions where distribution rate changes would be permitted in accordance with my recommendation for a multi-year earnings sharing mechanism.

Q. What are your recommendations concerning reporting requirements for REP II?

A. I recommend that the reporting requirements be consistent with those now in effect with the existing REP.

Q. Do you have any other comments concerning REP II?

A. Yes. First, as the new funding level will be effective beginning July 1, 2010, any costs related to the new level of funding should not be included in the temporary rate reconciliation. Second, in the recently concluded proceeding to review PSNH's 2008 costs and revenues related to its energy service and stranded cost rates, Docket No. DE 09-091, Staff's consultant in that proceeding, Michael D. Cannata, Jr., made some observations regarding certain REP-related activities that he recommended be pursued during this rate case proceeding. Those recommendations were included in the settlement agreement that was approved by the Commission in DE 09-091[4] and were as follows:

- National Electrical Safety Code patrols should be performed on all distribution facilities of a four-year schedule in order to eliminate generating unit outages resulting from problems on PSNH's 34.5 kV system; and
- PSNH should address danger trees outside of 34.5 kV rights of way and determine where PSNH does and does not have rights to remove such danger trees.[5]

As PSNH agreed to adopt the above recommendations, it should explain how it plans to implement those actions.

III. DECEMBER 2008 ICE STORM COSTS

Q. In this proceeding has PSNH requested recovery of the costs it incurred in restoring power as a result of the December 2008 ice storm?

A. Yes. As shown on Mr. Baumann's December 15, 2009 updated Attachment, page 15 of 15, line 5, PSNH is seeking recovery of $52,837,000, including carrying costs (or return), beginning July 1, 2010. PSNH reported that its total costs were $78,826,000[6]. PSNH then made adjustments for such things as insurance proceeds, costs that were capitalized, costs billed to FairPoint Communications, overhead costs, the inclusion of a return on its

[4] Order No. 25,060 (December 31, 2009).
[5] Docket No. DE 09-091, Exhibit 6 at 2.

costs during the period they remain uncollected and the recovery of $2,667,000 during the temporary rate period that began August 1, 2009 pursuant to the Commission's order approving a temporary rate settlement agreement in this proceeding.[7] As shown on line 14 of page 1 of Attachment SEM-2, the net of all those adjustments was $52,715,000. On December 15, 2009, PSNH updated its cost calculations to reflect the results of a recent Staff audit of PSNH's ice storm costs as well as a reallocation of the insurance proceeds among the various NU affiliated companies. The impact of those adjustments, as shown on Mr. Baumann's December 15, 2009 Attachment, page 15 of 15, resulted in PSNH's revised total of $52,837,000.

Q. Over what period of time has PSNH requested recovery of the remaining costs?

A. PSNH is currently requesting recovery of the costs over a four-year straight-line amortization period. As shown on Mr. Baumann's December 15, 2009 Attachment, page 15 of 15, the requested annual recovery is $13,209,000, including PSNH's calculated return.

Q. Please explain why, on line 7 of that updated Attachment, PSNH reduced its proposed annual recovery by $5,917,000.

A. As part of a settlement agreement in PSNH's last distribution rate proceeding, Docket No. DE 06-028, the signatories agreed to review the funded status of PSNH's Major Storm Cost Reserve. PSNH made such a filing in April 2008 and, as a result of the ensuing proceeding, Docket No. DE 08-071, the Commission issued Order No. 24,870 (June 27, 2008) which allowed PSNH to recover annual costs of $5.9 million over a period ending June 30, 2010. PSNH's adjustment calculates the incremental annual expense of $7.292 million resulting from its requested $13.209 million annual

---

[6] See Attachment SEM-2, PSNH's response to STAFF-02, Q-STAFF-022.
[7] See Order No. 24,997 (July 31, 2009)

amortization.

Q. What rate of return did PSNH include in its calculations?

A. PSNH calculated a return on the unamortized balance at its overall rate of return of 10.686% beginning August 1, 2009. Prior to that time, PSNH used the "Stipulated Rate of Return," a defined term from the PSNH Restructuring Settlement Agreement in Docket DE 99-099. The Stipulated Rate of Return uses a capital structure that is weighted 60% long-term debt and 40% common equity. The common equity has an after-tax cost rate of 8% while the long-term debt component is computed using PSNH's current weighted average cost of long-term debt. For the months prior to August 2009, PSNH used a calculated Stipulated Rate of Return of 8.61%.

Q. Using the rates of return employed by PSNH, what did PSNH calculate as the total amount of return to be paid by its customers until PSNH has recovered its ice storm related costs?

A. PSNH calculated a total return of $1.850 million for the period December 2008 through July 2009[8], $2.833 million for the period August 2009 through June 2010[9] and $6.213 million for the period July 2010 through June 2014[10] for a total return of almost $11 million. In its December 15, 2009 updated filing, PSNH included another $10,000 of return related to cost adjustments stemming from Staff's audit as well as the reallocation of insurance proceeds.[11] As those returns were calculated using costs of capital that include an equity component, they include a provision for shareholder return (profit).

Q. Do you have any comments regarding those rates of return?

A. Yes. In my opinion, both the 10.686% and 8.61% rates of return are too high, especially

[8] Attachment SEM-2, page 1 of 4, line 3.
[9] Ibid, page 3 of 4, line 4.
[10] Ibid, page 1 of 4, line 13.
[11] PSNH December 15, 2009 updated filing, page 15a of 15, lines 4 and 8.

as they provide for shareholder returns. In PSNH's recent short- and long-term debt financing proceeding, Docket No. DE 09-033, PSNH testified that one of the uses of short-term debt was payment of its ice storm costs. That short-term debt was later refinanced with long-term debt at a rate of 4.5%.

Q. What rate of return do you recommend be applied to PSNH's ice storm costs?

A. I recommend applying the 4.5% cost rate of PSNH's recent long-term debt financing to the unamortized balance of PSNH's December 2008 ice storm costs.

Q. Over what period of time do you recommend PSNH be allowed to recover its December 2008 ice storm costs?

A. I recommend a ten-year recovery period.

Q. How did you determine that a ten-year recovery period was reasonable?

A. Although I recognize that PSNH's short-term debt (that was recently refinanced with long-term debt) was also used for purposes other than ice storm costs, my proposed recovery period matches the term of the long-term debt issuance.

Q. Does your recommendation include straight-line amortization over that period or do you have a different proposal?

A. In contrast to PSNH's requested straight-line recovery, I recommend that PSNH be allowed to recover its costs using an accelerated amortization method called sum of the years' digits.

Q. Please explain how the sum of the years' digits method works.

A. Under the sum of the years' digits method, the digits for each of the years of the amortization period are summed. In this case, as I am proposing a ten-year amortization period, the sum of the digits one through ten equals fifty-five. The annual amortization percentage is then calculated by dividing the number of years' amortization remaining by the sum of the years' digits. For example, the year 1 amortization percentage is calculated as follows: 10 years remaining divided by 55 = 18.18%. For year 2, the calculation is 9/55 = 16.36%, and so forth for each of the ten years. I have calculated the annual amortization expense including my proposed return on Attachment SEM-1, Schedule 4.

Q. Have you made any other adjustments to PSNH's ice storm costs?

A. Yes. As part of the Staff audit, it was noted that PSNH included in its total costs $246,000 of "special payments" to exempt salaried managers who typically do not receive payment for any overtime worked. Staff has no doubt that the recipients of the payments worked many hours outside of their normal jobs during the ice storm. Staff recognizes their efforts; however, whether those costs should be recovered from customers is a different matter. Customers have a reasonable expectation that members of PSNH management, as part of their overall compensation packages, will be expected to periodically work overtime. Granted, while the December 2008 ice storm may have involved circumstances that were beyond the norm, the decision to pay those employees amounts beyond their normal compensation packages was purely a management decision. In addition, many people throughout the state either volunteered or worked countless hours responding to the ice storm and received no additional pay. As such, Staff's opinion is that the responsibility for the special payments should rest solely with shareholders. Therefore, as shown on SEM-1, Schedule 4, line 5, I have removed the $246,000 of special payments from the total ice storm costs to be recovered by PSNH.

Q. What impact does applying your recommended rate of return have on PSNH's total ice storm costs to be recovered?

A. As shown on my Attachment SEM-1, Schedule 4, using my recommended recovery methodology and rate of return and taking into account the reduction for special payments, I have calculated the total December 2008 ice storm costs to be recovered by PSNH beginning July 1, 2010 as $48,019,000, as compared to PSNH's request to recover $52,837,000.

Q. Please compare your recommended recovery scheme to that proposed by PSNH.

A. First, there is the obvious fact that PSNH's proposal would allow it recover all of its costs over a much quicker period than I have recommended. However, given the magnitude and expected frequency of the December 2008 ice storm, PSNH's proposed recovery period is too short. Second, while my proposed recovery period is longer, by using the accelerated method of amortization PSNH will be able to recover a much higher percentage of its costs in the early years of the recovery period than if I had simply chosen a straight-line amortization. In addition, with the larger recoveries in the early years as compared to straight-line amortization, the nominal amount of return to be paid by PSNH customers over the years will be reduced.

Q. How will the declining amounts of annual amortization be accounted for in terms of PSNH's annual revenue requirements?

A. Absent an annual rate change, and all else being equal, PSNH would be in a position of increasing over-earnings during each succeeding year of the recovery period. However, in recognition of some of PSNH's arguments regarding earnings attrition it is experiencing (due to lower sales, etc.), I recommend that PSNH not be required to adjust its distribution rates on an annual basis. Rather, it is my position that the decline in annual amortization expense without a corresponding rate decrease should serve as a way of providing some "headroom" that would provide funds to support the revenue requirements associated with annual capital additions. This will be discussed further in the section of my testimony that deals with attrition.

Q. In your discussion regarding the REP, you mentioned the Commission's after-action review regarding the December 2008 ice storm. Did the Commission make any other observations/recommendations that are relevant to this rate case?

A. While there are a number of action items identified in the Commission's report, specific action items that could be addressed through further discussion in this proceeding are:

- 5.5 Utilties should reassess their base staffing levels of field crews to reconfirm that adequate resources exist locally and report to the Commission by February 2010. Data assembled within the NEI report [12] suggests a need to re-establish appropriate crew levels. Utilities in the electric industry continuously review metrics such as these and should be able to share those findings;
- 5.7 Utilities should consider and explore the advantages and disadvantages of acquiring and sharing more expensive off-road trucks that can be added to local fleets.[13]

IV. REVENUE REQUIREMENTS

Q. How are the supporting schedules for your revenue requirements testimony organized?

A. My testimony and schedules follow the same path. That is, my testimony describes the information found on my attached schedules in the natural progression of the first page of the schedules through the last page of the schedules. The schedules used to support Staff's computation of the revenue requirement are all contained in Attachment SEM-1 and are arranged as follows: Schedule 1 shows the actual distribution service revenue requirement calculation. Rate base is derived on Schedule 2, and the income statement is shown on Schedule 3. Each of those three schedules has supporting schedules that set forth recommended adjustments and other information. Those supporting schedules are

[12] "NEI Report" refers to the "New Hampshire December 2008 Ice Storm Assessment Report" dated October 28, 2009 and prepared by NEI Electric Power Engineering, a consultant retained by the Commission.
[13] December 3, 2009 New Hampshire Public Utilities Commission "December 2008 Ice Storm After Action Review and Electric Utility Self Assessments," Tab 1, Appendix A, pages 67-68.

denoted as Schedules 1A, 1B, 2A, 3A, and 3B. For ease of reference, I have sequentially numbered all my recommended adjustments to rate base, revenues and expenses. Attachment SEM-1 also contains Schedule 4 to support my recommendations regarding PSNH's ice storm costs. Finally, Schedule 5 displays the components of Staff's recommended July 1, 2010 step adjustment with PSNH's proposal shown for comparison purposes. Attachments SEM-2 through SEM-5 are copies of discovery responses and other supporting information.

Q. Why are the major ice storm costs and the REP treated differently than other capital and expense items in the calculation of the distribution revenue requirement? That is, why do they appear on Schedule 1 rather than on Schedules 2 and 3?

A. Both of those items already include related return and/or tax calculations and are incremental to the determination of rate base and net operating income found on Schedules 2 and 3, respectively.

Q. You mentioned earlier that PSNH requested a $17 million step increase effective July 1, 2010. How is that addressed in your schedules?

A. Mr. Baumann included the costs associated with the proposed step increase in his calculation of the total revenue deficiency and then removed the $17 million of anticipated revenue from his calculation of the proformed test year revenue deficiency. For example, although PSNH's 2009 capital additions are one of the targets for the step increase, they are included in Mr. Baumann's rate base schedules. While this approach can be a bit confusing at times, I have attempted to mirror that treatment for consistency purposes and to simplify the comparison of my schedules to Mr. Baumann's. As shown on Attachment SEM-1, Schedule 1, I am recommending a step increase of $8,860,000.

The differences between my recommendation and PSNH's proposal will be discussed in detail later.

i. COST OF CAPITAL

Q. Please describe the computation of cost of capital shown on Schedule 1B?

A. The schedule provided mirrors the schedule used by Dr. Chattopadhyay to determine his recommendation for PSNH's overall cost of capital. I have included the schedule along with some additional columns to provide further detail regarding the derivation of Staff's recommended capital structure. Support for the cost rates applicable to the various components of the capital structure can be found in Dr. Chattopadhyay's testimony.

ii. RATE BASE ADJUSTMENTS

Q. Looking at Attachment SEM-1, Schedule 2, your calculation of rate base, could you please describe how you have arranged that schedule in terms of the various columns that are shown?

A. The first five columns on Schedule 2 duplicate the columns and amounts shown on PSNH witness Robert Baumann's Schedule 3, page 2 of 3 (PSNH filing, Volume II, page 146). The next two columns show additional adjustments and updates as provided by PSNH on December 15, 2009 and the resulting totals. My recommended adjustments to rate base are then applied against the PSNH adjusted and updated balances to arrive at the final column entitled "Adjusted Rate Base."

Q. What balances did PSNH use for plant (and other rate base items) for calculating its proposed rate base?

A. PSNH started with the traditional five-quarter average rate base, then adjusted all balances to December 31, 2008 year-end balances. Regarding plant in service, PSNH then went a step further and updated plant balances to take into account capital projects placed in service during 2009.

Q. Do you support PSNH's proposed rate base?

A. Yes, except for the specific adjustments described below. While in the past I have testified in support of the use of a five-quarter average rate base, I have also participated in negotiating settlement agreements that have provided for the use of year-end rate base and/or step adjustments to recognize post test-year capital additions. Given current economic conditions being experienced by PSNH and recognizing that new rates will not be effective until July 1, 2010, in my opinion it only makes sense to allow PSNH to fully include its in-service plant additions in rates going forward. However, if, for example, PSNH were in a position where it was experiencing significant sales growth, my recommendation might be different. In other words, the positions I've taken regarding rate base in this proceeding could vary in future proceedings depending on the specific facts or circumstances of each case.

Q. Please describe your recommended rate base adjustments.

A. As stated previously, I have numbered my adjustments. Additional detail for each of the adjustments is found on Attachment SEM-1, Schedule 2A. Adjustment #1 recognizes the combined impact of Staff witness James Cunningham's recommended reductions to depreciation expense of $1,536,000 applicable to plant in service as of December 31, 2008 and $23,000 associated with 2009 capital additions. As depreciation expense decreases, the offset is a decrease to accumulated depreciation.

Q. Please explain your adjustment to the working capital allowance.

A. Adjustment #2 represents a reduction to the working capital allowance due to various adjustments I have made to O&M expenses. As the O&M expenses change, the amount of cash working capital will also change. Using the 45-day allowance for cash working capital, the result is a recommended decrease to rate base of $9,799,000. As part of this adjustment, I have removed $67,213,000 of retail transmission costs from the calculation. Those costs were included by PSNH as shown on Mr. Baumann's Schedule 3B, page 4 of 11.[14]

Q. Why did PSNH include transmission costs, which are not part of this proceeding, in its computation of cash working capital?

A. Although PSNH's retail transmission costs are recovered through its Transmission Cost Adjustment Mechanism (TCAM), that rate component currently does not provide for cash working capital. As such, PSNH included the transmission costs in this proceeding, but only for purposes of recovering the related cash working capital. According to PSNH, such inclusion is consistent with the settlement agreement approved in DE 06-028. While it's true that the transmission costs were included in the calculation of cash working capital in DE 06-028, it is important to point out that the TCAM was established in that proceeding as a going-forward rate mechanism whereas the cash working capital was computed on the basis of a historic test year. Now that separate rate mechanisms exist for recovery of distribution and transmission costs, transmission-related cash working capital should be recovered in the TCAM proceeding.

Q. Please describe your recommended adjustment to accumulated deferred income taxes.

A. That adjustment relates to the adjustments to depreciation expense explained in

[14] PSNH's June 30, 2009 filing, Volume II, Bates page 152.

the testimony of Staff witness James J. Cunningham, Jr. In summary, as Mr. Cunningham's recommendations resulted in a decrease to book depreciation expense, there is a related increase to deferred income tax expense. As the deferred tax expense increases, the offsetting entry is an increase to the deferred tax liability. Adjustment #3 represents the increase to the deferred tax liability account.

Q. What is your final recommended rate base adjustment?

A. When PSNH filed its December 15, 2009 updated schedules, it included an adjustment to remove the balance of the accumulated investment tax credit (ITC) liability account from the rate base calculation. Accumulated ITCs are typically reductions to rate base and represent the remaining balance of tax credits for which PSNH has received a benefit in prior years but which have not yet flowed through to the benefit of customers. Each year, a portion of the balance is amortized to reduce per books tax expense. In its December 15th filing, PSNH stated that since it was reducing tax expense by the current year amortization of the ITC, the rate base reduction was a duplicative benefit for customers and, therefore, removed the remaining balance of the liability from its rate base calculation.

Q. In your opinion, are PSNH's customers receiving a duplicative tax benefit?

A. No. The current year amortization of the ITC is just that – the benefit for the current year. The balance remaining in the accumulated ITC liability account, however, represents credits that will flow to customers in future years. As those amounts are due to customers, customers should be allowed to earn a return on the balance. Therefore, in adjustment #4 I have restored the balance of the accumulated ITC liability account to rate base.

Q. Do you have any other comments regarding PSNH's rate base?

A. Yes, specifically in regard to the timeliness of PSNH's recording retirements of its plant assets. As noted in the audit report, there can be quite a delay, sometimes years before assets retirements are recorded in PSNH's books. The Audit Staff made a similar finding in its prior audit and also noted that a NU internal audit performed in 2008 found that PSNH's asset management plant system records did not accurately reflect retirements. In its response to the audit report, PSNH disagreed with the Audit Staff's conclusion and stated that it follows the FERC Uniform System of Accounts with regard to requirements for accounting for retirements and cost of removal. Given the conclusions reached by the Audit Staff and NU's internal auditors as well as the potential impacts to rate base, Staff recommends that this issue be the subject of further discussion.

iii. INCOME STATEMENT

Q. Turning to Schedule 3, could you please explain how you've organized the operating income statement and the related supporting schedules?

A. The first three columns on Schedule 3 duplicate the columns and amounts shown on PSNH witness Robert Baumann's Schedule 1, page 1 of 5 (PSNH filing, Volume II, Bates page 79). The next two columns show additional adjustments and updates as provided by PSNH on December 15, 2009 and the resulting totals. Revenue and expense adjustments that I am proposing are shown in the "Staff Adjustments" column. The last two columns show the recommended increase in revenues and the related tax effect as computed on SEM-1, Schedule 1.

a. **REVENUE ADJUSTMENTS**

Q. Have you made any adjustments to the test year level of operating revenues?

A. Yes. I have made one adjustment in this area. In adjustment #5 I've increased PSNH's distribution revenue by $782,000. This amount was provided by PSNH in a discovery response[15] as an estimate of the lost revenue it experienced due to the loss of kilowatt-hour sales during the December 2008 ice storm. Inclusion of this additional revenue brings the December 2008 revenue to a more normal level.

b. **EXPENSE ADJUSTMENTS**

Q. Please explain how you have organized your adjustments to PSNH's operating expenses.

A. On SEM-1, Schedule 3A, I have grouped the adjustments to operating expenses by the main categories of expenses as shown in the income statement on Schedule 3.

Q. Please describe your adjustments to transmission expenses.

A. In Docket No. DE 99-099, PSNH's restructuring proceeding, PSNH's costs were unbundled into various new rate components. Costs associated with supporting the Hydro Quebec (HQ) transmission lines remained part of PSNH's delivery rates, which at that time included distribution and transmission costs. The inclusion of those costs in delivery rates was originally intended as an interim measure. However, upon the establishment of the TCAM in Docket No. DE 06-028 to recover PSNH's retail transmission costs, the HQ support costs remained part of distribution costs. Adjustment #6 removes $5,198,000 of HQ support costs from the determination of distribution rates. It is Staff's position that it would be more appropriate to recover those costs as part of the next TCAM proceeding.

---

[15] Attachment SEM-3, PSNH's response to OCA-01, Q-OCA-074.

Adjustment #7 removes $326,000 of additional transmission-related expenses from distribution revenue requirements. It is my understanding that the majority of those costs are true-up amounts associated with pre-TCAM periods.

Q. What change are you recommending in the area of distribution expenses?

A. My adjustment in this area (adjustment #8) reflects Staff's recommendation that PSNH's annual charge to the Major Storm Cost Reserve (MSCR) be increased from its current level of $1,700,000 per year to $2,500,000 per year, as compared to the $4,400,000 annual funding level requested by PSNH.

Q. How did PSNH arrive at its proposed $4.4 million annual funding level for the MSCR?

A. As shown on Mr. Baumann's Schedule 1 Attachment, page 18a of 22, $4.4 million is the rounded average of PSNH's 2004 through 2007 major storm costs.

Q. In your opinion, does that calculation provide a reasonable representation of PSNH's annual major storm costs?

A. No, for a number of reasons. First, it is unclear to me why PSNH used 2004 as the starting point of its calculations. Second, PSNH omitted data from the 2008 test year and 2009 from its calculations. PSNH stated that it did not include 2008 data due to the magnitude of costs it experienced related to the December 2008 ice storm. It is important to note, however, that other than the ice storm – the costs of which are being accounted for separately in this proceeding – PSNH did not incur any other major storm costs in 2008. Also, looking at the more than eight-year history of the MSCR provided in PSNH's response to STAFF-02, Q-STAFF-051[16], in only one of those years, 2007, did

[16] See Attachment SEM-4.

PSNH's annual costs exceed the $4.4 million level.

Q. Please explain how you arrived at your recommended annual funding level of $2.5 million?

A. Since the inception of the MSCR, the annual charges for major storms have averaged approximately $2.3 million. Considering that some of those costs were incurred as early as 2002, I have increased that amount to $2.5 million to account for inflation. While we cannot predict the future in terms of storm severity and frequency, I believe the cost history of the MSCR is instructive in setting the annual funding level going forward.

Q. Please describe the adjustments you made to customer accounting expenses.

A. I am recommending three adjustments in this area. The first adjustment (#9) removes PSNH's recommended increase of $857,000[17] related to an additional sixteen customer experience employees it plans to hire in 2010 to support the credit department and the Manchester call center. According to PSNH, the additional employees are necessary due to the weak economy and resultant increase in uncollectible accounts and call volume. While the employees might very well be necessary, it is inappropriate to include those costs in this proceeding because, if the employees are hired in 2010, the costs will be incurred later than twelve months beyond the test year – the Commission's traditional window for known and measurable changes to operating expenses.

Adjustment #10 stems from the Staff audit. In 2008, PSNH installed new customer service software (referred to as C2) and incurred $1,011,000 of training costs. The prior customer service software had been in service for a significant number of years. The Audit Staff recommended that the training costs be amortized over a period of years

[17] PSNH's December 15, 2009 update, D.S. Comer/R.A. Baumann Attachment, page 9 of 15.

rather than included in expense all in one year. While PSNH disagreed with the auditors and stated that it incurs training costs each year, it also stated that if the costs were to be amortized it would recommend a three-year recovery period. While I recognize that PSNH does incur training costs each year, the costs incurred related to the C2 installation were quite significant, especially considering a) the vintage of the prior software and b) the expected life of the C2 software. With those factors in mind, I have recommended a five-year recovery period for the training costs and have included my calculations on Schedule 3A.

My final adjustment to customer accounting expenses (#11) reduces PSNH's distribution-related uncollectible expense by $1,281,000. As shown on Schedule 3A, PSNH's total company uncollectible expense has risen from about $3.5 million in 2007 to slightly over $10 million in 2009. PSNH has requested that the distribution portion of the 2009 uncollectible expense (35%) be included in the calculation of distribution revenue requirements going forward. PSNH has not presented any evidence that it expects its uncollectible expense to remain at the 2009 level in future years. In addition, although PSNH has proposed to hire an additional sixteen customer experience employees to deal with credit and customer issues (see adjustment #9 above), it apparently did not expect there to be a related decrease in uncollectible expense. I recognize that PSNH may think it is unfair to not allow the costs for the additional customer experience employees while also reducing PSNH's uncollectible expense, but any potential inconsistency is due solely to timing issues.

Q. Please describe your adjustments to general and administrative costs.

A. As part of its review of legal costs, the Audit Staff noted that a $60,000 retainer was paid to the firm of Rath, Young and Pignatelli during the test year. During the discovery process, PSNH indicated that, upon review of the related invoices, the costs were in the nature of lobbying expenses and should be removed from the filing.[18] As that response was received subsequent to PSNH's December 15, 2009 updated filing, I have included that cost reduction as adjustment #12.

Another issue that arose during the audit involved PSNH's assessment from the PUC. PSNH included 100% of the PUC assessment in distribution revenue requirements. However, PSNH also has energy service and transmission rate components, among others, so it does not appear to be appropriate to include the entire PUC assessment in distribution costs.

Q. How do you recommend the PUC assessment be allocated among PSNH's business segments?

A. One approach is to allocate the cost based on the revenues of each business segment. That approach would be consistent with how the PUC's total costs are assessed to all utilities pursuant to NH RSA 363-A:2. Applying that approach to allocations among various business segments or rate components of an individual utility, however, can be problematic. For example, default or energy service revenues comprise the largest individual portion of overall revenues for PSNH, Granite State Electric Company (GSEC) and Unitil Energy Systems (UES). Given the vast differences in methodologies used for those utilities to procure and provide default energy service – PSNH provides power from its own generation resources and procures supplemental power on the market while GSEC and UES acquire their power through competitive market solicitations – the

[18] See Attachment SEM-5, PSNH response to Q-AUDIT-OCA-10.

amount of time involved with related Commission proceedings varies greatly. As such, using revenues as the allocation factor, while potentially reasonable in the case of PSNH, would lead to inappropriately high cost allocations in the cases of GSEC and UES given the high default service revenues as compared to the relatively low amount of PUC time involved in their default service proceedings. Although I recognize the shortcomings of allocating the PUC assessment among rate components based on revenues, I have used it for purposes of recommending an adjustment in this proceeding. Staff is open to comments regarding a more appropriate allocator. In adjustment #13, I have removed approximately $2.3 million of the PUC assessment from distribution revenue requirements and have included my calculations on Attachment SEM-1, Schedule 3A.

Adjustments #14 and #15 reduce medical expenses and pension expenses by $665,000 and $402,000, respectively, as discussed in the testimony of Mr. Cunningham. Adjustment #16 includes $1,378,000 of costs related to electricity use at PSNH's distribution facilities in the calculation of revenue requirements. Previously, those costs had been recovered as part of PSNH's energy service costs. However, in PSNH's most recent energy service proceeding, those costs were identified as being more appropriately recovered through distribution rates.

Q. Have you made any adjustments to depreciation expense?

A. Yes. Consistent with the testimony of Mr. Cunningham, I have included an adjustment to reduce the annual depreciation expense for plant in service as of December 31, 2008 by $1,536,106 (adjustment #17). Also, I have included Mr. Cunningham's recommended reduction of $23,464 (adjustment #18) applicable to PSNH's 2009 capital additions that were included in PSNH's proposed July 1, 2010 step adjustment.

Q. What is the last adjustment on your Schedule 3A?

A. Adjustment #19 removes donations from the calculation of net operating income. Those items are not operating expenses and do not belong in that calculation. Moreover, the Commission has previously ruled in its Order No. 20,542[19] and consistently thereafter that charitable contributions "should not be borne by ratepayers."

Q. Did PSNH include donations anywhere else in its filing?

A. Yes. PSNH also included donations as part of its calculation of the cash working capital component of rate base. For the same reasons stated above, I excluded donations from my calculation of cash working capital.

Q. Have you calculated the impacts to income taxes resulting from your various adjustments?

A. Yes. Those calculations are shown on Schedule 3B. In addition to the revenue and operating expense adjustments, I have included an adjustment to interest expense based on my adjusted rate base and Dr. Chattopadhyay's weighted cost of debt (as reproduced on Attachment SEM-1, Schedule 1B). Schedule 3B includes both current and deferred tax impacts. For simplicity purposes the amounts are combined and reported on the current income tax line on Schedule 3. The overall impact of the various adjustments is an increase to federal and state current and deferred income taxes of $6.826 million.

V. JULY 1, 2010 STEP ADJUSTMENT

Q. Please describe what is shown on your Attachment SEM-1, Schedule 5.

A. In the first column on that schedule I have shown PSNH's breakdown of the components included in its requested step adjustment to be effective July 1, 2010. Next, I have provided PSNH's calculations of the step adjustment pursuant to its December 15, 2009

[19] See EnergyNorth Natural Gas, Inc., 77 NH PUC 354 (June 20, 1992).

updated filing. Finally, Staff's recommended calculation of the step adjustment is included in the third column. As can be seen, Staff is recommending a step increase to PSNH's distribution revenues effective July 1, 2010 of $8.860 million as compared to PSNH's request for approximately $17 million.

Q. What are the major differences between Staff's proposal and PSNH's proposal?

A. As you look at the components involved, the major differences are 1) Staff's recommended decrease to PSNH's requested annual funding of the Major Storm Cost Reserve; and 2) Staff's rejection of PSNH's proposed adjustment related to its capital recovery calculation as discussed in the testimony of Mr. Cunningham.

VI. ATTRITION

Q. Did PSNH raise the issue of attrition in its testimony?

A. Yes. The subject of attrition was addressed in the testimonies of PSNH witnesses Gary A. Long and Robert A. Baumann. In summary, PSNH testified that since its last rate case its earnings have eroded due primarily to its continued investments in capital additions to address system needs as well as declining kilowatt-hour sales.

Q. Did PSNH offer any solutions to address the attrition issue?

A. While Mr. Long and Mr. Baumann both described a variety of possible means to address attrition, PSNH sought to address attrition by incorporating the following into its filing:

- Use of year-end rate base rather than a five-quarter average;
- A step increase, effective July 1, 2010, to recover the revenue requirements associated with its rate year (calendar year 2009) capital additions; and
- Rate design changes to shift recovery of some of its fixed costs from variable (per kilowatt-hour) charges to fixed (customer and demand) charges.

Also, Mr. Baumann proposed establishing an annual step adjustment, effective on July 1 of each year, to recover the revenue requirements associated with capital investments placed in service during the prior calendar year.

Q. Has Staff included the above items in its recommendations for revenue requirements and rate design?

A. As described earlier in my testimony, I have included the December 31, 2008 year-end rate base as well as a July 1, 2010 step increase in my revenue requirement recommendations. In addition, while Staff witness George McCluskey was generally supportive of the concept of shifting recovery of some costs from variable to non-usage based charges in certain circumstances, he did recommend changes to PSNH's approach. Staff has not, however, included a proposal for an annual step adjustment for capital additions, as suggested by Mr. Baumann.

Q. What are Staff's comments regarding Mr. Baumann's proposed annual step adjustment?

A. In Staff's view, an annual step adjustment to recover the revenue requirements associated with capital investments provides no incentive whatsoever for PSNH to otherwise work to control its operating and capital costs.

Q. Does Staff have an alternative proposal to offer?

A. Yes. Staff proposes the establishment of a five-year earnings sharing mechanism, similar to one that is currently in effect for GSEC.

Q. How would such a mechanism work?

A. Using the distribution revenue requirement and return on equity determined in this proceeding as a starting point, PSNH's distribution rates would be fixed, with very limited exceptions, for a five-year period. During that period, PSNH would be permitted to earn in excess of its allowed ROE, up to a certain level, with any earnings in excess of that level shared with customers. Periodically, PSNH would be required to file interim accumulated earnings reports to determine whether any sharing with customers is warranted.

Q. What exactly do you mean when you say that PSNH's distribution rates would be fixed, with very limited exceptions?

A. Consistent with the GSEC rate plan, adjustments to PSNH's distribution rates would only be permitted in accordance with agreed-upon circumstances, for example, newly-created state or federal regulations. In the GSEC rate plan, these circumstances are referred to as "exogenous events." GSEC is also allowed to adjust its distribution rates to recover the revenue requirements associated with REP-related expenditures, and consistent with my testimony regarding PSNH's REP, I would recommend the same for PSNH in accordance with the terms of its REP.

Q. Given that Staff has recommended a certain return on equity in this proceeding, does Staff have a recommended earnings threshold above which PSNH would be required to share its earnings?

A. Not at this time. Such a recommendation must take into consideration facts and risk factors specific to the individual utility. For instance, in this proceeding I have proposed a cost recovery methodology for PSNH's December 2008 ice storm costs that allows for "headroom" each year as the annual cost amortization decreases without a corresponding decrease to PSNH's distribution rates. Additional "headroom," approximately $1.3 million per year, will be provided by the termination of the amortization of certain environmental remediation costs on June 30, 2010 for which I have not made an adjustment. Similarly, the GSEC rate plan took into consideration potential synergies that would flow to GSEC resulting from the merger of GSEC's parent, National Grid, with Keyspan[20]. For comparison purposes, GSEC may earn up to 11%, or 133 basis

[20] See Docket No. DG 06-107.

points above its allowed ROE of 9.67%, before it is required to share its earnings with customers. However, since GSEC has a high equity component in its capital structure, the earnings calculation is done using an imputed capital structure consisting of 50% equity and 50% debt.

Q. What are some of the benefits of Staff's proposed earnings sharing mechanism?

A. There are many benefits of the proposed mechanism, not the least of which is that it would reduce the frequency of PSNH's requests for rate relief. In addition, it provides PSNH with an incentive to control its operating and capital costs as it would have the opportunity to maintain and retain a higher level of earnings. There are certain protections built in for customers, such as if through a combination of increased sales and/or decreased costs PSNH's earnings exceed the earnings threshold, those earnings would be shared with customers. Also, allowing changes to distribution rates for certain exogenous events provides protection for PSNH and its customers in the event of unforeseen tax law changes, accounting changes, etc. Finally, consistent with my position regarding PSNH's REP and my recommendation that the targeted nature of PSNH's test year O&M costs stay intact, any increased PSNH earnings will not come at the risk of reduced reliability or service quality.

Q. Do you have any other comments regarding the earnings sharing mechanism?

A. Staff offers this mechanism as a proposal to be considered by the parties. If the parties wish to pursue this proposed mechanism, it is still important that the items at issue in this proceeding, including revenue requirements, cost of capital and rate design be addressed before decisions can be made regarding the specific details involved in such a rate plan.

VII. CONCLUSION

Q. What are your concluding comments?

A. My testimony includes what I consider to be a balanced and reasoned approach to a number of issues. Taking into account reliability concerns, PSNH's significant costs incurred in restoring service as a result of the December 2008 ice storm, the Commission's after-action review of the ice storm, PSNH's current earnings and its proposed revenue requirements, Staff believes it has put forth recommendations that provide for continued reliable electric service as well as an opportunity for PSNH to achieve reasonable earnings with limits set to protect customer interests.

Q. Does this conclude your testimony?

A. Yes, it does.

Public Service Company of New Hampshire
DE 09-035
Distribution Service Revenue Requirement
($000s)

Line				Reference
1	Rate Base	769,725		SEM-1, Schedule 2
2	Rate of Return	7.335%		SEM-1, Schedule 1B
3	Operating Income Requirement	56,456		
4	Operating Income	36,404		SEM-1, Schedule 3
5	Revenue Deficiency Before Taxes	20,052		
6	Gross Revenue Conversion Factor	1.6814		SEM-1, Schedule 1A
7	Revenue Deficiency	33,715		
8	Major Ice Storm Costs	3,139		SEM-1, Schedule 4
9	Reliability Enhancement Program (Incremental Funding)	4,000		Per Company Testimony
10	Total Revenue Deficiency	40,855		
11	Less: Rate Year Adjustments effective 7/1/2010	8,860		SEM-1, Schedule 5
12	Adjusted Revenue Deficiency	31,994		
13	Less: Add'l Revenue per Temporary Rates Settlement		25,611	
14	Incremental Revenue Deficiency Above Temporary Rate Level		6,383	
15	Test Year Operating Revenue	260,606		SEM-1, Schedule 3
16	Distribution Service Revenue Requirement (Incl. July 1, 2010 Step Adjustment)	301,461		
17	Percentage Increase to Distribution Service Revenues (above Temp. Rates)		2.45%	
18	Percentage Increase to Distribution Service Revenues (line 12/line 15)	12.28%		
19	Percentage Increase due to July 1, 2010 Step Adjustment (line 11/(line 12 + line 15))	3.03%		

Public Service Company of New Hampshire
DE 09-035
Effective Tax Factor

Taxable Income	100.00%
Less: NH Business Profits Tax	8.50%
Federal Taxable Income	91.50%
Federal Income Tax Rate	35.00%
Effective Federal Income Tax Rate	32.025%
Add: NH Business Profits Tax	8.50%
Effective Tax Rate	40.525%
Percent of Income Available if No Tax	100.00%
Effective Tax Rate	40.525%
Percent Used as a Divisor in Determining the Revenue Requirement	59.475%
Gross Revenue Conversion Factor	1.681379

Public Service Company of New Hampshire
DE 09-035
Cost of Capital
Year Ended December 31, 2008

($000)

Component	Balance 9/30/2009	Proforma Adjs.	Adjusted Balances	Incl. Short-term Debt	Weighted Component Ratio	Cost Rate	Average Cost Rate
Common Equity	666,166	219,000	885,166	885,166	51.07%	9.470%	4.837%
Long-Term Debt	668,147	148,120	816,267	816,267	47.10%	5.222%	2.460%
Short-Term Debt				31,655	1.83%	2.100%	0.038%
	1,334,313	367,120	1,701,433	1,733,088	100.00%		
							7.335%

Notes:

(a) Balances as of September 30, 2009 are from PSNH's 9/30/09 NHPUC Form F-1.
(b) Proforma Adjustments are for $219,000,000 equity infusion and the net amount of PSNH's 12/14/09 LTD issuance.
(c) Short-term debt balance is computed at December 31, 2008 5-quarter average percentage of capital structure (1.83%) rather than September 30, 2009 due to delay in PSNH's LTD financing in DE 09-033 (which would have repaid STD sooner)
(d) Cost rate of STD is the effective interest rate for short-term debt as reported in 9/30/09 NHPUC Form F-1.

Public Service Company of New Hampshire
DE 09-035
Rate Base
Year Ended December 31, 2008

($000s)

Baumann Schedule 3, Page 2 of 3

	5 Quarter Average (Company Filing Sched. 3, p.1 of 3)	PSNH Adjustments to 12/31/08 level	PSNH Distribution at 12/31/08	PSNH 2009 Proforma Adjustments	PSNH Proforma Distribution at 12/31/09	PSNH Adjs/Updates Dec. 15, 2009	PSNH Adjusted/Updated Balances	Additional Staff Adjustments	Adj#	Adjusted Rate Base
Electric Plant in Service	1,167,679	58,799	1,226,478	82,848	1,309,326	0	1,309,326			1,309,326
Less: Accumulated Depreciation	373,648	8,122	381,770	38,680	420,450	(283)	420,167	(1,559)	1	418,608
Plant Held for Future Use	0		0		0		0			0
Net Plant in Service	794,031	50,677	844,708	44,168	888,876	283	889,159	1,559		890,718
Plus: Working Capital Allowance	25,741		25,741	1,064	26,805	446	27,251	(9,799)	2	17,452
Materials and Supplies	6,733	438	7,171		7,171		7,171			7,171
Prepayments	1,673	1,070	2,743		2,743	(514)	2,229			2,229
Regulatory Assets	17,080	(855)	16,225	0	16,225		16,225			16,225
Less: Accumulated Deferred Income Taxes	110,494	21,435	131,929	21,900	153,829		153,829	(632)	3	153,197
Accumulated Investment Tax Credit	304	(66)	238		238	(238)	0	238	4	238
Regulatory Liabilities	7,166	330	7,496		7,496		7,496			7,496
Customer Deposits and Advances	3,412	(273)	3,139		3,139		3,139			3,139
TOTAL RATE BASE	723,882	29,904	753,786	23,332	777,118	453	777,571	(7,846)		769,725

Public Service Company of New Hampshire
DE 09-035
Proforma Adjustments to Rate Base

PROFORMA ADJUSTMENTS TO RATE BASE:

Adj. #				
	ACCUMULATED DEPRECIATION - Need to adjust for changes to depreciation expense			
1	Adjust 2009 rate year accumulated depreciation per James J. Cunningham, Jr. testimony		(1,559)	
	Total Adjustments to Accumulated Depreciation			(1,559)
	WORKING CAPITAL ALLOWANCE			
2	Total Operation & Maintenance Expenses (Sched. 3, "Staff Proforma Distribution" column)	143,819		
	Less: Uncollectibles (see Attachment SEM-1, Schedule 3A, adjustment #11)	2,264		
		141,555		
	X 45days/365days	12.33%		
	Cash Working Capital allowance	17,452		
	Less: Amount per Company filing (as adjusted)	27,251		
	Necessary adjustment	(9,799)	(9,799)	
	(Note: The above calculation does not include retail transmission O&M costs (as proposed in PSNH's filing). Staff recommends that the cash working capital related to retail transmission costs be included in the annual TCAM filing.)			
	Total Adjustments to Working Capital Allowance			(9,799)
	ACCUMULATED DEFERRED INCOME TAXES			
3	Adjust ADIT per adjustments to depreciation pin James J. Cunningham, Jr. testimony		(632)	
	Total Adjustments to Accumulated Deferred Income Taxes			(632)
	ACCUMULATED INVESTMENT TAX CREDIT			
4	Remove PSNH 12/15/2009 adjustment related to accumulated investment tax credit		238	
	Total Adjustments to Accumulated Investment Tax Credit			238

Public Service Company of New Hampshire
DE 09-035
Operating Income Statement
Year Ended December 31, 2008
($000s)

	Baumann Schedule 1, Page 1 of 3								PROOF	
	Test Year - Delivery	PSNH Proforma Adjustments	PSNH Proforma Distribution	PSNH Adjs/Updates Dec. 15, 2009	PSNH Adjusted/Updated Balances	Staff Adjustments	Adj#	Staff Proforma Distribution	Revenue Deficiency	Test Year Proforma
Total Operating Revenues	259,599	225	259,824	0	259,824	782	5	260,606	40,855	301,461
Operating Expenses:										
Production Expenses	223		223		223			223		223
Transmission Expenses	4,959	565	5,524		5,524	(5,524)	6,7	0		0
Distribution Expenses	47,728	267	47,995		47,995	(1,900)	8	46,095		46,095
Customers' Accounting	24,226	242	24,468		24,468	(2,947)	9-11	21,521		21,521
General Administrative	66,279	7,383	73,662		73,662	(2,057)	12-16	71,605		71,605
Other	582	176	758		758			758		758
O&M Adjustments per PSNH update				3,617	3,617			3,617		3,617
Sub-Total	143,997	8,633	152,630	3,617	156,247	(12,428)		143,819	0	143,819
Depreciation	28,837	9,843	38,680	(283)	38,397	(1,559)	17,18	36,838		36,838
Amortization of Regulatory Assets, Net	6,011	254	6,265	23	6,288			6,288		6,288
Current Income Tax	(21,888)	(11,749)	(33,637)	(1,390)	(35,027)	6,826	Sched. 3B	(28,201)	13,663	(14,538)
Deferred Income Tax, net	32,792	2,386	35,178		35,178			35,178		35,178
Investment Tax Credit Adjustments	(132)		(132)		(132)			(132)		(132)
Other Taxes	26,610	3,598	30,208	73	30,281			30,281		30,281
Gain/Loss on Disposal of Utility Plant, net	0		0		0			0		0
Total Operating Expenses	216,227	12,965	229,192	2,040	231,232	(7,161)		224,071	13,663	237,734
Net Operating Income	43,372	(12,740)	30,632	(2,040)	28,592	7,943		36,535	27,191	63,726
Less: Donations, Net-of-Tax	293		293	116	409	(409)	19	0		0
Return on Customers' Deposits	131		131		131			131		131
Net Operating Income Applicable to Rate Base	42,948	(12,740)	30,208	(2,156)	28,052	8,352		36,404	27,191	63,595
								Less: Major Ice Storm costs		(3,139)
								Less: Reliability Enhancement Program		(4,000)
								Operating Income Required (Sched. 1)		56,456

Attachment SEM-1
Schedule 3

Public Service Company of New Hampshire
DE 09-035
Proforma Adjustments to Revenues and Expenses

PROFORMA ADJUSTMENTS TO REVENUES:

Adj#	Description			Adjustment	Total
	OPERATING REVENUES				
5	Include additional revenue lost due to December ice storm (per response to OCA-01, Q-0CA-074)			782	
	Total adjustments to Operating Revenues				782

PROFORMA ADJUSTMENTS TO EXPENSES:

Adj#	Description			Adjustment	Total
	O&M EXPENSES - TRANSMISSION				
6	Remove Hydro Quebec support payments to be recoved through TCAM			(5,198)	
7	Remove additional transmission-related expenses			(326)	
	Total Adjustments to Transmission Expenses				(5,524)
	O&M EXPENSES - DISTRIBUTION				
8	Decrease annual funding for Major Storm Cost Reserve			(1,900)	
	Total Adjustments to Distribution Expenses				(1,900)
	O&M EXPENSES - CUSTOMER ACCOUNTING				
9	Remove PSNH adjustment for additional customer service reps to be hired in 2010 (PSNH 12/15/09 update adjustment #9)			(857)	
10	Amortize C2 training costs over 5 years	Test Year amount	1,011		
	(note: refer to PSNH quote in audit report)	Amort. Period	5 yrs		
		Annual Amort.	202		
		Less: Test yr amt.	(1,011)		
		Necessary adjustment	(809)	(809)	
11	Normalize 2007 - 2009 unollectible expense:				
	2007 3,496	Average 2007 - 2009	6,470		
	2008 5,785	Distribution %	35%		
	2009 10,128	Staff test yr amt	2,264		
	19,409	PSNH adj. amt.	3,545		
	Average 6,470	Necessary reduction	(1,281)	(1,281)	
	Total Adjustments to Customer Accounting Expenses				(2,947)
	O&M EXPENSES - GENERAL ADMINISTRATIVE				
12	Audit Report - Remove lobbying costs (Q-AUDIT-OCA-010)			(60)	
13	Audit Report - Remove non-distribution related portion of PUC assessment:				
	2009 PUC Assessment		3,289		
	2008 Distribution percentage of total PSNH revenue		29.83%		
	Allocated cost to distribution		981		
	Amt. included in filing		3,289		
	Necessary Adjustment		(2,308)	(2,308)	
14	Adjust medical expenses per testimony of James J. Cunningham, Jr.			(665)	
15	Adjust pension expenses per testimony of James J. Cunningham, Jr.			(402)	
16	Include distribution-related Company Use (switch recovery from Energy Service rate)			1,378	
	Total Adjustments to General Administrative expenses				(2,057)

Public Service Company of New Hampshire
DE 09-035
Proforma Adjustments to Revenues and Expenses

	DEPRECIATION EXPENSE		
17	Adjust depreciation expense for plant as of December 31, 2008 per testimony of James J. Cunningham, Jr.	(1,536)	
18	Adjust depreciation expense for 2009 capital additions per testimony of James J. Cunningham, Jr.	(23)	
	Total Adjustments to Depreciation expense		(1,559)
	DONATIONS, NET-OF-TAX		
19	Remove Donations from calculation of Net Operating Income	(409)	
	Total Adjustments to Donations, Net-of-Tax		(409)

Public Service Company of New Hampshire
DE 09-035
Proforma Adjustments to Income Taxes
($000s)

INCOME TAXES
To reflect the income tax effect of proforma adjustments to revenue and expenses:
(Note: This schedule includes impacts to both current and deferred tax expense)

Total proforma adjustments to Operating Revenues	782	Schedule 3A
Total proforma adjustments to Transmission expenses	(5,524)	Schedule 3A
Total proforma adjustments to Distribution expenses	(1,900)	Schedule 3A
Total proforma adjustments to Customer Accounting expenses	(2,947)	Schedule 3A
Total proforma adjustments to Administrative & General Expenses	(2,057)	Schedule 3A
Total proforma adjustments to Depreciation expenses	(1,559)	Schedule 3A
Interest expense adjustment (see below)	(2,074)	
Add'l Income Subject to New Hampshire Business Profits Tax	(16,843)	
New Hampshire Business Profits Tax @ 8.5%	1,432	
Increase to New Hampshire Business Profits Tax		1,432
Amount Subject to Federal Income Tax	(15,411)	
Federal Income Tax @ 35%	5,394	
Increase to Federal Income Tax		5,394
Total Adjustments to Income Taxes (to Schedule 3)		6,826

Interest Expense Adjustment:

Rate Base (Schedule 2)	769,725	
Weighted cost of debt (long-term and short-term)	2.498%	SEM-1, Schedule 1B
Interest Expense	19,227	
Interest Expense per Baumann Sched. 1 Att. p.22C	21,301	
Adjustment to Interest Exepnse	(2,074)	

Public Service Company of New Hampshire
DE 09-035
December 2008 Ice Storm Costs
Year Ended December 31, 2008

($000s)

Line #			
1	Storm costs to be recovered beginning July 1, 2010	46,502	Per December 15, 2009 updated RAB-2, page 1 of 4
2	Staff proposed reduced return for the period January 2009 - July 2009	(883)	(a)
3	Staff proposed reduced return for the period August 2009 - June 2010	(1,640)	(b)
4	Cost adjustments August 1, 2009 - November 30, 2009	112	PSNH's 12/15/09 updated filing, page 15 a of 15, lines 2 and 3
5	Remove "Special Payments" noted in Audit Report	(246)	
6	Adjusted costs to be recovered	43,845	
7	Return @ 4.5% over the 10-year recovery period	4,174	(c)
8	Total costs to be recovered beginning July 1, 2010	48,019	
9	Cost recovery during the iniital year of the 10-year recovery period	9,056	
10	Storm recovery level approved in DE 08-071	(5,917)	(terminates 6/30/2010)
11	Incremental adjustment to annual revenue requirements	3,139	To SEM-1

Annual Ice Storm Recovery Using Sum of the Years' Digits:

	Year	Annual Percentage	Annual Amortization	End of Year Balance	Average balance	Def. Taxes (@ 39.55%)	Balance to Calculate Return	Return @ 4.5%	Total Annual Expense	Annual Difference	Cumulative percentage
12	1	18.18%	7,972	35,873	39,859	(15,764)	24,095	1,084	9,056		18.18%
13	2	16.36%	7,175	28,698	32,286	(12,769)	19,517	878	8,053	1,003	34.55%
14	3	14.55%	6,377	22,321	25,510	(10,089)	15,421	694	7,071	982	49.09%
15	4	12.73%	5,580	16,741	19,531	(7,724)	11,806	531	6,112	960	61.82%
16	5	10.91%	4,783	11,958	14,349	(5,675)	8,674	390	5,173	938	72.73%
17	6	9.09%	3,986	7,972	9,965	(3,941)	6,024	271	4,257	916	81.82%
18	7	7.27%	3,189	4,783	6,377	(2,522)	3,855	173	3,362	895	89.09%
19	8	5.45%	2,392	2,392	3,587	(1,419)	2,169	98	2,489	873	94.55%
20	9	3.64%	1,594	797	1,594	(631)	964	43	1,638	851	98.18%
21	10	1.82%	797	0	399	(158)	241	11	808	830	100.00%
22	55		43,845					4,174	48,019		
								(c)			

23 Adjustments to PSNH Calculated Returns:

24	January 2009 - July 2009	1,850	Using Stipulated Rate of Return @ 8.61%
25	Staff Calculated Return	967	(1,850 X (4.5%/8.61%) = 967)
26	Necessary Adjustment (a)	(883)	
27	August 2009 - June 2010	2,833	Using 10.686% Overall Cost of Capital per Temporary Rates Settlement
28	Staff Calculated Return	1,193	(2,833 X (4.5%/10.686%) = 1,193)
29	Necessary Adjustment (b)	(1,640)	

Public Service Company of New Hampshire
DE 09-035
Summary of Rate Year Adjustments Effective July 1, 2010
($000s)

	Per PSNH's June 30, 2009 Filing: Baumann Revenue Deficiency, Page 2 of 2 (Volume II, Bates page 78)	As Revised December 15, 2009	Staff Recommendation	
Reliability Enhancement Program	4,000	4,000	4,000	
Capital Recovery Calculation	5,760	5,760	0	
Major Storm Reserve	2,700	2,700	800	
Net 2009 Captial Additions (incl. Depreciation) (see below)	4,669	4,311	4,060	
Total Adjustments Effective 7/1/2010	17,129	16,771	8,860	To SEM-1
2009 Rate Base Additions	23,332	23,332	23,332	
Required Rate of Return	8.108%	7.918%	7.335%	
Gross Revenue Conversion Factor	1.6814	1.6814	1.6814	
Return on 2009 Capital Additions	3,180	3,105	2,877	
Depreciation on 2009 Capital Additions	1,489	1,206	1,183	
Net Adjustment for 2009 Rate Base Additions	4,669	4,311	4,060	

Data Request STAFF-02
Dated: 08/28/2009
Q-STAFF-022
ATTACHMENT

Docket No. DE 09-035
Witness: R.A. Baumann
Attachment RAB-2
UPDATED
Page 1 of 4

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE
DISTRIBUTION SEGMENT RATE CASE

PROFORMA ADJUSTMENT - SUPPORTING SCHEDULE

MAJOR ICE STORM COSTS

(Thousands of Dollars)

REVISED through July 31, 2009

			Distribution Segment
1	**Part 1 - Summary of December 2008 major ice storm costs (1)**		
2	Incurred major storm costs (Cost detail on page 2)	$	78,826
3	Return accrued on at the stipulated return January 2009 through July 2009 (1)		1,850
4	Insurance proceeds (2)		(12,276)
5	Costs transferred from the 186 deferral account to capital accounts		(10,972)
6	Costs billed to FairPoint by PSNH		(2,243)
7	Storm expenses not transferred to Reserve (overheads)		(6,016)
8	Storm costs, net of amounts capitalized, at July 31, 2009 (acct 186.43, general ledger)	$	49,169
9	**Part 2 - Recovery of costs through rates**		
10	Storm costs, net of amounts capitalized, at July 31, 2009 from Line 8	$	49,169
11	Major storm costs recovered through temporary rates (3)		(2,667)
12	Storm costs to be recovered beginning July 1, 2010		46,502
13	Return on the average balance over the proposed 4 year recovery period (see page 4)		6,213
14	Total storm costs to be recovered beginning July 1, 2010		52,715
15	Annual recovery of storm costs over 4 years--permanent rates (Line 14/4)		13,179
16	Storm recovery level approved in temporary rates, Order #24,997.		(6,000)
17	Storm recovery level approved in DE 08-071.		(5,917)
18	Required increase, effective July 1, 2010 through June 30, 2014	$	1,262

19 (1) The stipulated return (8% ROE; assumed 60%debt/40% equity) is the allowed return on the major
20 storm reserve.

21 (2) Total insurance proceeds were $12.3M, of which $2.2M was applied to capital costs.

22 (3) The temporary rates filing set an annual revenue requirements amount of $6M which was
23 allocated between amortization of costs and return, as calculated on page 3 of this attachment.
24 The value above represents estimated storm costs recovered from August 2009 through June 2010
25 (11 months).

26 Amounts shown above may not add due to rounding.

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE
DISTRIBUTION SEGMENT RATE CASE

PROFORMA ADJUSTMENT - SUPPORTING SCHEDULE

MAJOR ICE STORM COSTS

Detail of Cost Components

(Thousands of Dollars)

Resource Code	Description	Distribution Segment
LT	NU Labor	13,561
AV	Vehicles	2,137
AM	Materials	1,916
AO / AQ	Outside Services / Contractor Labor	50,974
AE /BF /KR	Employee Expenses / Fees&Payments / Reimbursements	415
ZB	Non-Productive Time Allocation	2,062
ZE	Payroll Benefits	6,664
ZC / ZD	Stores Overhead / Lobby Stock	669
ZF	General Service Co. Ovehead	429
	Total	$ 78,826

Docket No. DE 09-035
Witness: R.A. Baumann
Attachment RAB-2
UPDATED
Page 3 of 4

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE
DISTRIBUTION SEGMENT RATE CASE

MAJOR ICE STORM COSTS

Allocation of the Major Storm Revenue Requirements in Temporary Rates Between Amortization and Return

(Quarter Ending)

(Thousands of Dollars, excluding Percentage Data)

		8/09-9/09(1)	10/09-1209	1/10-3/10	4/10-6/10	8/09 thru 6/10 Summary (1)	Average Monthly Amor.
1	Quarterly revenue requirement allowed in temporary rates	1,000	1,500	1,500	1,500	5,500	
2	**1. Summary--Allocation of Revenue Requirement**						
3	Amortization of regulatory asset (see Line 14)	473	719	731	743	2,667	**242**
4	Return (includes debt, taxes, equity return) (see Line 11)	527	781	769	757	2,833	
5	Total	1,000	1,500	1,500	1,500	5,500	
6	**2. Calculation of the Return on Rate Base**						
7	Average rate base ((Line 13 + Line 15)/2)	48,932	48,336	47,610	46,873		
8	Average accum def income taxes--based on a 39.55% tax rate	(19,353)	(19,117)	(18,830)	(18,538)		
9	Net rate base	29,579	29,219	28,781	28,335		
10	Return for the period (Line 24)	1.781%	2.671%	2.671%	2.671%		
11	Return on average rate base	527	781	769	757		
12	**3. Amortization and Rate Base**						
13	Beginning balance	49,169	48,695	47,976	47,245		
14	Amortization	(473)	(719)	(731)	(743)		
15	Ending balance	48,695	47,976	47,245	46,502		

	4. Percentage Return Calculations (2)	Ratio %	Cost of Capital	Wgt Avg Cost	Taxes	Tax Adj Wgt Avg Cost
16						
17	Common Equity	48.730%	9.670%	4.712%	3.211%	7.923%
18	Long-term Debt	51.270%	5.389%	2.763%	0.000%	2.763%
19	Total	100.000%	15.059%	7.475%	3.211%	10.686%

		2 mths 8/09-9/09	quarter
20			
21			
22	Annual return, including tax gross up	**10.686%**	**10.686%**
23	X time period	16.667%	25.000%
24	Return for the specified time period	**1.781%**	**2.671%**

25 Notes:

25 (1)--Temporary rates are expected to be in place 11 months beginning August 2009, through June 2010.

26 (2) The ROE, cost of debt, and capital structure are from the temporary rates settlement agreement approved by the NHPUC in order #24,997

27 Amounts shown above may not add due to rounding.

Docket No. DE 09-035
Witness: R.A. Baumann
Attachment RAB-2
UPDATED
Page 4 of 4

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE
DISTRIBUTION SEGMENT RATE CASE

MAJOR ICE STORM COSTS

Major Storm Revenue Requirements to be Recovered in Permanent Rates

(Quarter Ending)

(Thousands of Dollars, excluding Percentage Data)

1 Return on the December 2008 major ice storm costs (1)																		Total Return
2	June 10 (2)	Sept 10	Dec 10	Mar 11	June 11	Sept 11	Dec 11	Mar 12	June 12	Sept 12	Dec 12	Mar 13	June 13	Sept 13	Dec 13	Mar 14	June 14	
3 Beginning balance		46,502	43,932	41,320	38,666	35,969	33,228	30,444	27,614	24,739	21,817	18,848	15,831	12,766	9,651	6,485	3,269	
4 Amortization		(3,295)	(3,295)	(3,295)	(3,295)	(3,295)	(3,295)	(3,295)	(3,295)	(3,295)	(3,295)	(3,295)	(3,295)	(3,295)	(3,295)	(3,295)	(3,295)	
5 Balance prior to return		43,207	40,637	38,025	35,371	32,674	29,934	27,149	24,320	21,444	18,522	15,553	12,537	9,471	6,356	3,190	(26)	
6 Average balance to calculate return		44,855	42,284	39,672	37,018	34,322	31,581	28,796	25,967	23,092	20,170	17,201	14,184	11,118	8,003	4,838	1,621	
7 Def taxes calculated at 39.55%		(17,740)	(16,723)	(15,690)	(14,641)	(13,574)	(12,490)	(11,389)	(10,270)	(9,133)	(7,977)	(6,803)	(5,610)	(4,397)	(3,165)	(1,913)	(641)	
8 Net def costs to calculate return		27,115	25,561	23,982	22,378	20,747	19,091	17,407	15,697	13,959	12,193	10,398	8,574	6,721	4,838	2,924	980	
9 x Return (1)		2.67%	2.67%	2.67%	2.67%	2.67%	2.67%	2.67%	2.67%	2.67%	2.67%	2.67%	2.67%	2.67%	2.67%	2.67%	2.67%	
10 Return on def major storm costs		724	683	641	598	554	510	465	419	373	326	278	229	180	129	78	26	6,213
11 Ending balance, including the return	46,502	43,932	41,320	38,666	35,969	33,228	30,444	27,614	24,739	21,817	18,848	15,831	12,766	9,651	6,485	3,269	0	

12 (1) The ROE, cost of debt, and capital structure used was previously approved in the temporary rates settlement in this docket, as shown on page 3 of this attachment.

13 (2) The ending balance at June 2010 is based the expected recovery of costs during the temporary rates period, August 1, 2009 through June 30, 2010. See RAB-2, page 3 for more information.

14 Amounts shown above may not add due to rounding.

Public Service Company of New Hampshire
Docket No. DE 09-035

Data Request OCA-01

Dated: 08/28/2009
Q-OCA-074
Page 1 of 2

Witness: **Stephen R. Hall**
Request from: **Office of Consumer Advocate**

Question:

Referring to OCA-T-003, if PSNH were to normalize sales and revenues for the year 2008 in order to eliminate the sales losses due to the Ice Storm, what would the proforma revenue adjustment be based on an average of the 4 iterations used? Please provide the supporting calculations.

Response:

PSNH is unable to quantify the lost sales and revenue with any precision because such an exercise is essentially an attempt to measure something that doesn't exist. However, for purposes of responding to this request, the estimated sales from the four iterations have been averaged and some very rough revenue losses have been estimated on Page 2.

December 2008 Ice Storm
Possible Range of Lost Sales and Distribution Revenue

	Estimated Lost KWH			Estimated Lost Revenue per KWH		Estimated Lost Revenue ($000's)		
	Residential	Other	Total	Residential	Other	Residential	Other	Total
Iteration 1	23,945,130	15,089,800	39,034,930	$ 0.02900	$ 0.00500	$ 694	$ 75	$ 770
Iteration 2	22,616,241	22,626,783	45,243,024	$ 0.02900	$ 0.00500	$ 656	$ 113	$ 769
Iteration 3	23,945,130	7,949,500	31,894,630	$ 0.02900	$ 0.01200	$ 694	$ 95	$ 790
Iteration 4	22,616,241	11,916,333	34,532,574	$ 0.02900	$ 0.01200	$ 656	$ 143	$ 799
Average	23,280,685	14,395,604	37,676,290			$ 675	$ 107	$ 782

Notes:

Iterations are described in the response to Q-OCA-T-003.

The estimated lost revenues per KWH are based on the assumption that no customer or demand charge revenues were lost. The residential per KWH amount was based roughly on the distribution KWH charge for Residential Rate R. Since Iterations 1 and 2 assumed that both small and large commercial customers were impacted, the commercial per KWH amount for Iterations 1 and 2 was based very roughly on the distribution KWH charges for Rates G, GV and LG. Iterations 3 and 4 assumed that only small commercial customers were impacted; as a result, the commercial per KWH amount for Iterations 3 and 4 was based roughly on the average distribution KWH charges for Rate G.

Estimated lost revenues are the product of lost KWH and lost revenue per KWH.

Public Service Company of New Hampshire	**Data Request STAFF-02**
Docket No. DE 09-035	**Dated: 08/28/2009**
	Q-STAFF-051
	Page 1 of 3

Witness: **Robert A. Baumann**
Request from: **New Hampshire Public Utilities Commission Staff**

Question:
June 30, 2009 Filing, Volume II - Reference Baumann Schedule 1 Attachment, page 18a of 22 (page 116). Please provide a schedule showing all activity in the major storm reserve account from inception to date.

Response:
Please see the attached.

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE
MAJOR STORM COST RESERVE - ACCOUNT 228.43

Period		Accrual (3)	Storm Activity	Other Activity (1)	Activity	Ties to GL
May-01		(250,000)			(250,000)	(250,000)
Jun-01		(250,000)			(250,000)	(500,000)
Jul-01		(250,000)			(250,000)	(750,000)
Aug-01		(250,000)			(250,000)	(1,000,000)
Sep-01		(250,000)			(250,000)	(1,250,000)
Oct-01		(250,000)			(250,000)	(1,500,000)
Nov-01		(250,000)			(250,000)	(1,750,000)
Dec-01		(250,000)			(250,000)	(2,000,000)
	Sub total	(2,000,000)	-	-	(2,000,000)	(2,000,000)
Jan-02		(250,000)			(250,000)	(2,250,000)
Feb-02		(250,000)			(250,000)	(2,500,000)
Mar-02		(250,000)			(250,000)	(2,750,000)
Apr-02		(250,000)			(250,000)	(3,000,000)
May-02		(250,000)			(250,000)	(3,250,000)
Jun-02		(250,000)	423,953		173,953	(3,076,047)
Jul-02		(250,000)	121,384		(128,616)	(3,204,663)
Aug-02		(250,000)			(250,000)	(3,454,663)
Sep-02		(250,000)	616,720		366,720	(3,087,943)
Oct-02		(250,000)	48,623		(201,377)	(3,289,320)
Nov-02		(250,000)	40,239		(209,761)	(3,499,081)
Dec-02		(250,000)	62,646		(187,354)	(3,686,434)
	Sub total	(3,000,000)	1,313,566	-	(1,686,434)	(3,686,434)
Jan-03		(250,000)			(250,000)	(3,936,434)
Feb-03		(250,000)			(250,000)	(4,186,434)
Mar-03		(250,000)			(250,000)	(4,436,434)
Apr-03		(250,000)	37,233		(212,767)	(4,649,202)
May-03		(250,000)			(250,000)	(4,899,202)
Jun-03		(250,000)			(250,000)	(5,149,202)
Jul-03		(250,000)			(250,000)	(5,399,202)
Aug-03		(250,000)			(250,000)	(5,649,202)
Sep-03		(250,000)			(250,000)	(5,899,202)
Oct-03		(250,000)			(250,000)	(6,149,202)
Nov-03		(250,000)			(250,000)	(6,399,202)
Dec-03		(250,000)	801,155		551,155	(5,848,046)
	Sub total	(3,000,000)	838,388	-	(2,161,612)	(5,848,046)

Period		Accrual	Storm Activity	Other Activity (1)	Activity	Ties to GL
Jan-04		(250,000)			(250,000)	(6,098,046)
Feb-04		(250,000)			(250,000)	(6,348,046)
Mar-04		(250,000)			(250,000)	(6,598,046)
Apr-04		(250,000)			(250,000)	(6,848,046)
May-04		(250,000)			(250,000)	(7,098,046)
Jun-04		(250,000)			(250,000)	(7,348,046)
Jul-04		(250,000)			(250,000)	(7,598,046)
Aug-04		(250,000)			(250,000)	(7,848,046)
Sep-04 (2)		(250,000)		6,064,755	5,814,755	(2,033,291)
Oct-04		(83,333)			(83,333)	(2,116,624)
Nov-04		(83,333)			(83,333)	(2,199,958)
Dec-04		(83,333)		(27,318)	(110,651)	(2,310,609)
	Sub total	(2,500,000)	-	6,037,437	3,537,437	(2,310,609)
Jan-05		(83,333)			(83,333)	(2,393,942)
Feb-05		(83,333)			(83,333)	(2,477,276)
Mar-05		(83,333)	2,217,831	(26,413)	2,108,085	(369,191)
Apr-05		(83,333)	(55,440)		(138,773)	(507,964)
May-05		(83,333)			(83,333)	(591,297)
Jun-05		(83,333)	127,911	(10,727)	33,850	(557,447)
Jul-05		(83,333)			(83,333)	(640,780)
Aug-05		(83,333)	(89,475)		(172,808)	(813,588)
Sep-05		(83,333)		(15,356)	(98,689)	(912,278)
Oct-05		(83,333)			(83,333)	(995,611)
Nov-05		(83,333)			(83,333)	(1,078,944)
Dec-05		(83,333)		(21,786)	(105,119)	(1,184,064)
Subtotal	Sub total	(1,000,000)	2,200,827	(74,282)	1,126,545	(1,184,064)

(1) Miscellaneous activity such as returns, transfers, reclass
(2) Per DE 03-200, $6,097,000 was refunded to customers over the period 10/1/04 - 6/30/07, and therefore was removed from this account.
(3) Major Storm Cost Reserve (MSCR) was established effective 5/1/2001 at $3 million per year. Per Docket No. DE 03-200, the Storm Accrual was changed to $1 million per year effective 10/1/2004. Per Docket No. DE 06-028, the Storm Accrual was changed to $1.7 million per year effective 7/1/2007.

PSNH Docket No. DE 09-035
Data Request STAFF-02
Dated 08/28/2009
Q-STAFF-051
Page 3 of 3

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE
MAJOR STORM COST RESERVE - ACCOUNT 228.43

Period	Accrual (3)	Storm Activity	Other Activity (1)	Activity	Ties to GL
Jan-06	(83,333)			(83,333)	(1,267,397)
Feb-06	(83,333)			(83,333)	(1,350,730)
Mar-06	(83,333)	3,978,452		3,895,118	2,544,388
Apr-06	(83,333)			(83,333)	2,461,055
May-06	(83,333)			(83,333)	2,377,722
Jun-06	(83,333)	191,159		107,826	2,485,547
Jul-06	(83,333)			(83,333)	2,402,214
Aug-06	(83,333)			(83,333)	2,318,881
Sep-06	(83,333)		282,599	199,266	2,518,146
Oct-06	(83,333)			(83,333)	2,434,813
Nov-06	(83,333)		1,403,146	1,319,813	3,754,626
Dec-06	(83,333)		252,562	169,228	3,923,855
Sub total	(1,000,000)	4,169,611	1,938,307	5,107,918	3,923,855
Jan-07	(83,333)			(83,333)	3,840,521
Feb-07	(83,333)	2,700,494		2,617,161	6,457,682
Mar-07	(83,333)	83,046	117,046	116,759	6,574,441
Apr-07	(83,333)	1,967,756		1,884,422	8,458,863
May-07	(83,333)	4,973,087		4,889,754	13,348,617
Jun-07 (2)	(83,333)	2,303,751	(8,158,728)	(5,938,310)	7,410,306
Jul-07	(141,667)	(1,215,371)	(796,036)	(2,153,074)	5,257,233
Aug-07	(141,667)			(141,667)	5,115,566
Sep-07	(141,667)	638,828	94,811	591,972	5,707,538
Oct-07	(141,667)			(141,667)	5,565,872
Nov-07	(141,667)			(141,667)	5,424,205
Dec-07	(141,667)	(174,276)	121,456	(194,487)	5,229,718
Sub total	(1,350,000)	11,277,315	(8,621,451)	1,305,864	5,229,718

Period	Accrual	Storm Activity	Other Activity (1)	Activity	Ties to GL
Jan-08	(141,667)			(141,667)	5,088,052
Feb-08	(141,667)			(141,667)	4,946,385
Mar-08	(141,667)		(17,184)	(158,851)	4,787,534
Apr-08	(141,667)		12,076	(129,591)	4,657,943
May-08	(141,667)			(141,667)	4,516,277
Jun-08 (4)	(141,667)	(526,151)	(5,479,327)	(6,147,145)	(1,630,868)
Jul-08	(141,667)			(141,667)	(1,772,535)
Aug-08	(141,667)		(69,452)	(211,118)	(1,983,653)
Sep-08	(141,667)		(28,755)	(170,421)	(2,154,074)
Oct-08	(141,667)		(2,862)	(144,528)	(2,298,603)
Nov-08	(141,667)			(141,667)	(2,440,269)
Dec-08 (5)	(141,667)	(54,949)	108,665	(87,951)	(2,528,220)
Sub total	(1,700,000)	(581,100)	(5,476,839)	(7,757,939)	(2,528,220)
Jan-09	(141,667)			(141,667)	(2,669,887)
Mar-09	(141,667)			(141,667)	(2,811,554)
Mar-09	(141,667)		(176,217)	(317,884)	(3,129,438)
Apr-09	(141,667)			(141,667)	(3,271,104)
May-09	(141,667)			(141,667)	(3,412,771)
Jun-09	(141,667)		(44,025)	(185,692)	(3,598,463)
Jul-09	(141,667)		(15,871)	(157,537)	(3,756,000)
Sub total	(991,667)	-	(236,113)	(1,227,780)	(3,756,000)
Grand Total	(16,541,667)	19,218,607	(6,432,940)	(3,756,000)	

(1) Miscellaneous activity such as returns, transfers, reclass
(2) Per DE 06-028, other activity reflects a credit of $8,209,000 which is being recovered from customers effective 7/1/2007 over a three year period.
(3) Major Storm Cost Reserve (MSCR) was established effective 5/1/2001 at $3 million per year. Per Docket No. DE 03-200, the Storm Accrual was changed to $1 million per year effective 10/1/2004. Per Docket No. DE 06-028, the Storm Accrual was changed to $1.7 million per year effective 7/1/2007.
(4) Per DE 08-071, other activity reflects a credit of $5,500,000 which is being recovered from customers effective 7/1/2008 over a two year period.
(5) The net December 2008 Ice Storm costs are not reflected on this account as these costs were moved to Account 186.43 and total $49,169,643 as of July 31, 2009.

Public Service Company of New Hampshire
Docket No. DE 09-035

Data Request AUDIT-31-OCA
Dated: 12/08/2009
Q-AUDIT-OCA-010
Page 1 of 1

Witness: Robert A. Baumann
Request from: Office of Consumer Advocate

Question:
Page 18 of the Audit Report explains $60,000 was paid to Rath, Young and Pignatelli. Please provide the retention agreement between PSNH and this firm, as well as all bills for services rendered by this firm that are included in rates.

Response:
After reviewing the invoices, PSNH has concluded that the $60,000 paid to Rath, Young and Pignatelli should have been recorded as lobbying costs. This amount will be removed from PSNH's proposed revenue requirement.