ORIGINAL
N.H.P.U.C. Case No. DE 09-035
Exhibit No. #9
Witness Panel 1
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# THE STATE OF NEW HAMPSHIRE
# BEFORE THE

# NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

**Docket No. DE 09-035**

**DIRECT TESTIMONY OF**

**Robert A. Baumann**

Request for Permanent Distribution Rates

*June 30, 2009*

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## ATTACHMENTS

## I. INTRODUCTION

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

A. My name is Robert A. Baumann. I am Director, Revenue Regulation & Load Resources for Northeast Utilities Service Company ("NUSCO"). NUSCO provides centralized services to the Northeast Utilities ("NU") operating subsidiaries, including Public Service Company of New Hampshire ("PSNH" or the "Company"). My business address is 107 Selden Street, Berlin, Connecticut. Additional biographical information is provided in Attachment RAB-1.

**Q. Have you previously testified before this Commission?**

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

**Q. What is the purpose of your testimony?**

A. I am submitting this testimony in support of PSNH's distribution revenue requirement as it relates to, and supports PSNH's request for a change in permanent retail distribution rates effective August 1, 2009. The foundation for the calculation of this permanent rates request builds on the Company's request for temporary rates that was filed on April 17, 2009 ("temporary rates filing"), with a limited number of additional adjustments.

Finally, my testimony will address the issue of "attrition" as introduced in Mr. Long's testimony and propose a regulatory framework that would deal with some of the negative financial impacts that attrition has had on PSNH in the past and will continue to have in the future.

**Q. For purposes of PSNH's filing, what are the test year and the pro forma test year periods?**

A. The test year in PSNH's filing is the 12 months ended December 31, 2008 and the test year pro forma period is the 12 months ending December 31, 2009.

**Q. Does this filing contain all of the tariff filing requirements described in Part Puc 1604 of the Commission's Rules?**

A. Yes. PSNH has filed the appropriate filing requirements in this submittal. On February 23, 2009, PSNH filed a Motion for Waiver of certain Provisions of Puc 1604.01(a). On April 3, 2009, the Commission granted PSNH's request for waiver and determined that granting the waiver is in the public interest and would not disrupt the orderly and efficient resolution of matters before the Commission.

## II. PERMANENT DISTRIBUTION RATES REQUEST

**Q. Please explain why the Company is requesting authority to implement Permanent Distribution Rates effective August 1, 2009.**

A. Consistent with my testimony in the temporary rates filing, this proposal for permanent rates is necessary to address significant distribution cost increases since PSNH's last rate case that have not been offset by revenue growth. The current insufficient level of revenue has adversely impacted the actual financial results of the Company in the test year and has continued to expose the Company to additional financial degradation into 2009. Temporary rates would provide PSNH with an immediate increase in revenues and therefore timely address, in part, the current financial degradation.

Three years ago PSNH filed and was allowed both temporary and permanent rate changes in Docket No. DE 06-028 effective July 1, 2006 and July 1, 2007 respectively. The final approved permanent rates contained an allowed distribution Return on Equity (ROE) of 9.67% and were based on an adjusted 2005 test year. As part of the DE 06-028 approval, PSNH was also allowed a modest "step" increase to rates which was effective January 1, 2008 to reflect nonrevenue producing capital additions through December 31, 2007. Since that time, PSNH has continued to meet its obligation to serve by continuing to invest significantly in PSNH's distribution infrastructure system to maintain and improve current and future service to customers. As a result, the value of PSNH's rate base has and will continue to increase well beyond the level allowed in the last rate case, on which the current distribution rates were based. In addition, operation and maintenance costs have continued to increase beyond the levels embedded in current rates, while delivery sales have decreased over the same time period. The increase in investments to our infrastructure as well as the continued increase to our O&M costs have resulted in a significant decline in the Company's actual earned distribution ROE. As of December 31, 2008, the actual 2008 distribution ROE for PSNH, as reported to the Commission, was 6.26%, and as of March 31, 2009 the actual distribution ROE dropped to 5.54% for the 12 month period. These values remain well below past and current industry standards of a fair and reasonable return, and well below the 9.67% level authorized by the Commission in the 2006 case. With no temporary rate relief in 2009, PSNH projects a calendar year 2009 distribution ROE of approximately 4% and continued decline into 2010.

**Q. Explain how the current rate setting structure has contributed to the weak financial results of PSNH?**

A. When PSNH's base rates are reset in a general rate case proceeding, the overall starting point for those rates is an historic five-quarter average rate base and a projected pro forma income statement based on limited known and measurable cost adjustments. Using this methodology, the setting of new base rates automatically creates significant financial risk and uncertainty for PSNH as new rates are set on financial information, much of which is backwards looking (rate base) and some of which is set on a cost structure that is current at the time the rate filing is prepared, but will be out of date by the time new rates take effect. The current regulatory lag between filing a case and securing a final decision results in rates that do not recover the actual level of costs during the time that the rates are in effect.

In Docket No. DE 06-028, the Permanent Rates Settlement approved by the Commission recognized the "lag" problem and partially addressed the issue through a modest "step" increase to rates associated with some growth in rate base. While the numbers we are filing today are not requesting additional revenue requirements beyond the proforma test year 2009, we would request that the issue of "lag", and the revenue shortfall it creates, be addressed within the Permanent rates review and adjudication process as all interested parties meet in technical sessions throughout the process. This would allow for a full understanding of the "lag" issues and possible solutions going forward, and would give all interested parties the opportunity to have a voice in a possible solution. This significant issue goes to the heart of our unsatisfactory financial results that PSNH is facing currently and most likely will face in the future, if not addressed effectively in this docket.

**Q. Describe in more detail the elements behind the "unsatisfactory financial results" you refer to above.**

A. Simply stated, the current regulatory practice in New Hampshire does not allow PSNH the opportunity to earn its allowed ROE for any sustainable period of time. Even in the past, when the Commission has allowed a level of revenue requirements that are supported by a reasonable rate of return, PSNH has been unable to earn that intended return due to attrition. Fair and reasonable levels of rate base and costs of service that are part of the rate setting calculation are quickly over-taken by increasing costs and additional capital additions, which are often times not offset by the level of sales and associated revenue increases. These constant cost increases subsequent to the setting of new rates, coupled with inadequate sales growth have immediate negative impacts to PSNH's financial returns. This in turn creates inconsistent and inadequate earnings for PSNH.

**Q. Does PSNH have a going forward proposal to address the regulatory disconnect described above?**

A. Yes. It is our intent to introduce into this permanent rate case request a dialogue among all interested parties which could lead to the creation of a ratemaking framework in New Hampshire that deals head on with the issue of attrition. We believe that a successful regulatory framework can be put into place, on a going forward basis, which would address the key concepts and goals noted below:

1. Lower the frequency of permanent base rate requests.
2. Create rate paths that are supported by actual costs incurred by PSNH.
3. Create an ongoing recovery methodology that is straightforward and easily verifiable.
4. Create protections for customers that assure fair, reasonable and cost based rates.

**Q. Describe in more detail the framework that you are suggesting to put into place.**

A. We believe that periodic rate adjustments supported by verifiable financial information would create a future rate path that would slow the frequency of permanent rate requests and afford PSNH the opportunity to earn a sustainable and reasonable rate of return. Less frequent rate case requests would decrease the administrative burden of a full rate case and create additional time for all parties to address new initiatives that present themselves over time. Any such rate adjustment would be supported by actual financial data which would always be available for review by the Commission and by other interested parties.

We would propose that on an annual year-end basis, PSNH would file actual net capital balances consistent with the most currently allowed rate base data, and that these values would be used to calculate rate adjustments effective on July 1 of the following year. Specifically, the filing would include actual gross plant less accumulated depreciation, or net plant, offsetting accumulated deferred income tax (ADIT) and depreciation expense. This would be a very important and material step towards the attrition issue. The plant investment data would be verifiable, and these assets would be used and useful at the time rate recovery began. PSNH's capital program is well documented and supported by a strong commitment to reliability for our customers. The Commission and all other interested parties would be afforded the opportunity to review the capital costs embedded in this annual filing, which would also be supported by our year end audited financial statements that are filed with the FERC and SEC.

With respect to O&M costs, we would propose at this time that PSNH would continue to monitor and address theses costs through our internal operations and that these costs not be included as a part of the periodic annual rate adjustments. The risks associated with higher O&M costs would continue to remain with PSNH and could be offset by any future sales increases, if they were to occur. PSNH's sales levels are being negatively impacted by the current economic conditions, conservation and customer usage patterns as well as through other demand and supply side programs aimed at reducing customer usage.

Finally, a new regulatory framework such as we have proposed may result in less frequently filed permanent rate cases. If such a framework were adopted, we believe that the Commission should closely monitor the Companies actual ROE levels on an ongoing basis. We certainly would be willing to discuss a framework for an earnings sharing mechanism based on actual ROEs. PSNH currently files a rolling twelve month actual ROE calculation with the Commission and OCA at the end of each calendar quarter (NHPUC Form F-1).

**Q. Do you believe that your suggested regulatory framework is in keeping with past recovery practices?**

A. Yes. PSNH believes that our proposed periodic rate adjustments are consistent with the step increase that was part of the settlement approved by the Commission in the 2006 rate case, which was supported by all parties. Our proposal is also consistent with cost based ratemaking that has been the historic cornerstone of all past and current recovery mechanisms. Such a fundamental change in the regulatory framework in New Hampshire would be a fair and balanced first step approach to the issue of attrition.

**Q. Would this suggested regulatory framework solve the attrition experienced by PSNH?**

A. No. Although it would significantly mitigate the expected attrition in ROE, this method would not mitigate higher expenses or lower kWh sales. PSNH is willing to consider other attrition solutions with the parties to the proceeding, but this particular proposal would significantly contribute to a solution.

**Q. Describe the supporting historical rate base and return data that is attached to this testimony.**

A. Attachment RAB-3 illustrates graphically the historical "lag" in rate base by comparing the level of rate base allowed in rates to the comparable actual rate base values over the past three years. The chart clearly illustrates the tens of millions of dollars of rate base lag that PSNH's rates have contained over recent years.

Attachment RAB-4 illustrates graphically the short-fall in the actual earned ROEs when compared to the allowed and/or recommended ROEs over the same three year historical period as in Attachment RAB-3. This chart also gives a clear picture of the continuing gap between allowed and actual ROEs.

**Q. What is the Company's overall rate proposal?**

A. In this filing PSNH is requesting an increase for Permanent distribution rates of $51 million to be effective August 1, 2009. We recognize that if our temporary rates request of approximately $36 million were to go into effect on August 1, 2009, and that the Permanent rates request were to be suspended for up to one year, the final allowed Permanent rates request would be subject to recoupment. We would propose that the recoupment value would be the difference between the final allowed temporary and permanent rate levels effective August 1, 2009 and would be recovered through rates beginning July 1, 2010 over a 12 month period. The recoupment period would be the 11 month period August 2009 – June 2010. This would re-synchronize the distribution rate change with the existing rate charges for the ES, SCRC and TCAM back to a pattern of mid-year changes that is in effect today.

In addition to the Permanent rates request noted above, PSNH is requesting an additional step increase in rates effective July 1, 2010. This step increase is approximately $17 million and would establish recovery of estimated 2009 net capital additions to rate base and associated depreciation expense and ADIT. Prior to implementing that increase, PSNH would provide information documenting the amount of capital additions and associated depreciation expense. In addition, this step increase would include funding of a new Reliability Enhancement Program (REP) as described in Mr. Johnson's testimony, increase depreciation expense related to the application of a Capital Recovery Calculation (CRC), as well as an increase to the current annual accrual for major storm costs.

Finally, as noted above, PSNH is proposing a new regulatory framework that would address the issue of attrition and its negative impact on the financial results of the Company.

## III. PERMANENT RATES DISTRIBUTION REVENUE REQUIREMENT

**Q. Based on your detailed calculation of the Company's Distribution revenue requirements using the 2008 test year, is there a test year revenue deficiency evidenced by the supporting calculations?**

A. Yes. A calculation of a revenue deficiency using actual 2008 test year financial data adjusted only for known and measurable changes results in a distribution revenue deficiency for PSNH's distribution business of approximately $30 million. In addition, as the chart below illustrates, there are additional items that have been included in the requested Permanent revenue requirements as proposed by PSNH. They relate to additional test year rate base levels and associated depreciation, recovery of the

December 2008 ice storm costs and a higher requested ROE than is currently allowed in rates (10.5% vs. 9.67%). The overall calculation supporting this revenue deficiency is contained in the supporting schedules, which are attached to my testimony.

**Q. What is the total requested permanent distribution revenue requirements in this filing?**

A. As noted above, the total level of Permanent rates being requested effective August 1, 2009 is an increase of $51 million. In table form this requested increase is summarized as follows:

| | | |
|---|---|---|
| Test year deficiency with **average** test year rate base | $ 20 | million |
| Other known and measurable proforma cost increases | 10 | |
| Storm cost recovery (over 5 years) – December 2008 storm | 9 | |
| Increase in rate base from average to end of test year levels | 4 | |
| Increase in depreciation expense – to end of test year levels | 3 | |
| Increase in ROE from current allowed of 9.67%, to 10.5% | 5 | |
| Total requested Permanent rates effective August 1, 2009 | $ 51 | million |

**Q. Describe the $10 million component associated with the test year proforma cost increases noted in the table above.**

A. In keeping with Commission rules, we have proformed the test year data for only known and measurable cost changes. Specifically, the $10 million is primarily made up of known increases for property taxes ($3 million), pension costs ($3 million), payroll costs ($2 million) and medical costs ($1 million). The property tax expense in this filing represents the expected level of state and local taxes that PSNH will begin to pay in the second quarter of 2009. This value reflects the liability that will be accrued monthly on PSNH's books. The pension and medical expenses are supported by the latest known and measurable actuarial values. Finally, the payroll expenses represent the latest known actual pay levels and full time employees at the end of the test year.

**Q. Describe the $9 million component associated with storm costs noted in the table above.**

A. New Hampshire and surrounding states suffered a severe ice storm in December 2008 that demanded an extensive response from PSNH. The total costs incurred to restore service to our customers throughout our service territory have been estimated to be in excess of $60 million after insurance. Our permanent rates filing assumes recovery of these costs, with carrying charges, over a five (5) year period beginning August 1, 2009. The temporary rates filing preliminarily assumed a six (6) year recovery period.

**Q. How did you calculate the storm costs?**

A. The values that we have included in the revenue requirements are based on actual data with some estimated data as well. All estimated data will be trued up to actual data in subsequent months and will be made available to the Commission for their review. We would recommend that the Commission conduct its audit review of the updated storm costs when they are filed. It is currently our plan to update all storm costs to actual during the June 30, 2009 quarterly closing process. The total net cost embedded in this rate filing for the December 2008 storm is $66.4 million. This value is derived by adding the total storm costs deferred on the Company's books as of December 31, 2008 ($62.7 million) to an estimated amount for directly related operating expenditures that will be incurred in 2009 ($7.0 million), and carrying costs ($9.4million), netted against an estimated insurance payment ($12.7 million). A detailed supporting calculation is contained as Attachment RAB-2 to this testimony.

**Q. Why are you changing from the 6 year recovery period as filed in the temporary rates application to the 5 year period in this filing?**

A. Our requested temporary increase was tempered by the desire to keep overall rates flat or lower on July 1, 2009 when you combine the temporary distribution rate change with the ES and SCRC rate changes. Our total requested temporary increase, when combined with the estimated net decrease in the ES and SCRC rates also scheduled for July 1 at the time of filing, resulted in no increase to the average residential customer rates and a 1% decrease in overall average rates on July 1, 2009. A recovery period less than 6 years would not have met that desired outcome for temporary rates.

**Q. Describe the $4 million component associated with end of test year rate base noted in the table above.**

A. For reasons noted previously, we are requesting that permanent rates effective August 1, 2009 be set using a test year end actual rate base versus a test year five-quarter average rate base.

**Q. Describe the $3 million component associated with end of test year depreciation levels noted in the table above.**

A. Consistent with an end of test year rate base, we are requesting that permanent rates be set with depreciation expense levels adjusted to an end of test year expense level which would allow for full recovery of depreciation expense in the following rate year.

**Q. Describe the $5 million component associated with a requested increase to the allowed ROE as noted in the table above.**

A. We are requesting an increase to the current allowed ROE from 9.67% to 10.5%. This increase is supported by the testimony of George J. Eckenroth which is contained in PSNH's filing.

**Q. Describe the additional $17 million step in rates that PSNH is requesting to be effective July 1, 2010.**

A. PSNH is requesting an additional step increase in rates effective July 1, 2010. This step is approximately $17 million and would establish recovery of estimated 2009 capital additions to rate base and associated depreciation expense. In addition, this step increase would include funding of a new Reliability Enhancement Program (REP), an increase to the current annual accrual for major storm costs and an increase to the overall level of depreciation supported by the latest Capital Recovery Calculation (CRC). In table form this requested increase is summarized as follows:

| | | |
|---|---|---|
| 2009 capital additions to rate base and associated depreciation | $ 5 | million |
| Reliability Enhancement Program | 4 | |
| Increase in annual storm expense accrual ($1.7 to $4.4 million) | 2 | |
| Capital Recovery Calculation (CRC) | 6 | |
| Total | $ 17 | million |

**Q. Describe the $5 million component associated with the recovery of 2009 capital additions to rate base and associated depreciation expense noted in the table above.**

A. For reasons noted previously, PSNH is requesting that permanent rates on July 1, 2010 be set using an actual rate year end (2009) rate base versus a test year five-quarter average rate base. These values will be known, measurable and in service as of July 1, 2010.

**Q. Describe the $4 million component associated with a new Reliability Enhancement Program noted in the table above.**

A. Our request contains a new REP program that is presented in the testimony of Stephen M. Johnson which is contained in the Company's filing.

**Q. Describe the $2+ million component associated with the requested increase in the annual accrual for major storms from the current level of $1.7 million to $4.4 million noted in the table above.**

A. Our request increases the annual accrual to the major storm reserve, to cover future major storm costs. The requested level is supported by an average of past historical major storm levels from 2004 through 2007. Values for 2008 were not contained in our average due to the severity and uniqueness of the December 2008 ice storm.

**Q. Describe the $6 million component associated with the application and recovery of additional annual depreciation expense resulting from the most current Capital Recovery Study (CRC) noted in the table above.**

A. PSNH is requesting an increase in depreciation expense related to the application of a Capital Recovery Calculation on the existing depreciation methodology. Support for our request is contained in the Technical Statement of Dale R. Urban which is included in this filing.

**Q. Are there any other specific adjustments that you would like to present at this time?**

A. Yes. We have recently learned of a new legislative initiative that has raised 2009 unemployment taxes on an emergency basis to fund the state unemployment trust fund, and which is likely to raise them further into 2010. As of today, we do not have a financial impact resulting from this law. As the State of New Hampshire considers its own budget needs and associated tax structure, any changes to State policy or practice may increase PSNH's operating costs. When issues like this become known and measurable we will be updating our filing accordingly.

In addition, PSNH is reviewing its leases related to its fleet of vehicles and the future viability of lease versus purchases. This review was made necessary by dramatic changes in vehicle lease programs as a result of the upheaval in the capital markets which is discussed by Mr. Long. Once we understand the impacts of this issue we will update the case accordingly.

**Q. Describe the overall link to PSNH's financial statements as presented in this filing.**

A. Consistent with the unbundling of PSNH's rates, we have provided supporting schedules that reconcile total company income and rate base to PSNH's books and records. In addition, we have provided schedules that support the segmentation of these total company balances. The distribution segment forms the beginning basis of our revenue requirements calculation. We then provided a series of known and measurable adjustments to the actual test year distribution segment in formulating the adjusted test year financials. The adjusted test year income statement (operating income) and five-quarter average rate base were then used in the computation of the distribution revenue deficiency calculation.

**Q. Please explain the Summary of Adjustments to the Income Statement in Schedule 1 Attachment, Page 1.**

A. This schedule shows the net effect on the test year operating income statement resulting from all of the known and measurable pro forma adjustments contained in PSNH's filing. Each adjustment that supports this summary schedule contains additional explanations and analysis related to each particular adjustment to the income statement. Please refer to the Attachment RAB-5 for detailed discussion of all proforma income statement adjustments which were included in this Temporary Rates filing.

**Q. Does this conclude your testimony?**

A. Yes, it does.

Biography of Robert A. Baumann

Mr. Baumann graduated from Lafayette College in 1974 with a Bachelor of Arts degree in Economics. In 1976 he received a Masters Degree in Business Administration from the University of Connecticut. From 1976 to 1981, Mr. Baumann was employed by the international accounting firms of Touche Ross and Company and Coopers & Lybrand. He received his designation in Connecticut as a Certified Public Accountant in 1979.

Mr. Baumann assumed his current position of Director – Revenue Regulation and Load Resources in 2001. In 1981, he joined Northeast Utilities (NU) in the Revenue Requirements Department and has worked in various regulatory capacities for all of the operating subsidiaries of NU. His current responsibilities include all revenue requirement issues associated with Public Service Company of New Hampshire, all NU regulatory issues related to generation, load, and standard offer contracts for all of the NU operating subsidiaries as well as all regulatory issues associated with the Purchase Gas Adjustment Clause for Yankee Gas Services Company, an NU affiliate. He has provided testimony on many occasions before state commissions in New Hampshire, Connecticut and Massachusetts as well as before the Federal Energy Regulatory Commission.

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE
DISTRIBUTION SEGMENT RATE CASE

PROFORMA ADJUSTMENT - SUPPORTING SCHEDULE

MAJOR ICE STORM COSTS

(Thousands of Dollars)

| Line | | | Distribution Segment |
|---|---|---|---|
| 1 | **Part 1 - Summary of December 2008 major ice storm costs (1)** | | |
| 2 | Storm costs, net of amounts capitalized, deferred to a 186 account at December 31, 2008 | $ | 62,709 |
| 3 | Additional costs expected to be incurred during 2009 to complete restoration | | 10,000 |
| 4 | Portion of 2009 costs PSNH expects to capitalize | | (3,000) |
| 5 | Estimated insurance proceeds | | (12,709) |
| 7 | Return on the average balance over the recovery period (see page 2 of 2) | | 9,359 |
| 8 | Total December 2008 major ice storm costs, incl return on the average balance | $ | 66,359 |
| 9 | Unrecovered balance Acct 182.ST (Deferred Major Storm Costs) at June 30, 2009 | $ | 5,486 |
| 10 | Plus : Return, including tax gross up, for the July 2009 through June 2010 (DE 08-071) | | 431 |
| 11 | Unrecovered revenue requirements for Acct 182.ST at June 30, 2009 | $ | 5,917 |
| 12 | Total (Line 8 and Line 11) | $ | 72,276 |
| 13 | **Part 2 - Recovery of costs through permanent rates** | | |
| 14 | Estimate of major storm recovery through temporary rates (2) | $ | 12,268 |
| 15 | Remainder to be recovered through permanent rates (Line 12 less Line 14) | $ | 60,008 |
| 16 | Annual recovery of deferred major storm costs over 4 years--permanent rates | $ | 15,002 |
| 17 | Less amortization for Acct 182.ST, and return | | 5,917 |
| 18 | Revenue requirements increase in recovery of deferred major storm costs | $ | 9,085 |

19 (1) The numbers shown represent PSNH's best estimate as of December 31, 2008. These
20 amounts, including returns, will be updated during 2009 as additional actual information
21 becomes available.

22 (2) See temporary rates filing, DE 09-035 as filed April 17, 2009--reference page 000102

23 Amounts shown above may not add due to rounding.

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE
DISTRIBUTION SEGMENT RATE CASE

## MAJOR ICE STORM COSTS

(Quarter Ending )

(Thousands of Dollars, excluding Percentage Data )

1 Return on the December 2008 major ice storm costs (1)

| 2 | Mar 09 | June 09 | Sept 09 | Dec 09 | Mar 10 | 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 | Total Return |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 3 Beginning balance | 62,709 | 67,049 | 58,652 | 57,725 | 56,786 | 55,837 | 54,877 | 51,731 | 48,549 | 45,331 | 42,077 | 38,785 | 35,455 | 32,088 | 28,682 | 25,238 | 21,754 | 18,230 | 14,667 | 11,062 | 7,416 | 3,729 | |
| 4 Additional 2009 costs, net | 3,500 | 3,500 | | | | | | | | | | | | | | | | | | | | | |
| 5 Insurance proceeds | | (12,709) | | | | | | | | | | | | | | | | | | | | | |
| 6 Amortization | | | (1,588) | (1,588) | (1,588) | (1,588) | (3,750) | (3,750) | (3,750) | (3,750) | (3,750) | (3,750) | (3,750) | (3,750) | (3,750) | (3,750) | (3,750) | (3,750) | (3,750) | (3,750) | (3,750) | (3,750) | |
| 7 Balance prior to return | 66,209 | 57,840 | 57,064 | 56,136 | 55,198 | 54,249 | 51,126 | 47,980 | 44,799 | 41,581 | 38,326 | 35,034 | 31,705 | 28,338 | 24,932 | 21,487 | 18,004 | 14,480 | 10,916 | 7,312 | 3,666 | (21) | |
| 8 Average balance to calculate return | 66,459 | 62,444 | 57,858 | 56,931 | 55,992 | 55,043 | 53,001 | 49,855 | 46,674 | 43,456 | 40,201 | 36,910 | 33,580 | 30,213 | 26,807 | 23,363 | 19,879 | 16,355 | 12,791 | 9,187 | 5,541 | 1,854 | |
| 9 Def taxes calculated at 39.55% | (25,494) | (24,697) | (22,883) | (22,516) | (22,145) | (21,769) | (20,962) | (19,718) | (18,460) | (17,187) | (15,900) | (14,598) | (13,281) | (11,949) | (10,602) | (9,240) | (7,862) | (6,468) | (5,059) | (3,633) | (2,192) | (733) | |
| 10 Net def costs to calculate return | 38,966 | 37,747 | 34,975 | 34,414 | 33,847 | 33,273 | 32,039 | 30,138 | 28,214 | 26,269 | 24,302 | 22,312 | 20,299 | 18,264 | 16,205 | 14,123 | 12,017 | 9,887 | 7,732 | 5,553 | 3,350 | 1,121 | |
| 11 x Return (1) | 2.15% | 2.15% | 1.89% | 1.89% | 1.89% | 1.89% | 1.89% | 1.89% | 1.89% | 1.89% | 1.89% | 1.89% | 1.89% | 1.89% | 1.89% | 1.89% | 1.89% | 1.89% | 1.89% | 1.89% | 1.89% | 1.89% | |
| 12 Return on def major storm costs | 839 | 813 | 660 | 650 | 639 | 628 | 605 | 569 | 533 | 496 | 459 | 421 | 383 | 345 | 306 | 267 | 227 | 187 | 146 | 105 | 63 | 21 | 9,359 |
| 13 Ending balance, including the return | 67,049 | 58,652 | 57,725 | 56,786 | 55,837 | 54,877 | 51,731 | 48,549 | 45,331 | 42,077 | 38,785 | 35,455 | 32,088 | 28,682 | 25,238 | 21,754 | 18,230 | 14,667 | 11,062 | 7,416 | 3,729 | (0) | |
| 14 182ST $5.917M amortization, incl return | | | (1,479) | (1,479) | (1,479) | (1,479) | | | | | | | | | | | | | | | | | |

15 (1) 7.55% annual return (including the gross revenue conversion adjustment on the equity return for taxes) previously used in
16 DE 06-028 and DE 08-071 in determining the return on deferred major ice storm costs.

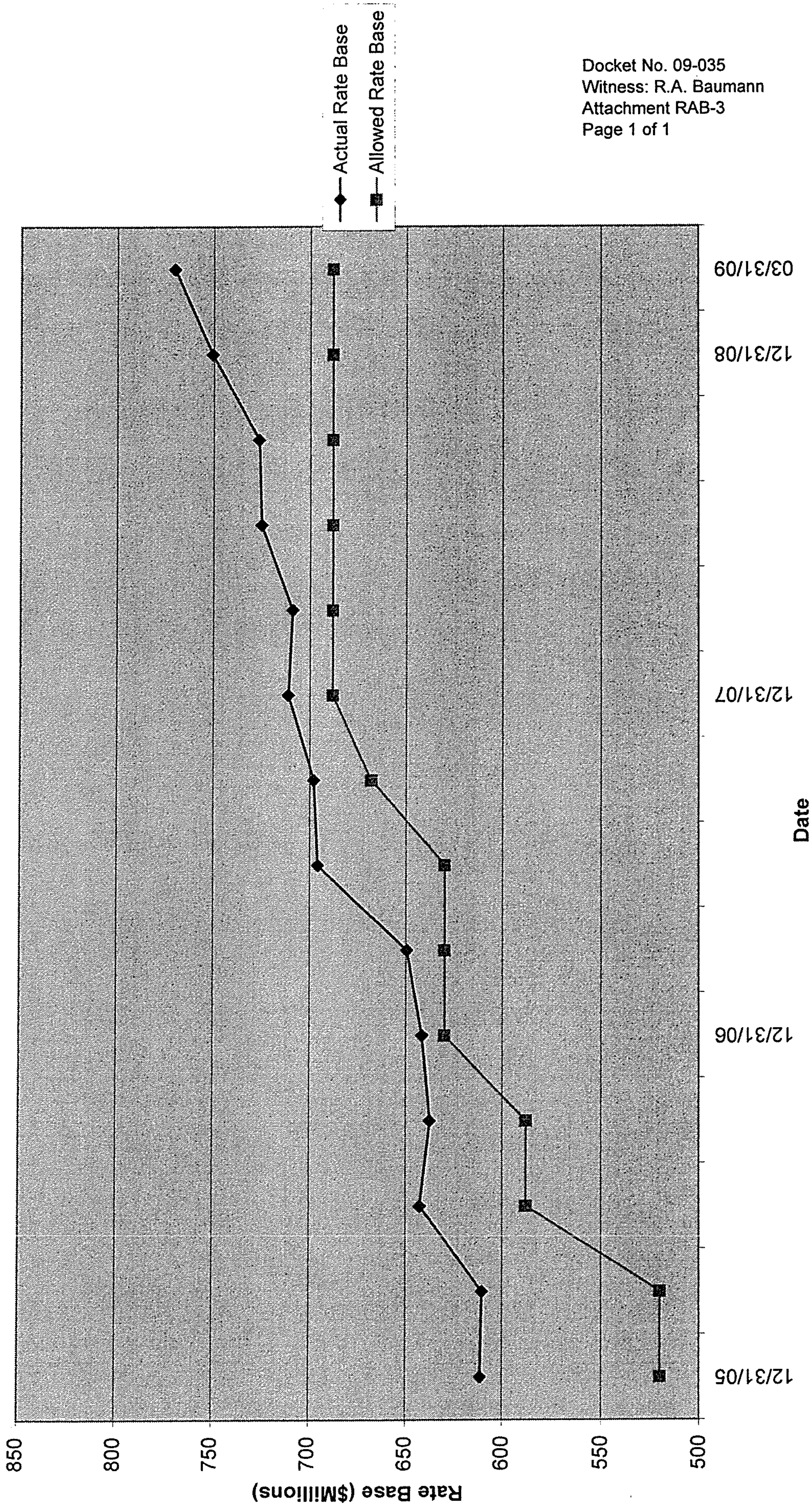
17 (2) The ending balance for June 2010 is consistent with the information provided in PSNH's temporary rate filing in DE
18 09-035, dated April 17, 2009 (reference attachment RAB-2, page 2 of 2). Adjustments for 2009 costs and insurance
19 proceeds in both the temporary and permanent have been estimated based upon information currently available. This
20 calculation will be updated as additional information becomes available.

21 Amounts shown above may not add due to rounding.

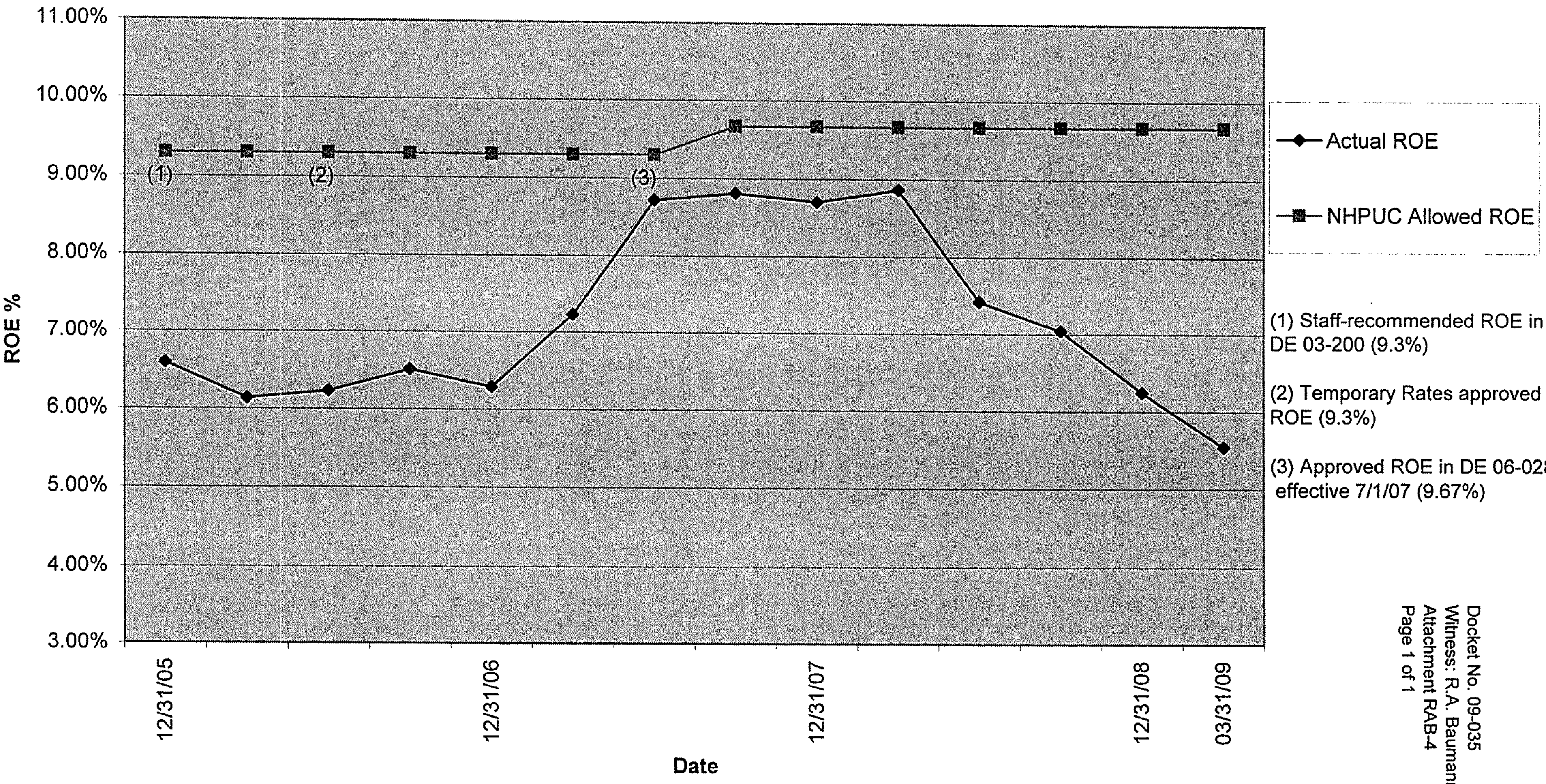
000080

Docket No. 09-035
Witness: R.A. Baumann
Attachment RAB-3
Page 1 of 1

## End of Period Actual vs. Allowed Rate Base



## ROE Percent
## Based on 5 Quarter
## Rate Base and Cost of Capital Data




Docket No. 09-035
Witness: R.A. Baumann
Attachment RAB-4

# PSNH

## REQUEST FOR PERMANENT RATES

## PRO FORMA INCOME STATEMENT ADJUSTMENTS

The following adjustments can be found in Schedule 1 Attachment:

Page 2 – Special Pricing Revenue

This pro forma adjustment reflects the decrease in distribution operating revenues to reflect special pricing arrangements which will terminate and revert to billing under standard tariff rates by December 31, 2009 (within twelve months of the end of the test year).

Page 3 – Billed Retail Distribution Revenue

This pro forma adjustment relates to PSNH's retail distribution rates which decreased on July 1, 2008. This adjustment states retail revenues at the July 1, 2008 rate level for the entire year.

Page 4 – Field Collection Revenues

This pro forma adjustment increases PSNH's retail distribution revenue to reflect Field Collection revenues that were mistakenly booked to the wrong segment from January thru July 2008.

Expense Adjustments

Page 5 – Uncollectible Expense

This pro forma adjustment decreases test year operating expense to reflect a decrease in the allocation to the Distribution Segment.

Page 6 – Verizon Out-of-Period O&M Credit Associated with Tree Trimming

This pro forma adjustment eliminates a non-recurring out-of-period O&M credit associated with the reimbursement for tree trimming costs from Verizon.

Page 7 – Tilton Area Work Center O&M Costs

This pro forma adjustment eliminates non-recurring O&M costs associated with fire damage at the Tilton Area Work Center in 2008.

Page 8 – Amortization of Software Maintenance Agreement

This pro forma adjustment reflects the increase in test year operating expenses for the amortization of contract costs associated with call center technology software support and maintenance.

Page 9 – Postage Expense Increase

This pro forma adjustment increases test year operating expense to reflect higher postage expense effective May 12, 2008 and May 11, 2009.

Page 10 – Payroll Expense

This pro forma adjustment changes test year payroll expense to reflect the impact of retirements, annualization of new employee salaries, and to reflect pay increases for exempt, non-exempt and union employees, along with payroll-related overheads.

Page 11 – Other Post Employment Benefits (OPEB)

This pro forma adjustment reflects an increase in OPEB expense based on most current actuarial studies.

Page 12 – Pensions

This pro forma adjustment reflects the increased pension expense based on most current actuarial studies.

Page 13 – Property Taxes

This pro forma adjustment reflects the increased test year operating expense for higher levels of property tax expense based on 2009 property tax levels.

Page 14 – Medical Benefits

This pro forma adjustment reflects the increase in test year operating expenses for increased medical benefits based on information supplied by the PSNH's actuaries.

Page 15 – Hydro Quebec Support Costs

This pro forma adjustment reflects the increase in test year operating expenses for 2009 Hydro Quebec support costs.

Page 16 - Rate Reduction Bond (RRB) Servicing Fees

This pro forma adjustment increases test year operating expenses related to the decrease in RRB servicing fee revenues.

Page 17 - Amortization of Deferred Environmental Remediation Costs

This pro forma adjustment reflects the amortization of deferred environmental remediation costs for environmental remediation costs deferred after June 30, 2007.

Page 18 - Major Storms Reserve

This pro forma adjustment increases test year operating expenses to reflect a proposed increase in the major storms reserve.

Page 19 - Rent Expense

This pro forma adjustment reflects an increase in test year operating expenses relating to PSNH's share of increased rent costs for Corporate Center facilities.

Page 20- FairPoint O&M Credit Associated with Tree Trimming

This pro forma adjustment decreases test year operating expenses to reflect the billing for shared maintenance work costs to FairPoint.

Page 21 - Depreciation Expense

This pro forma adjustment reflects an increase in test year depreciation relating to technical adjustments to the depreciation calculation and net capital additions.

Page 22 - Current and Deferred Income Taxes

This pro forma adjustment adjusts both Current and Deferred income taxes based on pro forma changes in pre-tax operating income.