

PSNH in its attempts to recover these expenses and similar future costs from Verizon, or its successor.

2.1.4 Major Storm Cost Reserve: The Parties and Staff agree that PSNH should be allowed to increase its accrual for the Major Storm Cost Reserve from \$1,000,000 to \$1,700,000 annually effective July 1, 2007. The negative balance in the Major Storm Cost Reserve shall be amortized and collected from customers, with a return at the Stipulated Cost of Capital, over a period of three years beginning July 1, 2007. Beyond this, an additional \$1,000,000 will be amortized and recovered from customers over the same period, with the objective of having a \$1,000,000 balance in the reserve at the end of the three year period. This recovery level is based on the assumption that PSNH's major storm expense over the three year period will be equal to the \$1.7 million annual accrual. The Parties and Staff agree to review the collection of the Major Storm Cost Reserve unrecovered balance and the accumulation of the reserve not later than January 1, 2009 to determine whether any changes to the \$1.7 million accrual amount or the reserve recovery level are necessary. The distribution revenue requirement increase for effect July 1, 2007, as shown in Attachment 1, includes the new Major Storm Cost Reserve accrual amount, the amortization of the unrecovered balance, and the additional \$1,000,000. For settlement purposes, the total Major Storm Cost Reserve and related return needed to fund the current deficit in the reserve balance is estimated at \$9.2 million, to be recovered over three years, as shown in Attachment 1, WP-5. The Major Storm Cost Reserve will ultimately be reconciled using actual costs including a return at the Stipulated Cost of Capital.

2.1.5 Rate Base: The distribution revenue requirement increase shown in Attachment 1 and included in Delivery Service rates for effect July 1, 2007 is

ORIGINAL	
N.H.P.U.C. Case No.	08-071
Exhibit No.	4
Witness	Panel
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Witness: **Robert A. Baumann**
Request from: **New Hampshire Public Utilities Commission Staff**

Question:

Reference Attachment 1 to Baumann testimony. In accordance with the approved settlement agreement in this proceeding, PSNH is currently recovering in distribution rates approximately \$9.2 million over three years for

- a) a \$7.2 million deficit in the major storm reserve balance;
- b) an additional \$1 million to have a positive balance in the reserve; and
- c) a return on the unrecovered balance.

The current proposal to recover \$5.9 million over two years is structured similarly. That is, the \$5.9 million would cover

- a) a \$4.5 million deficit in the reserve;
- b) an additional \$1 million to have a positive balance in the reserve; and
- c) a return on the unrecovered balance.

Considering that both recoveries include an additional \$1 million, please explain and demonstrate why PSNH's proposal would not result in PSNH recovering the additional \$1 million twice.

Response:

Effective July 2007, in accordance with the approved settlement agreement in this proceeding, PSNH began recovering over a three year period the \$7.2 million negative balance in the storm reserve as well as the additional million to restore the reserve to the currently allowed \$1 million level. As shown in Attachment 1 to Robert A. Baumann testimony, both the \$7.2 million and the \$1 million have been credited to the current major storm reserve account as agreed to in the settlement.

Subsequent to the settlement, PSNH incurred two major storms in April 2007 which caused over \$8 million in additional storm related costs. The allowed storm reserve accrual of \$1.7 million per year and the \$1 million funding that was granted in the settlement partially offset these April storm costs, leaving PSNH's storm reserve account in a negative position by \$4.5 million as of June 30, 2008. Therefore, PSNH's major storm reserve account will be under funded by \$5.5 million as of 6/30/08 (assuming no major storms in May and June 2008).

In summary, as a result of the major storms in April 2007, PSNH will have a negative \$4.5 million value in its major storm reserve fund, which should be a positive \$1 million as of June 30, 2008. Assuming that major storms over the next two years are at the \$1.7 million annual accrual level, PSNH would continue to have a \$4.5 million negative balance in its storm reserve, which is an under-funded position of \$5.5 million. Therefore, PSNH must recover \$5.9 million over the next two years to have a \$1 million funding level in the reserve, assuming that major storms in that period amount to \$1.7 million annually.