

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

ORIGINAL

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24

I N D E X

PAGE NO.

**WITNESS PANEL:**            **ROBERT A. BAUMANN**  
   **STEPHEN R. HALL**  
   **JEROME F. DEE**

Cross-examination by Ms. Knowlton	6
Cross-examination by Mr. Mullen	16
Interrogatories by Cmsr. Harrington	43, 56
Interrogatories by Cmsr. Scott	45, 55
Interrogatories by Chairman Ignatius	51

\*       \*       \*

**CLOSING STATEMENTS BY:**

**PAGE NO.**

Ms. Amidon	57
Ms. Knowlton	58

## E X H I B I T S

EXHIBIT NO.	D E S C R I P T I O N	PAGE NO.
1	Technical Statements of Robert A. Baumann and Stephen R. Hall, including attachments (04-27-12)	8
2	Supplemental Technical Statement of Robert A. Baumann and Stephen R. Hall, including attachments (06-07-12)	8
3	Chart entitled "PSNH Retail Revenue by Rate Class and Unbundled Component at the Rate Levels Effective April 16, 2012 Based on Actual Sales for the 12 Months Ending Dec. 2009, as Performed for the Permanent Distribution Rate Case (DE 09-035)"	13
4	Chart entitled "PSNH Rate Changes Proposed for Effect on July 1, 2012 Percentage Change in each Rate Component" and also showing "Rate Changes Expressed as a Percentage of Total Revenue for each Class"	13
5	PSNH Responses to Data Request STAFF-01, Q-STAFF-001, Q-STAFF-002, Q-STAFF-003, and Q-STAFF-004 (06-08-12)	17

**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

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

[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,

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

[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

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

[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.

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

[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.

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

[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

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

[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**

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

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?

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

[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

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

[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

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

[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

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

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

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

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

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

[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

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

[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

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

[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

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

[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

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

[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,

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

[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 --

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

[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

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

[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.

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

[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?

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

[WITNESS PANEL: Baumann~Hall~Dee]

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 be 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

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

[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:

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

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.

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

[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

{DE 12-110}   {06-21-12}

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

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

[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

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

[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.

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

[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,

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

[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

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

[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?

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

[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.

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

[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.

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

[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

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

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.)

5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24