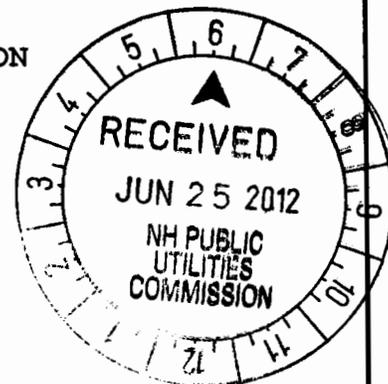


STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

June 21, 2012 - 1:39 p.m.
Concord, New Hampshire



RE: DE 12-110
PUBLIC SERVICE OF NEW HAMPSHIRE:
Request for Permanent Distribution Rates
Changes.

PRESENT: Chairman Amy L. Ignatius, Presiding
Commissioner Robert R. Scott
Commissioner Michael D. Harrington

Sandy Deno, Clerk

APPEARANCES: Reptg. Public Service of New Hampshire:
Sarah B. Knowlton, Esq.

Reptg. PUC Staff:
Suzanne G. Amidon, Esq.
Steven E. Mullen, Asst. Dir./Electric Div.

Court Reporter: Steven E. Patnaude, LCR No. 52

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I N D E X

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 STEPHEN R. HALL
 JEROME F. DEE

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P R O C E E D I N G

1
2 CHAIRMAN IGNATIUS: I'd like to open the
3 hearing in Docket DE 12-110. This is Public Service
4 Company of New Hampshire's petition for a step adjustment
5 and increase to its Major Storm Cost Reserve charge. On
6 April 27, 2012, PSNH filed a petition for a step
7 adjustment to its distribution rates, pursuant to a
8 Settlement Agreement mechanism that the Commission
9 approved in 2010. The increase requested would be for
10 effect July 1, 2012. And, PSNH also filed, on that same
11 date, a request to increase its annual accrual to the
12 Major Storm Cost Reserve, going from \$3.5 million to
13 \$7 million per year, in order to recover costs incurred in
14 repairing damage from the August 2011 tropical storm and
15 the October 2011 snowstorm, although it would not be a
16 prudency proceeding on those actual costs.

17 So, with that, let's take appearances
18 please.

19 MS. KNOWLTON: Good afternoon,
20 Commissioners. My name is Sarah Knowlton. I'm Senior
21 Counsel at Public Service Company of New Hampshire. And,
22 with me today is my colleague from the Law Department,
23 Michael Hall, who is also Senior Counsel.

24 CHAIRMAN IGNATIUS: Welcome back.

1 MS. AMIDON: Good afternoon,
2 Commissioners. Suzanne Amidon, for Commission Staff, and
3 with me today is Steve Mullen, the Assistant for the
4 Electric Division.

5 CHAIRMAN IGNATIUS: Good afternoon. Is
6 there anything on a procedural matter to take up before we
7 begin with testimony?

8 MS. KNOWLTON: I have one. Which is,
9 the Company has three witnesses today. Mr. Baumann and
10 Mr. Hall, who filed the technical statements and
11 supplemental technical statements. We would like to call
12 one other company employee, Mr. Jerry Dee, as part of the
13 panel. Mr. Dee was -- assisted in the preparation of a
14 data response that relates to the Monticello Report. And,
15 my understanding is that the Staff would like to inquire
16 about that data response. So, if Mr. Dee could join the
17 panel from the outset, that may be helpful.

18 CHAIRMAN IGNATIUS: All right. And, I
19 assume the Staff has no objection to that, if it was
20 hoping to hear from him?

21 MS. AMIDON: That's correct.

22 CHAIRMAN IGNATIUS: All right. Then,
23 that would be fine. Why don't you proceed.

24 MS. KNOWLTON: The Company calls Robert

[WITNESS PANEL: Baumann~Hall~Dee]

1 Baumann, Stephen Hall, and Jerry Dee.

2 (Whereupon **Robert A. Baumann**,
3 **Stephen R. Hall**, and **Jerome F. Dee** were
4 duly sworn by the Court Reporter.)

5 MS. KNOWLTON: Good afternoon,
6 gentlemen.

7 WITNESS BAUMANN: Good morning.

8 WITNESS HALL: Good morning.

9 WITNESS DEE: Good morning.

10 **ROBERT A. BAUMANN, SWORN**

11 **STEPHEN R. HALL, SWORN**

12 **JEROME F. DEE, SWORN**

13 **DIRECT EXAMINATION**

14 BY MS. KNOWLTON:

15 Q. Mr. Baumann, I'll start with you. If you would please
16 state your full name for the record.

17 A. (Baumann) My name is Robert Baumann.

18 Q. By whom are you employed?

19 A. (Baumann) I'm employed by Northeast Utilities Service
20 Company.

21 Q. And, would you please identify your position with the
22 Company, as well as your job responsibilities.

23 A. (Baumann) My position with the Company is Director of
24 Revenue Requirements. And, I am responsible for

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[WITNESS PANEL: Baumann~Hall~Dee]

1 revenue requirement calculations filed on behalf of
2 Public Service Company of New Hampshire, and various
3 revenue requirement calculations filed on behalf of the
4 other operating companies of Northeast Utilities.

5 Q. Mr. Hall, would you state your full name for the
6 record.

7 A. (Hall) Stephen R. Hall.

8 Q. By whom are you employed?

9 A. (Hall) Public Service of New Hampshire.

10 Q. Would you please identify your position with PSNH and
11 your job responsibilities.

12 A. (Hall) I'm Rate and Regulatory Services Manager. I'm
13 responsible for docket management, rate and tariff
14 administration, and pricing and rate design.

15 Q. Mr. Dee, would you please state your full name for the
16 record.

17 A. (Dee) My full name is Jerome F. Dee. I'm the Credit
18 and Collections Manager for Public Service of New
19 Hampshire.

20 Q. And, would you just give us a general description of
21 your job responsibilities in that capacity.

22 A. (Dee) I'm responsible for all credit and collections
23 activities in the State of New Hampshire, including
24 working with social agencies, working with delinquent

{DE 12-110} {06-21-12}

[WITNESS PANEL: Baumann~Hall~Dee]

1 paying customers.

2 (Court reporter interruption.)

3 WITNESS DEE: Customers. I'm not
4 speaking loud enough, am I?

5 MR. PATNAUDE: No.

6 WITNESS DEE: Okay. I apologize.

7 MS. KNOWLTON: Much better. Mr. Baumann
8 and Mr. Hall, I'd like to start with you. And, first,
9 with the Technical Statement that you filed on April 27th,
10 2012, which the Company would propose to mark for
11 identification as "Exhibit 1".

12 CHAIRMAN IGNATIUS: So marked.

13 (The document, as described, was
14 herewith marked as **Exhibit 1** for
15 identification.)

16 MS. KNOWLTON: And, while we're marking
17 exhibits, if we could go ahead and mark as "Exhibit 2" the
18 a Supplemental Technical Statement of Robert A. Baumann
19 and Stephen R. Hall, filed on June the 7th, 2012.

20 CHAIRMAN IGNATIUS: So marked.

21 (The document, as described, was
22 herewith marked as **Exhibit 2** for
23 identification.)

24 BY MS. KNOWLTON:

{DE 12-110} {06-21-12}

[WITNESS PANEL: Baumann~Hall~Dee]

1 Q. Mr. Baumann and Mr. Hall, do you have those two
2 exhibits in front of you?

3 A. (Baumann) Yes.

4 A. (Hall) Yes.

5 Q. Were those -- let's start with Exhibit 1. Was Exhibit
6 1 prepared by you or under your direction, and I'll let
7 whichever one of you respond?

8 A. (Baumann) Yes, it was.

9 Q. And, the same for you, Mr. Hall?

10 A. (Hall) Yes.

11 Q. Okay. And, do you have any corrections or
12 clarifications to Exhibit 1?

13 A. (Baumann) No.

14 A. (Hall) I have none.

15 Q. And, with regard to Exhibit 2, was that prepared by
16 both of you and under your direction and supervision?

17 A. (Hall) Exhibit 2 was prepared by me.

18 Q. By you?

19 A. (Hall) Yes.

20 Q. Okay. All right. If we would -- Mr. Baumann, if you
21 would start by just giving us an overall description of
22 what the Company is requesting here in this docket
23 that's described in Exhibit 1.

24 A. (Baumann) Sure. The Company has really three items

{DE 12-110} {06-21-12}

[WITNESS PANEL: Baumann~Hall~Dee]

1 that we're requesting the Commission consider. The
2 first is a compliance item from the 2009 rate case
3 related to net plant growth. And, that step increase
4 is specifically a \$7 million requested increase
5 associated with the 09-035 Rate Case Settlement.

6 The second item, we are requesting a
7 \$72,000 increase associated with a consulting fee that
8 was in respect to a study done on uncollectible
9 expense, and that it contained some recommendations,
10 both historic and going forward.

11 And, the third item that we're
12 requesting the Commission consider is an increase to
13 the current level of storm funding accrual reserve.
14 The current level that's embedded in base rates, that
15 was changed and agreed to at the settlement -- in the
16 '09 Settlement, was 3.5 million. And, because of the
17 storms that were incurred in the fourth quarter of
18 2011, specifically Hurricane Irene and the October
19 northeaster, we have requested an increase to that
20 reserve funding to begin additional recovery of those
21 costs, recognizing that they certainly have not been
22 reviewed for prudence yet by the Commission.

23 Q. Mr. Hall, would you like to describe the last item with
24 regard to the uncollectible expense. And, perhaps,

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[WITNESS PANEL: Baumann~Hall~Dee]

1 particularly as it relates to Exhibit 2, the
2 Supplemental Technical Statement that was filed.

3 A. (Hall) Certainly. We filed Exhibit 2 to provide to the
4 Commission and the parties the consultant's Final
5 Report, that's a report of Monticello Consulting. This
6 contains all, a review and assessment of PSNH's credit
7 and collection practices, and contains 41
8 recommendations.

9 In the last rate case settlement, PSNH
10 committed to hire such a consultant. And, the costs
11 associated with the consultant were to be recovered
12 through distribution rates. In Exhibit 2, we also
13 indicate what the final amount of the consultant's fees
14 totaled up to be. And, the final amount was \$70,921.

15 Q. Mr. Dee, did you participate in discovery in this
16 docket that related to that consultant's report?

17 A. (Dee) Yes, I did.

18 Q. Mr. Baumann, if I could go back to you for a minute,
19 with regard to the step adjustment. Would you just --
20 could you describe briefly the nature of the expense
21 that the Company is seeking recovery of?

22 A. (Baumann) Well, in very -- in general terms, the
23 Settlement recognized that, going forward, if we were
24 going to have a viable four year settlement, that step

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[WITNESS PANEL: Baumann~Hall~Dee]

1 increases resulting from -- or, step increases were
2 needed to continue to recover a reasonable level of
3 revenue requirements associated with plant growth, net
4 plant growth, throughout the four year period. And, to
5 that end, we developed a methodology and agreed upon a
6 methodology that allowed for the recovery of the
7 revenue requirements associated with 80 percent of net
8 plant growth through the Settlement period. The reason
9 we picked "80 percent" is we had some facts during the
10 Settlement that indicated that new -- new net plant
11 associated with new development was somewhere in the 15
12 to 20 percent range. And, then, existing plant growth
13 was somewhere around 80 percent or a little less. So,
14 as a result -- or, excuse me, a little more. As a
15 result, we agreed on 80 percent as a number to ply
16 against the formula by which we would be allowed three
17 continuous step increases on July 1 of three proceeding
18 years. This is the second of those step increases.

19 And, just to add, in addition, all of
20 these net plant increases, the REP Program, Reliability
21 Enhancement Program, is eliminated from these step
22 increases, so that you wouldn't have a double-counting
23 of that program as "an increased cost", when it really
24 is -- is contained elsewhere in the distribution rates.

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[WITNESS PANEL: Baumann~Hall~Dee]

1 Q. Mr. Hall, have you done any rate analysis of the impact
2 of these three changes?

3 A. (Hall) Yes, I have.

4 MS. KNOWLTON: We have two more
5 documents that we would like to mark for identification.
6 The first, as "Exhibit 3", which is a three-page document
7 that, on the first page is dated 06-18-2012, and it's
8 titled "Retail Revenue by Rate Class and Unbundled
9 Component", starting on the first page "at rate levels
10 effective April 16, 2012."

11 And, the second document is a
12 double-sided one-page document that we propose to mark for
13 identification as "Exhibit 4", which is, at least on one
14 side, titled "Rate Changes Proposed for Effect on
15 July 1st, 2012 Percentage Change in each Rate Component".

16 CHAIRMAN IGNATIUS: We'll mark -- excuse
17 me, mark each of those as "Exhibits 3" and "4".

18 (The documents, as described, were
19 herewith marked as **Exhibit 3** and
20 **Exhibit 4**, respectively, for
21 identification.)

22 BY MS. KNOWLTON:

23 Q. Mr. Hall, do you have those exhibits before you?

24 A. (Hall) Yes, I do.

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[WITNESS PANEL: Baumann~Hall~Dee]

1 Q. And, were these prepared by you or under your
2 direction?

3 A. (Hall) Yes, they were.

4 Q. And, do these exhibits reflect the rate changes that
5 the Company is seeking today in this docket?

6 A. (Hall) Yes.

7 Q. And, would you walk us through, starting with
8 Exhibit 3, --

9 A. (Hall) Sure.

10 Q. -- using the Residential Rate R, what the effect would
11 be on those customers.

12 A. (Hall) Exhibit 3 is a three-page exhibit that shows the
13 rates expressed in a cents per kilowatt-hour basis by
14 rate class and by component. We'll focus on the column
15 that says "Distribution". The first page of Exhibit 3
16 shows what average cents per kilowatt-hour distribution
17 rates are today for each of the classes. The second
18 page shows the proposed distribution rates for effect
19 July 1st, in average cents per kilowatt-hour by class.
20 And, the third page shows the difference between the
21 two. In other words, the amount of increase in the
22 average cents per kilowatt-hour distribution rates, by
23 class and in total.

24 Exhibit 4 takes the information in

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[WITNESS PANEL: Baumann~Hall~Dee]

1 Exhibit 3 and expresses the proposed rate change in
2 percentage terms. The front page of Exhibit 4 shows
3 the percent change in the distribution component of
4 rate level for each class of service. The back page
5 shows the proposed distribution rate change, in terms
6 of total revenue level for each class of service. So,
7 the percent changes shown on the back page of Exhibit 4
8 are smaller than the percent changes shown on the front
9 page of Exhibit 4, because they're expressed in terms
10 of total revenue level, rather than just the
11 distribution component of rates.

12 MS. KNOWLTON: Unless the Commission
13 would like to hear more direct examination of the parties,
14 I would propose to make them available for
15 cross-examination.

16 CHAIRMAN IGNATIUS: That's fine. Thank
17 you. Ms. Amidon.

18 MS. AMIDON: Thank you. Mr. Mullen will
19 be conducting the cross-examination.

20 CHAIRMAN IGNATIUS: That's fine.

21 MR. MULLEN: Good afternoon.

22 WITNESS BAUMANN: Good afternoon.

23 WITNESS HALL: Good afternoon.

24 **CROSS-EXAMINATION**

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1 BY MR. MULLEN:

2 Q. I think, in summary, at first it was stated that
3 there's essentially three main subjects of the step
4 adjustment: One having to do with changes in non-REP
5 net plant; one with consultant costs for
6 uncollectibles; and the third having to do with the
7 increase in the proposed accrual for the Major Storm
8 Reserve, is that correct?

9 A. (Baumann) Yes.

10 A. (Witness Hall nodding in the affirmative).

11 Q. Okay. And, dealing with the first one, the changes for
12 non-REP plant --

13 MR. MULLEN: Actually, before I do that,
14 we have a series -- there's a series of four discovery
15 responses that I'd like to have marked as "Exhibit Number
16 5"?

17 MS. AMIDON: With your permission.

18 (Atty. Amidon distributing documents.)

19 CHAIRMAN IGNATIUS: And, these are
20 responses, PSNH responses to data requests propounded by
21 the Staff?

22 MR. MULLEN: Yes.

23 CHAIRMAN IGNATIUS: We'll mark this for
24 identification as Exhibit 5.

[WITNESS PANEL: Baumann~Hall~Dee]

1 (The document, as described, was
2 herewith marked as **Exhibit 5** for
3 identification.)

4 MS. AMIDON: Pardon me, was there -- I
5 was informing Mr. Baumann that his microphone was not on.
6 So, did I miss something I needed to --

7 CHAIRMAN IGNATIUS: No. I was just
8 confirming what they were and marked them as "Exhibit 5"
9 for identification.

10 MS. AMIDON: Thank you, madam Chairman.

11 BY MR. MULLEN:

12 Q. So, probably, the most efficient way to do this is to
13 go from Page 1 of this Exhibit Number 4. We'll deal
14 with the Major Storm Reserve first.

15 CHAIRMAN IGNATIUS: Are you in the --

16 MR. MULLEN: Excuse me, Exhibit Number
17 5, Bob. Thank you.

18 CHAIRMAN IGNATIUS: Thank you.

19 BY MR. MULLEN:

20 Q. So, if somebody could just summarize again what PSNH is
21 requesting with respect to the Major Storm Reserve.
22 And, in doing so, state what the current level of
23 annual accrual is, what the proposed level is, and
24 what's causing the request for the increase?

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[WITNESS PANEL: Baumann~Hall~Dee]

1 A. (Baumann) Sure. I'll be glad to do that. And, you try
2 to turn your microphone off and you never get away with
3 it. Probably the easiest thing to do is to go to
4 Attachment A from our Technical Statement, that was in
5 Exhibit 1, filed on April 27. And, specifically, on
6 Page 6 of 6, there are some storm numbers at the top
7 that total 14.6 million. What we have currently in
8 rates today is a system whereby we recover \$3.5 million
9 a year to pay for anticipated future storms, and
10 they're built up into a Major Storm Reserve. And, as
11 storms are incurred, in the past, we have applied that
12 reserve against those storms. And, so, it kind of
13 levelizes storm recovery, recognizing there will be
14 major storm reserves -- or, excuse me, major storms
15 going forward periodically. The level has increased
16 from, I think, as low as 1 million a year, up to the
17 current 3.5 million a year. But, as everybody is
18 aware, we've had probably the four major storms in the
19 last six years, five years, starting in 2008, with a
20 very large ice storm up here in New Hampshire; 2010, we
21 had a wind storm; 2013, Hurricane Irene; and then -- or
22 excuse me, 2011, Hurricane Irene; and, then, 2011, the
23 October nor'easter.

24 What was presented to the Company is

{DE 12-110} {06-21-12}

[WITNESS PANEL: Baumann~Hall~Dee]

1 that we felt we needed to accelerate or increase the
2 amount of storm reserve accrual and recovery through
3 rates that is mentioned in the Settlement Agreement,
4 because of Hurricane Irene, and then the October
5 nor'easter. And, really, what we -- what we, if you
6 look at Attachment A Page 6 of 6, our Major Storm
7 Reserve, at the end of June, and that's, again, the
8 amount of monies we've recovered from customers, will
9 be a little over \$8 million. And, the October
10 snowstorm and Hurricane Irene are somewhere in the
11 vicinity of \$23 million in total costs. So, our net
12 unrecovered storm balance, as of June, is approximately
13 14.6 million.

14 Now, the first two storms I talked
15 about, the ice storm, that is already being recovered
16 through rates, as is the wind storm. The ice storm was
17 part of the original Settlement in 2009. And, the wind
18 storm was anticipated in that Settlement, the numbers
19 weren't final at that point, so we deferred that to the
20 following year. And, last year, that went into rates
21 as well. So, those two storms are being recovered
22 through rates in the distribution segment of the bill,
23 but Irene and the October nor'easter are not. And, we
24 looked at the 14.6 million, recognizing that there's

{DE 12-110} {06-21-12}

[WITNESS PANEL: Baumann~Hall~Dee]

1 always a probability that there might be another major
2 storm in the next two or three years. So, we came to
3 the conclusion that it was appropriate to raise the
4 recovery rate to \$7 million over the next three years,
5 until such time as -- well, to raise it today. And, we
6 anticipate, over the next three years, that, until we
7 were to review that again at some future point, say, in
8 a base rate case, that that \$7 million number would
9 allow us to recover the \$14 million. And, if there are
10 no storms, establish a reserve for the next major
11 storm, somewhere in the vicinity of 6, \$7 million.

12 So, that was our reasoning behind our
13 request. And, what precipitated it was certainly the
14 last two storms that have created this net unrecovered
15 balance, that we would prefer not to be sitting on the
16 books and earning a return at, you know, at the cost of
17 capital, which ultimately would have to be paid again
18 by customers.

19 Q. On that point, about "sitting on the books and earning
20 a return", let's backtrack a little bit. The Major
21 Storm Reserve has been in place at PSNH for a number of
22 years, correct?

23 A. (Baumann) Yes.

24 Q. And, there are certain criteria for storms to qualify

{DE 12-110} {06-21-12}

[WITNESS PANEL: Baumann~Hall~Dee]

1 for treatment under the Major Storm Reserve?

2 A. (Baumann) That's correct.

3 Q. And, it's based on number of troubles, number of
4 customers, those sort of criteria?

5 A. (Baumann) Yes.

6 Q. So, when you say that, for Hurricane Irene and for the
7 October snowstorm, to "sit on the books and earn a
8 return", are you saying that those storms qualify for
9 treatment under the parameters of the Major Storm
10 Reserve?

11 A. (Baumann) Yes. They both qualify as "major storms".

12 Q. Okay. So, now, in this proceeding, there's really, as
13 I see it, is the Company saying "There's two avenues
14 the Commission could do." You could either let them
15 sit there and earn a return for recovery at some later
16 period or you could adjust the annual accrual to the
17 Storm Reserve to try to whittle those down over time?

18 A. (Baumann) Yes. That's correct.

19 Q. So, if we look at Page 1 of Exhibit 5, which is the
20 response to Staff Set 1, Question 1, I think we can try
21 to run through two different scenarios here. On that
22 first page, there's, about three quarters of the way
23 down, there's "Chart 1. Net Storm Costs - No
24 Additional Funding"?

{DE 12-110} {06-21-12}

1 A. (Baumann) Correct.

2 Q. Okay. If I was to look at the Attachment A you just
3 pointed us to, Page 6 of 6, at the top of the page.
4 And, to the left of where it says as -- I'm back on
5 Exhibit 5 now, to the left of where it says "as of
6 June 30th, 2013", if I put a column there for
7 "June 30th, 2012", on the line that says "Projected
8 Deferred 2011 Major Storms", --

9 A. (Baumann) Yes.

10 Q. -- if I put "22.8 million", which is going back to your
11 Attachment A, the totals for Hurricane Irene and
12 October snowstorm?

13 A. (Baumann) That would be correct.

14 Q. And, then, on the line on Exhibit 5 that says
15 "Projected Major Storms Reserve", if I had a credit
16 number of "8.2 million", would that be correct?

17 A. (Baumann) Yes. That would be correct.

18 Q. So, the net to be recovered would be the "14.6",
19 consistent with your Attachment A?

20 A. (Baumann) Yes.

21 Q. Okay. So, now, if we take these across, from
22 June 30th, 2012 to June 30th, 2015 -- first, what's the
23 significance of the "June 30th, 2015" date?

24 A. (Baumann) That is the final date of the 2009

[WITNESS PANEL: Baumann~Hall~Dee]

1 Settlement. It was a five-year settlement. The
2 capital adds piece was a four-year piece of that
3 five-year settlement, because there's no CapAdd in year
4 five. And, so, we selected that as the ending, if you
5 will, to try to get whole and build a reserve, assuming
6 no storms. And, it would coincide with the end of the
7 Settlement period.

8 Q. Okay. Now, for each of those lines on Chart 1, if you
9 go from left to right, could you explain what's
10 happening with the numbers as you go across from year
11 to year?

12 A. (Baumann) Sure. The "Projected Deferred 2011 Major
13 Storms", starting with your -- the number we just wrote
14 in, the "22.8 million", as of June of '13, '14, and
15 '15, they increase, because there are returns applied
16 against them, the cost of capital returns that apply
17 against them. So, you have the principal in effect,
18 and then the return increase. For the reserve, that
19 reserve, and, again, it assumes no storms, that reserve
20 increases an additional value as you recover additional
21 monies from customers.

22 Q. In other words, each year there's an additional three
23 and a half million dollars?

24 A. (Baumann) Right.

{DE 12-110} {06-21-12}

[WITNESS PANEL: Baumann~Hall~Dee]

1 A. (Hall) Right.

2 Q. Is there any other addition to that line?

3 A. (Baumann) No.

4 Q. If I refer you to the second paragraph of the response,
5 the last line, is that reserve also earning a return?

6 A. (Baumann) Yes. I'm sorry. From a reserve perspective,
7 there's no change. But, yes, that reserve does earn
8 the same cost of capital return in reverse of what the
9 deferral balance does. So, that reserve net-net is
10 going up for recoveries, and going down for returns.
11 So, that's a net-net change in that line item.

12 Q. Okay. On the final line of that chart, in the
13 "June 30th, 2015" column, could you explain the
14 significance of the "\$5.862 million" number?

15 A. (Baumann) Essentially, that would be, if there are no
16 storms over the next three years, and the reserve
17 funding remained at \$3.5 million a year, with all the
18 resulting carrying charges on both the outstanding
19 unrecovered balance and the reserve balance, you would
20 have about \$5.9 million still unrecovered at the end of
21 -- well, as of June 2015, again, assuming no additional
22 storms.

23 Q. So, that would be a negative balance in the reserve
24 account?

{DE 12-110} {06-21-12}

[WITNESS PANEL: Baumann~Hall~Dee]

1 A. (Baumann) Right.

2 Q. And, just below that, when you say "Cost Impact", the
3 "Net Carrying Costs", am I correct that the numbers you
4 show there are the difference between the return on the
5 storm costs and the return earned on the Reserve?

6 A. (Baumann) Yes.

7 Q. And, if I add just the three years that are there,
8 would you accept subject to check that that's a little
9 over one and a half million dollars?

10 A. (Baumann) Yes.

11 Q. Okay. Now, if we turn the page, to the next page of
12 Exhibit 5, could you explain the difference between
13 Chart 2 and Chart 1?

14 A. (Baumann) The only difference between Chart 2 and Chart
15 1 is that you now have an additional three and a half
16 million dollars of funding that is impacting and
17 increasing your Reserve balance. Your first line, your
18 "Projected Deferred Storm" costs, is the same as the
19 previous chart, because they don't -- this is assumed
20 there are no more storms in this time period. So, the
21 existing dollars that have been booked to the Company's
22 accounts now just continue to grow at the cost of
23 capital. And, the net of the two, you can see, because
24 you have more Major Storm Reserve, because of the

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[WITNESS PANEL: Baumann~Hall~Dee]

1 additional funding, the net of the two to be recovered
2 actually drops much quicker than in the previous
3 example. And, in fact, at the end of year three, as of
4 June 30th, '15, you're actually in a negative reserve
5 position. Or, what I'll say, a reserve position that
6 is appropriately negative, because you design a reserve
7 position hopefully to be in a negative position. And,
8 that's what I referred to before in my opening
9 statement as, if there are no other storms, then that
10 5.4 million would be sitting in the reserve as of the
11 end of 2000 -- middle of 2015, and/or could be used
12 against other major storms, if they were incurred.

13 Q. When you characterize the "negative reserve position",
14 I just want to make sure people are clear on that.
15 That actually could be viewed by some as having a
16 positive balance in the reserve, correct?

17 A. (Baumann) Yes. I kind of backed off on that. A
18 reserve, we've had this discussion in the rate case and
19 other places, a reserve is, in effect, supposed to have
20 a balance in it, i.e., you've collected monies. So, in
21 this case, we show it as a reserve at the end with
22 5.4 million. Monies in reserve that we have not
23 incurred expenses for.

24 Q. So, am I correct that both Chart 1 and Chart 2 assume

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[WITNESS PANEL: Baumann~Hall~Dee]

1 no other major storms through June 30th, 2015?

2 A. (Baumann) Correct.

3 Q. So, if a major storm were to occur during that period,
4 on the Chart 1, am I correct that the -- I'll refer to
5 it as a "negative balance", would be larger?

6 A. (Baumann) The net unrecovered?

7 Q. Yes.

8 A. (Baumann) Yes. That would be larger.

9 Q. And, what would happen under Chart 2, if a major storm
10 were to occur prior to June 30, 2015?

11 A. (Baumann) Well, if it was higher than 5.4 million, or
12 let's say, if it was 5.4 million, that amount to be
13 recovered would be zero. If the major storm was higher
14 than that amount, then you would start to get back into
15 a bad reserve balance position, or what I refer to as a
16 "negative reserve balance position". If the major
17 storm was less than 5.4 million, then you would still
18 have some remaining reserve at the end of June 2015.

19 Q. Now, related to these storms, the Commission Staff has
20 not reviewed those costs yet, is that correct?

21 A. (Baumann) That's correct.

22 Q. But you do anticipate that to take effect?

23 A. (Baumann) Yes.

24 Q. So, and to the extent that there were any adjustments

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1 coming out of such audit of those costs, how would
2 those be taken into account?

3 A. (Baumann) Well, we would -- if there were adjustments
4 ordered from those costs, we would adjust the balances
5 accordingly. And, so, the projected deferred amount
6 for major storm costs would go up or down, depending on
7 which way those adjustments went. I mean, we could get
8 -- we could certainly have some disallowance of those
9 costs, and we could also get more -- potentially more
10 invoices to increase them, although, at this point,
11 that is highly unlikely. But highly unlikely things
12 seem to happen all the time, so --

13 Q. Okay.

14 A. (Baumann) But we certainly would adjust the balances
15 appropriately.

16 Q. While we're on the subject of "Major Storms", if you
17 refer back to your Attachment A, Page 6 of 6.

18 A. (Baumann) I'm there.

19 Q. The last paragraph on that page deals with the subject
20 of "insurance" for these types of storms. Could you
21 summarize what was discussed in that paragraph.

22 A. (Baumann) The paragraph basically talks about
23 "insurance", "storm insurance". And, what it explains
24 is, that there is -- there is no storm insurance

[WITNESS PANEL: Baumann~Hall~Dee]

1 proceeds to be applied against the Irene or the October
2 nor'easter balances. And, it gives us the reasoning
3 that, basically, when we were in the ice storm and the
4 wind storm, there was, in my opinion, a quasi
5 self-funding storm insurance program that Northeast
6 Utilities had for all of its operating companies. And,
7 when I say -- when I say "quasi self-funding", if you
8 pay an insurer monies, a premium, and that -- and then
9 an insurer says "if you have major storms, with certain
10 amounts, with deductibles, I will cover them." There's
11 a transfer of risk to an insurance company, and similar
12 to our car insurance or any other type of what I call
13 "normal insurance" that we're all aware of. But, what
14 we had back at the time, and, quite truthfully, I was
15 unaware of that until Irene hit, we had an insurance
16 program that is referred to as "retrospectively rated".
17 And, really, what, put it in layman's terms, we, the
18 operating companies, paid in to an insurance fund
19 dollars that, when we incurred storms and met a
20 deductible, those dollars would be paid back to the
21 operating companies. And, through the ice storm in
22 2008, which was a horrific storm up here, and PSNH
23 actually received approximately \$15 million of funding
24 from that, from that self-funded balance that was in

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1 the insurance -- insurance company.

2 Q. When you say "self-funded", that was self-funded by all
3 of NU's operating companies?

4 A. (Baumann) It was self-funded by all the operating
5 companies. And, there was only one major claim that
6 year. Your major claims are limited to \$15 million in
7 a year. And, in that particular year, PSNH received
8 100 percent of the funding from the -- from what I'll
9 call the "reserve", the "quasi self-funded reserve".
10 But it was, yes, it was paid in by all operating
11 companies.

12 In 2008 -- or, excuse me, in 2010, there
13 was another very serious wind storm that we're all
14 aware of. And, the 15 million was again paid out,
15 about half of it went to Connecticut and Massachusetts,
16 and half of it, 7.5 million, a little over half of it
17 went to PSNH. And, again, so, over those two storms,
18 there was about 22 and a half million dollars paid to
19 PSNH of the 30 that was paid out.

20 At the end of 2010, after the wind
21 storm, the accumulated funding in those accounts was
22 zero, i.e., everything that the operating companies had
23 paid in over the years had gotten to zero, because of
24 two very large storms very close together. And, it was

[WITNESS PANEL: Baumann~Hall~Dee]

1 the first time we had ever had that.

2 At that point, we had to -- we were made
3 aware, the Accounting Department, and then they gave us
4 a call, we were made aware that this insurance program,
5 this retrospectively rated insurance program, needed a
6 lot higher funding requirements, because, again, you
7 have to pay in for the future. So, the insurance
8 company was looking and saying "well, you know, you're
9 going to have to pay in a lot more. And, oh, by the
10 way, the amount that PSNH has to pay in is a heck of a
11 lot more than what it used to be. And, to give you an
12 example, back then they were paying in about -- PSNH
13 was paying in about \$400,000 a year, and received
14 substantially more than that through this program.
15 That would have changed to the point where PSNH would
16 have had to have put in millions of dollars, along with
17 the other operating companies, to start re-funding this
18 reserve, and probably to the tune of about \$7 million a
19 year to get it up to a balance that the insurance
20 company was satisfied with.

21 With that -- with that knowledge, we
22 also started looking at what this insurance was really
23 -- really covering. And, as I said before, we looked
24 at it and said "well, we're really not -- we're really

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[WITNESS PANEL: Baumann~Hall~Dee]

1 not changing the risk on this." This isn't the normal
2 type of insurance that, quite frankly, we all thought
3 we had, or at least I thought we had and conveyed it
4 through hearing process and settlement process. And,
5 because there was no shift in risk, it really wasn't
6 even considered, from an accounting perspective,
7 insurance. It was, when you insure, you pay premiums,
8 you expense those premiums, you get benefit in the
9 future, if you need it. With this type of funding, it
10 actually became what I later learned was "deposit
11 accounting", which essentially was, we're taking our
12 monies and we're just putting it into a deposit
13 account. It kind of stays on the balance sheet and
14 doesn't even get expensed.

15 With that knowledge, with the knowledge
16 of the fact that it's no longer insurance
17 accountingwise, and recognizing that the cash that was
18 going to be put in, which was substantially more than
19 what PSNH and the other operating companies had done in
20 the past, we began to reevaluate whether or not we
21 should continue that program. With that reevaluation
22 came 2011 and Hurricane Irene. And, it was decided,
23 during 2011, that that program would be discontinued.

24 And, so, as a result, the funding of

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[WITNESS PANEL: Baumann~Hall~Dee]

1 that program, and to give you an example, when
2 Hurricane Irene it, we would have had to have
3 100 percent funded the program, and then we would have
4 gotten the same monies back from the program. And,
5 from a cash flow perspective, it was less advantageous
6 to the Company. And, from a customer perspective, it
7 was neutral or you could even argue that it might have
8 been a little negative, in that we had to pay a small
9 premium to the insurer to handle these funds. So, we
10 decided -- we decided that was not the appropriate way
11 to go. They also looked into getting real insurance,
12 real storm insurance. But, in New England, it really
13 was impossible to get any type of a storm insurance at
14 a reasonable cost. People just wouldn't insure you for
15 these type of losses. They had seen the 2008 storm,
16 the 2010, and then, when Hurricane Irene hit, we
17 thought our backs were broken, until the nor'easter
18 hit, which really was back-breaking. So, we don't --
19 sorry, then, we are no longer self-funded. And, we did
20 make a switch in the fourth quarter of 2011 to this
21 deposit accounting. But, now, there is, you know,
22 since we don't self-fund, we don't use that anymore.
23 And, so, in the future, these storms are, you know,
24 uninsured, based on what we had in the past, which was

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[WITNESS PANEL: Baumann~Hall~Dee]

1 really just a bunch of deposits that we had made
2 previous to these storms, that was then used and used
3 up by those major storms.

4 Q. And, in Exhibit Number 5, the response to Staff 1,
5 Question 2, provides some detail related to the
6 Company's thought process and background supporting
7 what you just went through, in terms of the differences
8 in the insurance program?

9 A. (Baumann) As it relates to Exhibit 5?

10 Q. Yes.

11 A. (Baumann) Are you --

12 Q. I'm looking at the response to Staff Set 1, Question 2.

13 A. (Baumann) Question 2. Okay. That's where I thought
14 you were.

15 Q. Yes.

16 A. (Baumann) Yes. That question really asked for
17 "internal memoranda". So, someone did a search of what
18 we had. And, the emails that we had, really, Randy
19 Shoop is the Treasurer of our corporation. Jay Buth
20 was the controller, is the controller. And, John
21 Ireland, on Page 3 of 4, he's the Director of Claims
22 and Insurance. Jeffrey Cahoon, at the time, was the
23 Vice President of Regulatory, I guess how to put it, I
24 don't know his exact title. Again, Randy was copied on

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[WITNESS PANEL: Baumann~Hall~Dee]

1 Page 3 of 4. Dave works for John Ireland. And, then,
2 again, Randy Shoop, on the last page, was -- and John
3 Ireland were the people on these receipts -- or, on
4 these memos. And, these memos really talk about --
5 they talk a little about "deposit accounting" they talk
6 a little about, you know, the regulatory folks getting
7 together to walk through the programs. But this was
8 really all we had. I didn't find these overly helpful,
9 other than the fact, I think, in some place, some spot,
10 they talk about -- they talk about "deposit accounting"
11 and the impacts.

12 But this was all we had on our records,
13 we didn't have a memorandum or a white paper that
14 supported all this. It's really most of the
15 communication within the Company was just meetings,
16 from my perspective, meetings that I went to and
17 discussed the issue and, you know, discussed how we
18 would proceed. Certainly, the decision was not made by
19 Regulatory. It was made by Treasury and, ultimately, I
20 believe it was the CFO that made the decision to
21 discontinue.

22 Q. But the long and short of it is that, prior to the
23 December 2008 ice storm and the February 2010 wind
24 storm, the self-insured program that was

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[WITNESS PANEL: Baumann~Hall~Dee]

1 cost-effective, after those -- after those storms, it
2 no longer be -- no longer was cost-effective?

3 A. (Baumann) I think, when you say "cost-effective", it,
4 from PSNH's perspective, it was very cost-effective, in
5 terms of the premiums. They were on the -- well, they
6 were on the wrong side of the storms, I can't, you
7 know, because there's a lot of other unpaid costs that
8 the customers are paying. But, yes, from a premium
9 perspective and a payout perspective, PSNH was
10 certainly on the right side in that respect.

11 But, going back again, "cost-effective",
12 it was just deposits in the past, and had we had to
13 have made those deposits in the future, we would have
14 had to have made much, much larger deposits. And, it
15 just it -- from a cash flow perspective, we just
16 wasn't, you know, it wasn't something that we felt was
17 beneficial or appropriate.

18 You know, back in -- it's funny, back in
19 the mid 2000 range, there were a lot of utilities that
20 had this type of funding. I don't believe there's more
21 than three or four that have this at this point, simply
22 because the program and this quasi self-funded program
23 just became inoperable, because of the wrath of these
24 four storms and how they -- how they not only depleted,

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[WITNESS PANEL: Baumann~Hall~Dee]

1 but then became necessary to take a lot of cash out,
2 and then just to have the cash flow back. And, like I
3 said, and the allocations would have changed
4 drastically, from PSNH's perspective, because of storm,
5 you know, storm incidences, and because this
6 retroactive -- retroactively rated insurance goes off
7 of actual loss experience. And, PSNH's actual loss
8 experience was as bad or worse than the other operating
9 companies, even though it may not have been as large in
10 terms of overall operating company status. Which is
11 why they had a lower premium, if I can say, in the
12 past, because they were allocated based on prior --
13 prior experience. So, as your experience gets worse
14 and your losses get substantially larger, your premiums
15 are going to go up, probably 10 or 12, 15 fold.

16 Q. Okay. If we move to your Attachment RAB-1, Page 1 of
17 8.

18 A. (Baumann) This is the "net plant"?

19 CMSR. HARRINGTON: Which exhibit are we
20 in?

21 MR. MULLEN: That's in Exhibit Number 1.

22 WITNESS BAUMANN: These will be
23 sequentially numbered next time; I guarantee it. Or, I
24 won't be here to --

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[WITNESS PANEL: Baumann~Hall~Dee]

1 CHAIRMAN IGNATIUS: And, the type is
2 getting smaller, too, or is that just the --

3 CMSR. HARRINGTON: The days are getting
4 longer, too.

5 CHAIRMAN IGNATIUS: Yes.

6 BY MR. MULLEN:

7 Q. Am I correct, in looking at this page, that the
8 "\$7 million" shown in the middle of the page represents
9 the revenue requirement associated with the increase in
10 non-REP net plant?

11 A. (Baumann) Correct.

12 Q. And, how does that compare to the number that was
13 estimated at the time of the Settlement Agreement?

14 A. (Baumann) The number estimated at the time of the
15 Settlement Agreement was 9.5 million, based on budget
16 data that existed at that time, prior to the economic
17 -- the heavy economic turndown, which we've seen over
18 the last couple of years.

19 Q. And, that nine and a half million is described on the
20 bottom of that page, and further detailed on RAB-1,
21 Page 2 of 8, right?

22 A. (Baumann) Yes. Yes. Page 2 of 8, we just put that in
23 there for reference purposes, is the Settlement
24 Agreement in the same format, as Page 3 of 8, where we

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[WITNESS PANEL: Baumann~Hall~Dee]

1 do calculate then the \$7 million number.

2 Q. So, just to summarize that point, as compared to what
3 was estimated back when the Settlement was finalized in
4 2010, there was actually less capital additions placed
5 in service than estimated at that time?

6 A. (Baumann) That's correct.

7 Q. Also, in that Settlement Agreement is the cost of a
8 consultant to look at PSNH's uncollectible expense.
9 So, Mr. Dee, I'll turn to you.

10 A. (Dee) Okay.

11 Q. Are you familiar with that provision of the Settlement
12 Agreement?

13 A. (Dee) Yes, I am.

14 Q. And, do you know offhand what the dollar limitation of
15 that provision of the Settlement Agreement was?

16 A. (Dee) Less than \$100,000.

17 Q. And, the total costs for this consultant came in at how
18 much? I believe you'll find the number in Exhibit 2.

19 A. (Hall) \$70,920.86.

20 Q. So, that came in significantly under the limit that was
21 set forth in the Agreement?

22 A. (Dee) Yes.

23 Q. If you turn to the response to Staff Set 1, Question 4,
24 that's in Exhibit Number 5.

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[WITNESS PANEL: Baumann~Hall~Dee]

1 A. (Dee) Yes.

2 Q. Am I correct that this response identifies the 42
3 recommendations included in the consultant's report
4 that was included in Exhibit Number 2. And, it
5 describes the status or PSNH's comments with respect to
6 each of those recommendations?

7 A. (Dee) Yes. That's correct.

8 Q. Am I also correct that the study was requested because
9 of certain trends in PSNH's uncollectible expense at
10 the time of the Settlement Agreement?

11 A. (Dee) Correct.

12 Q. And, what was happening with those expenses?

13 A. (Dee) The uncollectible expense was increasing at a --
14 probably a more traditional rate than we had
15 experienced in the past.

16 Q. So, as a result of the consultant's report, and these
17 42 recommendations, I'm not going to ask you to go
18 through each one of these, but would you say that the
19 report has provided certain opportunities to allow
20 these uncollectible costs to be reined in some?

21 A. (Dee) Yes.

22 Q. Can you think of any particular examples that you could
23 highlight, in terms of measures that PSNH will take as
24 a result of the report?

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1 A. (Dee) Yes. There's a number of relative simple ones
2 that he discovered. One being a rules interpretation,
3 a Commission rule interpretation, concerning when we
4 could send a residential customer a disconnect notice.
5 We were sending a disconnect notice 30 days beyond when
6 perhaps we could have. That's an opportunity that
7 we're in the process of taking advantage of now. And,
8 it will allow us to reduce our overall aged
9 receivables, thus that eventually results in lower
10 uncollectible expense.

11 Q. Now, a number of these indicate that they're "under
12 further study". Is that -- and it may depend on each
13 recommendation, but is that something that's going to
14 studied on a short-term basis? A long-term basis?

15 A. (Dee) Probably both. But most of them are being -- are
16 in the process of being studied now. In the term
17 "under further study", basically relates to a number of
18 different things. We're dealing with outside vendors
19 for some of the outside tools that allow us to better
20 identify a customer, or determine "do we have fraud
21 involved?" It also allows us -- some of the software
22 will allow us to better manage our collection agencies.

23 Q. And, also "under further study", I think, for example,
24 number 7, number 8, number 22, and number 23, those all

[WITNESS PANEL: Baumann~Hall~Dee]

1 involve potential changes to the Commission rules?

2 A. (Dee) Yes.

3 Q. But, in order to do so, there would have to be a
4 proceeding here at the Commission to investigate that?

5 A. (Dee) Correct.

6 Q. And, if you could just explain, if you turn to the last
7 page of Exhibit 5, at the top of the page. Could you
8 explain what "Middle Ware" is?

9 A. (Dee) "Middle Ware" is a -- it's either a vendor or a
10 software, that sits in between a utility, an entity of
11 some sort, it doesn't have to be a utility, and our
12 collection -- and the collection agencies. And, it
13 provides better reporting, better management, provides
14 an easier opportunity to send delinquent accounts to
15 the agencies based on the agency's performance. It's a
16 tool that's -- a relatively new tool that's being
17 utilized by more and more utilities around the nation,
18 as well as other banks and hospitals.

19 MR. MULLEN: Thank you. I have no
20 further questions.

21 CHAIRMAN IGNATIUS: Commissioner
22 Harrington, questions?

23 CMSR. HARRINGTON: Yes, just a couple.

24 BY CMSR. HARRINGTON:

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1 Q. I guess most of them deal with the -- most of my
2 questions dealt with the report by the consultant.
3 And, since I hadn't seen this chart before, I didn't
4 have the advantage of knowing what the status of the
5 various comments were. There were just a couple of
6 ones I wanted to ask about.

7 When you talk about the various types of
8 recommendations here, one of them deals with mitigate
9 risk by assessing a "security deposit on certain
10 high-risk [applicants for] residential [service]". Is
11 it correct to assume that, prior to this, there was no
12 security deposit on residential, whether they were
13 high-risk or not?

14 A. (Dee) There are certain provisions within the rules
15 that allow us to request and collect a deposit on a
16 residential account. And, it has to do with credit
17 history of the customer. What this recommendation is
18 suggesting is that customers that we have no history
19 with, we perform some research, based on their history
20 with other utilities or other credit institutions, to
21 determine "is this a risky customer or is this a
22 customer that will just set up service and work with?"

23 Q. Okay. So, that would be a change then that they're
24 proposing?

[WITNESS PANEL: Baumann~Hall~Dee]

1 A. (Dee) Yes, it would. Yes.

2 Q. And, under that same thing here, it talks about -- I
3 guess it's covered under the Recommendation 7, it
4 references "Puc 1203.15", and, in the report, on Page
5 10, it talks about "Denial of Service", says
6 "Specifically, PSNH does not deny service to
7 residential applicants who have an outstanding balance
8 from a prior service. Rather, PSNH allows applicants,
9 regardless of previous payment history and outstanding
10 balances, to negotiate payment arrangements to obtain
11 service." So, am I correct in reading this, if I lived
12 on First Street, and I had not been paying my electric
13 bill for some time, and then I moved to Second Street,
14 that I could re-apply and open up a new account,
15 subject to negotiated payment arrangements, but not
16 actually paying off my previous bill, I could start
17 running up a new one?

18 A. (Dee) In essence, yes. But it more relates to a
19 customer that has had past service with us.

20 Q. Uh-huh. That's what I was refer to.

21 A. (Dee) Okay. The balance has been written off, yes.
22 Yes, they can come back in.

23 Q. And, this talks about "Puc 1203.07", does that mean --
24 it says "a docket hasn't been opened", and so forth.

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[WITNESS PANEL: Baumann~Hall~Dee]

1 Would that mean, in this case, you would need a change
2 in PUC rules to address that?

3 A. (Dee) Yes.

4 CMSR. HARRINGTON: Okay. Without going
5 through all the rest of these, because most of my
6 questions had to do with the recommendations, because,
7 like I say, I've just gotten this one particular thing
8 here. I hope you are aware that the PUC has stated, over
9 the last couple of months, on numerous occasions now in
10 public, that we won't guarantee, but we're certainly
11 willing to work with anybody on potential changes to
12 rules, to make our rules more efficient and better rules.
13 So, if you have suggestions there, we'd certainly
14 appreciate it if you come forward with them.

15 WITNESS DEE: Thank you.

16 CMSR. HARRINGTON: That's all I have.

17 CHAIRMAN IGNATIUS: Thank you.

18 Commissioner Scott.

19 CMSR. SCOTT: Yes. Good afternoon.

20 BY CMSR. SCOTT:

21 Q. Going back to the Storm Fund, the Reserve Fund. I was
22 just curious, obviously, you don't have a crystal ball,
23 and I understand that. But how did you select -- can
24 you elaborate a little bit more on "7 million over

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1 three years"?

2 A. (Baumann) Sure. We were looking at a 14 -- roughly, a
3 14, \$15 million balance. We're looking at over a
4 three-year period. We felt that we needed to
5 substantially reduce that balance, and recognize that,
6 if we were, hopefully, fortunate enough not to have any
7 more storms, that we would then have a reserve built up
8 in the 5 or \$6 million range.

9 I've always been an advocate of a
10 reserve balance. And, in the past, I've testified, you
11 know, at one point everyone -- or, certain people said
12 "well, as long as you're at zero", and the answer is
13 "No. Reserves are made to have balances in them.
14 That's why you call them "reserves"." And, in light of
15 all of these horrendous storms that we seem to have
16 had, you know, the history has changed. That doesn't
17 mean the future will be as bad, and I pray it isn't.
18 But we felt -- we felt that going from like three and a
19 half to four and a half or five, really wasn't going
20 to, number one, allow us to recover fully, and maintain
21 a reserve balance. So, that's -- that's why we got to
22 "7 million". Is it a magical number? No. Does it
23 produce a reasonable reserve at the end of the time
24 period? Assuming no storms, yes.

[WITNESS PANEL: Baumann~Hall~Dee]

1 But, certainly, it could be argued, you
2 could make it a little -- we talked about making it a
3 little higher and we talked about making it a little
4 lower. And, we just felt that that was, you know, a
5 two-year recovery of the existing balance, with one
6 year of buildup of reserve, which is generally what you
7 like to try and do.

8 Q. That's really what my question is. What's, in your
9 view, an appropriate reserve? Obviously, that's what
10 you selected. That's really what I was getting to, is
11 how do you base what an appropriate reserve is? I know
12 there's -- well, let me ask it a different way.

13 A. (Baumann) Uh-huh.

14 Q. How do you plan on -- what do you use to determine over
15 X amount of time how many storms you should expect? I
16 mean, again, it's a lot of guesswork, I understand.

17 A. (Baumann) Yes. Really, I mean, we really made the
18 recommendation from a Regulatory Department, to
19 Operations, and, ultimately, Gary Long approved it.
20 That, you know, we saw Hurricane Irene, which was a
21 \$7 million issue. We saw the October snowstorm, which
22 was just probably more than a very, very abnormal
23 issue, in fact, it was probably a one-in-100 year type
24 of storm, and that was about 15 million. So, we

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[WITNESS PANEL: Baumann~Hall~Dee]

1 started saying that, if we did have a major storm, you
2 probably should be somewhere between 3 and \$7 million.
3 This would allow us to get a reserve built up, around
4 six, I think I said, six, six a half, at the end of the
5 three-year period, again, assuming no storms.

6 I'll tell you, when we negotiated this
7 in the rate case, I wanted more than three and a half,
8 because I felt that was a little low. Based on my
9 information, and I know Mr. Hall was there as well, you
10 know, our information, we were looking at that point at
11 the ice storm, which was just huge, and then we knew
12 the numbers in the wind storm at that point, we didn't
13 know the final numbers, that's why we didn't have it.
14 But I thought three and a half was a little small.
15 And, we had actually, I think, tried to recommend a
16 little higher, and, through all the negotiations, we
17 came to that number.

18 So, I think 7 million is not
19 unreasonable, based on the current history. And,
20 certainly, the Commission could review this in the
21 future. And, if they felt that 7 million reserve was
22 too high or that the fund was too high, I think -- I
23 think, at one point, well, we did have that in a prior
24 rate case, I think it was the -- it was in the 2006

{DE 12-110} {06-21-12}

[WITNESS PANEL: Baumann~Hall~Dee]

1 rate case, I believe. Where we actually had a reserve
2 that had built up. And, we proposed to refund some of
3 those monies back, which we did. I don't remember the
4 exact numbers at the time, but I think it was up in the
5 6, 7, 8 million range, and we gave back at least half
6 of it in the rates.

7 So, we would certainly look at that.
8 And, if we have to file a rate case sometime in 2015,
9 that would certainly be an issue that we'd all look at
10 closely.

11 Q. Okay. I appreciate it. And, in the discussion you had
12 about the insurance, I guess, in support of -- I'll ask
13 the question, and you'll see where I'm going with this,
14 hopefully. In support of that decision to go with the
15 reserve, as you're just discussing, if you hadn't, I
16 guess I would ask you, if what you had set up through
17 Northeast Utilities wasn't viewed as "insurance", that
18 would also, I understand you're saying, given the
19 latest storms, before you went to the reserve, you're
20 actually a beneficiary of the Company. But it could
21 have easily gone the other way, to extent that you
22 would have a utility perhaps pay -- New Hampshire
23 paying into a fund that's being withdrawn potentially
24 by somebody else. I'm wondering, you know, would that

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[WITNESS PANEL: Baumann~Hall~Dee]

1 have been even -- it sounds problematic to me, I guess.
2 A. (Baumann) Yes. If I understand what you're saying, I
3 think I agree with you. You know, the premiums are set
4 on actual loss experience. And, to the extent now PSNH
5 has had substantial actual loss experience, compared to
6 the other utilities, you know, the other subsidiaries,
7 you could end up, if we had continued, you could quite
8 have easily ended up where PSNH was paying a lot more
9 premiums than the other subsidiaries. And, then, if
10 there was a single storm in a particular year, in, say,
11 Connecticut or western Mass., they might get a
12 \$15 million payment that would be funded a lot, you
13 know, substantially through PSNH.
14 And, again, that -- the whole world
15 changed when we had these large storms. The reserve
16 went away, and then that's when we looked at it and
17 said "this just does not make logical sense, from a
18 cost allocation perspective." Because it would have
19 been very interesting to see how we would have
20 ultimately allocated those costs, if we had gone ahead
21 with the insurance company's -- or, and, excuse me, the
22 Insurance Department's proposal to "gee, we now have to
23 re-fund, let's look at the allocations." And, that's
24 when we all really stopped and said "Wait a minute.

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[WITNESS PANEL: Baumann~Hall~Dee]

1 This doesn't make sense."

2 In hindsight, PSNH, you know, was on the
3 right side of wrong. But, I think, in the future, that
4 would have -- could have changed drastically.

5 Q. It's a good place to be, I guess, the "right side of
6 wrong". And, finally, just so I understand, on your
7 data request response to -- the very last page, so
8 Response Number 4, under "Reorganize Agencies & Final
9 Account Timeline", you talk about an "RFP". So, just
10 so I understand that, are you contemplating maybe going
11 out for an RFP? Is that what that is talking about?

12 A. (Dee) Yes. We're in the process of investigating it.
13 We're actually dealing with our new merged company from
14 the Boston area, to see what kind of tools they're
15 using. And, if we can incorporate some of the tools
16 they're using, we'll take advantage of that, versus,
17 you know, looking at something new.

18 CMSR. SCOTT: That makes sense. Thank
19 you. That's all I have.

20 WITNESS DEE: Thank you.

21 CHAIRMAN IGNATIUS: I have a few other
22 questions.

23 BY CHAIRMAN IGNATIUS:

24 Q. In the description of the bump-up in the storm accrual,

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[WITNESS PANEL: Baumann~Hall~Dee]

1 from three and a half to \$7 million a year, Mr.
2 Baumann, you said that you would keep that in place for
3 -- propose to keep it in place for three years, and
4 then kind of see where we are. Is there a formal
5 termination of it after three years in your request or
6 is it structured as "going forward until changed"?

7 A. (Baumann) When I said those words, I thought someone
8 might pick this up. And, you don't disappoint me.
9 Now, I think our proposal is that we increase it to
10 7 million. A year from now, two years from now, that
11 could change. Because, again, it was contemplated in
12 the Settlement Agreement that you might have to do
13 that. So, we are not asking for a three-year "you
14 can't touch it" type of issue here. And, the reason
15 we, again, picked to the end of 2015, at least in our
16 numbers, it gave a perspective of when we could come in
17 for another rate case, you know, per the Settlement.
18 And, at that point in time, I mean, every time we set
19 new base rates, we look at the storm accrual in those
20 rates. So, it just kind of played in with the timing
21 of the Settlement. But it doesn't preclude the
22 Commission or the Company talking about this a year
23 from now or two years from now. So...

24 Q. All right. On the Monticello Report, the filing back

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[WITNESS PANEL: Baumann~Hall~Dee]

1 in April said that the contractor had "completed six"
2 of the tasks and was working on finishing up. I
3 assume, by now, are all of the task items, the nine
4 delineated on Attachment A, Page 4, in Exhibit 1, have
5 they now all been completed?

6 A. (Hall) I'm not quite following you.

7 Q. If you look at Exhibit 1, Attachment A, Page 4. And,
8 after the nine delineated tasks, there's a paragraph
9 that says, as of the date of the filing, six of them
10 have been completed, and seven and eight are still
11 being worked on, and nine is underway. So, what's the
12 current status of those tasks?

13 A. (Hall) The last three tasks have now been completed.
14 The Draft Report of the recommendations was prepared.
15 A comprehensive Final Report, including findings and
16 recommendations, was prepared, and, in fact, that's
17 what we attached to our June 7th filing, Exhibit 2.
18 And, we've also had a meeting with the Staff and OCA,
19 and Monticello, to go over the recommendations and to
20 talk about them. So, all of those tasks have now --
21 are now complete.

22 Q. And, the invoices for all of those have been received,
23 so that the nearly 71,000 that you spoke of before is
24 the full amount?

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[WITNESS PANEL: Baumann~Hall~Dee]

1 A. (Hall) That's the final number, yes.

2 Q. Mr. Dee, when you described realizing that you could
3 put out disconnect notices earlier than you were
4 reading the rule to require, is that a rule
5 interpretation that you've run by our Consumer Affairs
6 section?

7 A. (Dee) Yes, we did.

8 Q. And, did they concur in that interpretation?

9 A. (Dee) Yes.

10 Q. Is there a timeframe for or multiple timeframes on when
11 all of the things that are described as being "under
12 further study" or "under further review", that they
13 would be completed or reported back on?

14 A. (Dee) At this point, we do not have a time, time limit
15 or timeframe. Many of these we're looking at
16 attempting to implement as soon as possible, because
17 they're clearly benefits. Some of it will hinge on IT
18 resources and other more pragmatic issues.

19 Q. Do you expect further meetings with the Staff, the OCA,
20 possibly other stakeholder groups in evaluating these
21 recommendations, beyond the meeting that already took
22 place on May 16th, I think it is?

23 A. (Dee) We have not scheduled any, but I would envision
24 we would be working closely with them.

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[WITNESS PANEL: Baumann~Hall~Dee]

1 CHAIRMAN IGNATIUS: All right. We'd
2 certainly encourage you to do that. I think my only other
3 comment is just to thank you for, and Mr. Hall, in
4 particular, I guess, for the exhibits that we've been
5 going through in these various dockets, the same exhibit,
6 but focusing on a different component of each one. It's
7 very helpful to have everything in one place, and we can
8 see how the pieces fit together, and not sort through
9 piles of files. So, thank you for doing that.

10 WITNESS HALL: You're welcome. I'd like
11 to take full credit, but those were specifically requested
12 by Mr. Mullen.

13 CHAIRMAN IGNATIUS: Thank you, Mr.
14 Mullen. Commissioner Scott.

15 CMSR. SCOTT: Yes. One more follow-up
16 on the Storm Reserve, if you will.

17 BY CMSR. SCOTT:

18 Q. I just wanted to hear from you. While that's being
19 replenished, or I got a little bit confused on the
20 negative/positive, but, while money is going into it,
21 do you -- until that happens, do you see any negative
22 impact on the Company's ability to respond to a storm?

23 A. (Baumann) No, I do not.

24 A. (Hall) No.

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[WITNESS PANEL: Baumann~Hall~Dee]

1 CMSR. SCOTT: Thank you.

2 CMSR. HARRINGTON: One quick follow-up
3 to Commissioner Ignatius's discussion.

4 BY CMSR. HARRINGTON:

5 Q. On the 41 recommendations there, should we expect to
6 see some periodic updates of those in future filings,
7 as to what the status is?

8 A. (Dee) If you would like, yes, we can.

9 CMSR. HARRINGTON: Okay. Thank you.

10 CHAIRMAN IGNATIUS: We can address that
11 in the order. And, perhaps a regular meeting with the
12 Consumer Affairs section of the Commission and the OCA,
13 and they might want to develop a reporting -- a meeting
14 and reporting schedule. So, we'll put something in
15 writing for you.

16 WITNESS DEE: Thank you.

17 CHAIRMAN IGNATIUS: Thank you. Any
18 redirect?

19 MS. KNOWLTON: I have none.

20 CHAIRMAN IGNATIUS: Then, witnesses are
21 excused. Thank you. Is there any other procedural matter
22 to take up, other than striking the identification?

23 (No verbal response)

24 CHAIRMAN IGNATIUS: If not, then is

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1 there any objection to striking identification?

2 (No verbal response)

3 CHAIRMAN IGNATIUS: All right. Then,
4 we'll do so. They're full exhibits to the file.

5 And, then, I think it's just time for
6 closings. Ms. Amidon.

7 MS. AMIDON: Thank you. The Staff has
8 reviewed the filing, and determined that the calculation
9 of the non-REP net plant additions and the costs of the
10 consultant report are appropriately calculated, and are
11 contemplated by the Settlement Agreement in the most
12 recent distribution rate case, which was docket DE 09-035.
13 And, therefore, we would recommend that the Commission
14 approve those numbers.

15 In addition, Staff has no objection to
16 the proposed increase to the Major Storm Reserve. The
17 storms were not contemplated at the time the Settlement
18 Agreement was entered into, but they clearly qualify as
19 major storms. And, if nothing was done at this point to
20 commence recovery, as the Company testified, it would take
21 longer to recover, and it would end up costing the
22 customers more because of the carrying charges associated
23 with those costs. And, in addition, using the Company's
24 assumption, that at the end of the three-year period,

1 before the next rate case, there would be a positive
2 balance, which would be available for the Company to use
3 to restore costs or repair damage, in the event, that it
4 experiences other major storms. So, we have no objection
5 to that adjustment, to a \$7 million recovery -- recovered
6 per year. Thank you.

7 CHAIRMAN IGNATIUS: Thank you.

8 Ms. Knowlton.

9 MS. KNOWLTON: Thank you. The Company
10 requests that the Commission approve all three aspects of
11 this filing. Starting with the step increase, as the
12 Staff has indicated, it was calculated consistent with
13 what was set forth in the Settlement Agreement from the
14 last distribution rate case.

15 With regard to the Storm Reserve, the
16 Company believes that it is important to take into account
17 events that have already incurred and the impact on that
18 reserve, and to increase the reserve by the \$3.5 million
19 requested amount, so that the Reserve can come more into
20 balance and reflect the current state of affairs, and,
21 hopefully, put the Storm Reserve in a favorable position,
22 assuming we don't have any extremely large storms in the
23 immediate future.

24 With regard to the uncollectible expense

1 the Company has been pleased to have worked with
2 Monticello Consulting, and has found that it's been a very
3 productive undertaking. Of course, we're also pleased
4 that the amount of the consultant's expense has come in
5 under what was anticipated in the Settlement Agreement.
6 As Mr. Dee has indicated, the Company is continuing to
7 work to see the fruits of that process, and looks forward
8 to continuing to work with the Staff and the OCA on that
9 process.

10 And, we'll take into account
11 Commissioner Harrington's request regarding potential rule
12 changes that may be necessary to implement some of those
13 recommendations.

14 So, thank you for your time today, and
15 your consideration of the Company's request.

16 CHAIRMAN IGNATIUS: I understand that
17 these are all requested for effect July 1. And, we will
18 make certain that we have an order out in time for all of
19 the rate change adjustments to be incorporated for effect
20 July 1.

21 MS. KNOWLTON: Thank you.

22 CHAIRMAN IGNATIUS: Thank you.

23 MR. HALL: Thank you.

24 CHAIRMAN IGNATIUS: Unless there's

1 anything further, we stand adjourned. We'll take this
2 under advisement.

3 (Whereupon the hearing ended at 2:57
4 p.m.)

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