

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 08-071

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

Petition for Increase to Distribution Rates

Order Following Hearing

ORDER NO. 24,870

June 27, 2008

Appearances: Gerald M. Eaton, Esq. on behalf of Public Service Company of New Hampshire; Office of Consumer Advocate by Meredith A. Hatfield, Esq., on behalf of residential ratepayers; and Suzanne Amidon, Esq. on behalf of Commission Staff.

I. PROCEDURAL BACKGROUND

On April 30, 2008, Public Service Company of New Hampshire (PSNH) filed a petition, with supporting testimony and exhibits, requesting an increase to its distribution rates to recover an under-funding of its major storm cost reserve (MSCR) account. Specifically, PSNH requested an annual increase of \$2.958 million over a two-year period beginning July 1, 2008 to recover \$5.9 million, including carrying costs.

PSNH stated that as part of a settlement agreement approved by the Commission in Docket No. DE 06-028, PSNH's most recent distribution rate case, the signatories to that settlement agreed to review the collection of the MSCR un-recovered balance and the accumulation of the reserve no later than January 1, 2009. With respect to annual funding for the MSCR account, the settlement agreement provided for an increase to annual accrual from \$1 million to \$1.7 million effective July 1, 2007. As part of the pre-January 1, 2009 review of the MSCR, the parties and Staff were also to determine whether any change to the \$1.7 million annual accrual amount was necessary. See Order No. 24,750 (May 25, 2007).

PSNH stated that it experienced two major storms in April 2007, the costs of which were not accounted for in the settlement agreement approved in Order No. 24,750. The costs of the storms, which exceeded \$8 million, increased the costs to be paid from the MSCR, resulting in a \$5.5 million under-funding in the MSCR account. Pursuant to the settlement agreement, PSNH met with the Office of Consumer Advocate (OCA) and Commission Staff on April 10, 2008 to discuss the issue. As a result of those discussions, PSNH filed this instant petition for an annual increase to its distribution rates over a two-year period to collect the necessary funds to eliminate the current under-funded MSCR balance and to restore the MSCR account to its intended \$1 million level.

According to PSNH, the MSCR rate increase would be timed to coincide with the scheduled annual distribution rate decrease of \$3.39 million associated with the end of the temporary rate recoupment authorized in Order No. 24,750. If approved, the net decrease to distribution rates effective July 1, 2008 would be \$0.432 million.

The Commission issued an Order of Notice on May 16, 2008 scheduling a hearing for June 11, 2008. On May 20, 2008, the Office of Consumer Advocate (OCA) entered an appearance on behalf of residential ratepayers pursuant to RSA 363:28.

II. POSITIONS OF THE PARTIES

A. Public Service Company of New Hampshire

PSNH noted that the settlement agreement in its most recent distribution rate case included a provision (Section 2.1.4.) regarding the MSCR account. The settling parties in the rate case agreed that PSNH should be allowed to increase its annual accrual for the MSCR account from \$1 million to \$1.7 million annually, effective July 1, 2007. In addition, according to PSNH, the settling parties also agreed that PSNH should be allowed to recover \$9.2 million

over three years, at a rate of \$2.945 million per year, associated with: (1) an under-funded balance of \$7.2 million in the MSCR, (2) an additional \$1 million to bring the reserve to a positive balance, and (3) associated carrying costs.

PSNH explained that the \$7.2 million under-funded amount in the MSCR account at the time the settlement agreement was entered into included estimated costs related to a major storm in January 2007. Subsequently, PSNH experienced two major storms in April 2007 and incurred additional costs of approximately \$8 million. After applying the costs of those storms against the balance in the MSCR, PSNH reported that the MSCR account had an estimated negative balance of \$4.5 million as of June 30, 2008. Adding \$1 million to that amount to bring the MSCR to a positive balance, consistent with the terms of the settlement agreement, PSNH noted that the total under-funding of the MSCR was \$5.5 million. PSNH further explained that, with the associated carrying costs, the total amount to be recovered is approximately \$5.9 million.

PSNH testified that the recoupment related to the recovery of temporary rates in its delivery rate is scheduled to end on July 1, 2008, resulting in a decrease of \$3.39 million to annual distribution revenue requirements. If the Commission approves the requested \$2.958 million annual increase to distribution rates, PSNH noted the distribution revenues would still decrease but by the lesser amount of \$ 0.432 million. PSNH calculated that, on an average per kilowatt-hour (kWh) basis, the elimination of the temporary rate recoupment would decrease rates by 0.041 cents per kWh and the requested MSCR recovery would increase rates by 0.036 cents per kWh, resulting in an average net decrease of 0.005 cents per kWh in distribution rates effective July 1, 2008.

According to PSNH, its proposal to recover the \$5.5 million and the associated return over a period of two years is in addition to the MSCR account recovery that is currently being

collected over a three-year period, as approved in Order No. 24,750. PSNH explained that by June 30, 2010, all else being equal, distribution rates would decrease by approximately \$5.9 million as both those recoveries would end simultaneously.

Regarding the current \$1.7 million accrual to the MSCR that is currently included in rates, PSNH stated that it was not requesting a change to that amount. According to PSNH, without its current request for recovery and, assuming that the existing \$1.7 million base rate level is applied to future storms, the negative balance in the MSCR would continue and would accrue carrying costs of about \$700,000 per year, thus increasing the negative balance over time.

Responding to a query from Staff, PSNH explained that its request to include \$1 million in the amount to be recovered through distribution rates was not a double recovery of the \$1 million the Commission allowed the PSNH to recover in Order No. 24,750. According to PSNH, the \$1 million the Commission allowed PSNH to recover in Order No. 24,750 was intended to maintain a positive reserve balance of \$1 million in the MSCR account. PSNH noted that it applied the \$1 million to costs associated with the major storms in April 2007. Hence, the company testified, the inclusion of \$1 million in the instant request would merely allow PSNH to restore the MSCR to a positive balance of \$1 million, consistent with Order No. 24,750.

PSNH acknowledged that Commission Audit Staff was in the process of reviewing expenses related to the 2007 storms, which may require adjustments to the MSCR balance. PSNH also noted that, during an investigation being conducted by its insurance company, PSNH discovered that approximately \$500,000 in costs related to the second April storm were charged to a PSNH work order but should have been charged to PSNH's affiliate, Connecticut Light & Power (CL&P). PSNH stated that those costs will be removed from the reserve.

PSNH also indicated that it had filed an insurance claim in connection with damage caused by the second April storm. Although the insurance policy has a \$10 million deductible, PSNH indicated that it believed the deductible applies to its parent company, Northeast Utilities, on a company-wide basis, i.e., cumulatively to PSNH and affiliates CL&P and Western Massachusetts Electric Company (WMECO). PSNH explained that if the deductible is applicable to all the companies, it may be due to receive reimbursement for some of the storm costs it incurred. However, PSNH noted that the investigation was ongoing and had not yet resulted in a determination of monies owed PSNH. Any such recoveries would be accounted for in the reserve going forward.

B. Office of Consumer Advocate

OCA recommended that the Commission reduce PSNH's proposed rate increase by the \$500,000 that PSNH testified was incorrectly charged to PSNH. OCA proposed that the reduction be applied to reduce the increase by \$250,000 per year.

C. Commission Staff

Staff stated that it had no objection to PSNH's request to recover the \$5.5 million of MSCR under-funding and associated carrying costs over a period of two years effective July 1, 2008. Staff explained that any adjustments arising out of the ongoing audit, including the insurance and work order-related issues discussed at hearing, could all be taken into account at the same time and the MSCR be adjusted accordingly.

III. COMMISSION ANALYSIS

We have reviewed PSNH's request and find it is reasonable and in the public interest to allow the company to recover the \$5.5 million negative balance in the MSCR and associated carrying charges over a two-year period effective on July 1, 2008. It is clear that, should the

MSCR account remain under-funded, customers would ultimately be responsible for additional interest costs. The proposal to allow recovery over two years provides reasonably timely reimbursement to PSNH and, considering the simultaneous timing of the end of the temporary rate recoupment from DE 06-028, allows for customers to still experience a net decrease to distribution rates.

We approve PSNH's request with the understanding that PSNH's costs associated with its 2007 major storms are still under review by Audit Staff and that adjustments to the MSCR are anticipated. Accordingly, we will defer for the time being the adjustment related to the charging of certain CL&P storm costs to PSNH and make the appropriate changes when the results of the Staff audit are available. As the MSCR is a fully reconcilable account for which any costs must be related to major storms, any adjustments to the reserve, only impact PSNH's ability to meet its major storm expenses on a going-forward basis. To the extent any major adjustments are necessary to either the balance of the MSCR or the annual funding amount, we will deal with such issues in future proceedings.

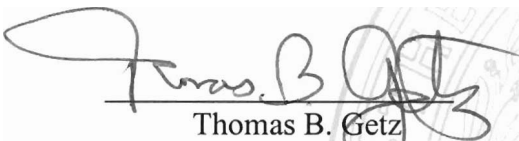
This is one of four orders we are issuing simultaneously in Docket Nos. DE 07-096, DE 07-097, DE 08-069 and DE 08-071 that adjust various components of PSNH's retail rates. The components concern, respectively (1) energy service, (2) the stranded cost recovery charge, (3) the transmission cost adjustment mechanism, and (4) the storm reserve fund, reflected in distribution charges. Overall, the average impact of these rate changes effective July 1, 2008 is an average increase of 6.28 percent for a PSNH customer not purchasing energy from a competitive supplier.

Based upon the foregoing, it is hereby

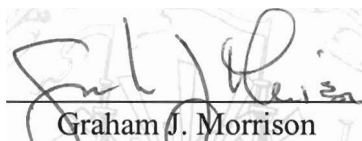
ORDERED, that the request of Public Service Company of New Hampshire to increase its distribution revenue requirement by \$2,958,000 for two years effective July 1, 2008 is hereby **GRANTED**; and it is

FURTHER ORDERED, that Public Service Company of New Hampshire shall file tariff revisions that conform with this Order within 30 days hereof.


By order of the Public Utilities Commission of New Hampshire this twenty-seventh day of June, 2008.



Thomas B. Getz
Chairman



Graham J. Morrison
Commissioner



Clifton C. Below
Commissioner

Attested by:



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Assistant Executive Director & Secretary

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