

THE STATE OF NEW HAMPSHIRE
BEFORE THE
NEW HAMPSHIRE PUBLIC UTILITIES
COMMISSION

Docket No. DE 09-035

DIRECT TESTIMONY OF

Gary A. Long

Request for Temporary Rates

April 17, 2009

000005

1 **I. INTRODUCTION**

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

3 A. My name is Gary A. Long. I am the President and Chief Operating Officer of Public
4 Service Company of New Hampshire (PSNH). My business address is 780 North
5 Commercial Street, Manchester, New Hampshire.

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

7 A. Yes, I have testified on many occasions in various regulatory proceedings on behalf of
8 PSNH.

9 **Q. Are there other witnesses in this proceeding that are sponsoring pre-filed direct
10 testimony in support of the temporary rate request?**

11 A. Yes. Robert A. Baumann, Director – Revenue Regulation and Load Resources, is
12 presenting testimony supporting the need for temporary Distribution Rates, amortization
13 of the substantial cost incurred due to the December, 2008 major ice storm and other
14 revenue requirement issues. Additionally, Stephen R. Hall, PSNH’s Rate and Regulatory
15 Services Manager, is sponsoring testimony supporting the electric tariff and rate
16 calculations implementing the Company’s temporary Distribution Rate request for effect
17 July 1, 2009.

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

19 A. The purpose of my testimony is to provide the Commission with an overview of the
20 business environment in which PSNH operates, thus necessitating this request for
21 approval of temporary Distribution Rates. I will discuss the continuing challenges facing
22 PSNH in maintaining a level of distribution earnings that is near a level deemed
23 appropriate for investors and allowed by the Commission as part of the last rate case. My
24 testimony will also address the historic ice storm that took place in December 2008, the
25 associated financial impact and resulting need to request recovery of the restoration costs.

26 **Q. Please summarize PSNH’s request in this temporary rate proceeding.**

1 A. In this filing, PSNH is requesting authority to adjust its retail Distribution Rates effective
2 July 1, 2009, to more accurately reflect current costs, particularly amortization of the
3 costs associated with the December 2008 ice storm and recovery of the substantial
4 distribution capital investment made since PSNH Distribution Rates were last set.

5 **II. PSNH'S BUSINESS ENVIRONMENT**

6 **Q. Please provide an overview of the business environment in which PSNH operates.**

7 A. PSNH is faced with a difficult business environment, including:

- 8 • Increased costs for equipment, materials and supplies necessary to provide
9 reliable service to customers;
- 10 • The need to continue to make capital investment in its distribution system to
11 serve additional local peak loads, new customers or to repair or replace aging
12 equipment;
- 13 • A decline in kilowatt-hour sales.

14 PSNH's last rate case was filed in 2006, using 2005 as a test year, proformed for known
15 and measureable changes. Since that time, there have been unavoidable significant
16 increases in PSNH's cost of doing business. For example, the cost of transformers has
17 increased over 20%, the cost of cable has increased over 10%, and the cost of fuses has
18 increased over 25%.

19 PSNH has also continued to invest in its system to ensure that customers are provided
20 with safe and reliable electric service. To that end, PSNH's net capital investment in
21 distribution assets has increased from \$655 million at the end of 2005 to \$845 million at
22 the end of 2008. This increased investment was necessary to serve additional local load,
23 new customers and to replace aging or obsolete equipment.

24 Compounding the effect of increasing equipment costs and plant investment is the
25 reduction in delivery sales that PSNH has experienced. Billed delivery sales in 2006,
26 2007 and 2008 were lower in each year than in the 2005 test year. The result of the

1 reduction in sales is that, due to attrition, PSNH has been unable to recover the level of
2 costs recognized in the last rate case, much less the higher cost of doing business. To
3 summarize, PSNH has been experiencing increased costs associated with equipment,
4 materials and supplies but has not experienced increased sales to support such costs.

5 **Q. Are there any other cost pressures on PSNH?**

6 A. Yes. Mr. Baumann's testimony describes these costs and their rate impact in full detail,
7 but I will state here that PSNH is experiencing substantial cost increases in property
8 taxes, pension and health care costs and restoration costs for those weather-related outage
9 events which do not meet the Commission's major storm definition. These are in
10 addition to the substantial cost incurred from the historic December 2008 ice storm which
11 I will discuss later in my testimony. I should also note that PSNH has taken extensive
12 actions to mitigate its cost of operations in order to control the need to adjust distribution
13 rates. Recent actions implemented in order to control or reduce costs include not filling
14 vacant positions, deferring base pay adjustments for employees, eliminating pay raises
15 for manager level (and above) employees, eliminating over-time for non-exempt staff,
16 limiting or eliminating contractor services wherever possible and deferring distribution
17 system investments.

18 **III. PSNH'S ACCOMPLISHMENTS SINCE THE LAST RATE CASE**

19 **Q. Have the challenges discussed above prevented PSNH from accomplishing its**
20 **objectives in providing services to customers?**

21 A. No. While PSNH's financial situation has deteriorated since the last rate case, PSNH has
22 achieved many accomplishments, notwithstanding the financial challenges. These
23 accomplishments have provided benefits to customers, local communities and the state as
24 a whole.

25 **Q. Can you provide examples of some of PSNH's accomplishments?**

26 A. Certainly. I've listed examples of some of those accomplishments below.

27 Energy Efficiency - Over the last two years, more than 150,000 of PSNH's customers
28 have participated in the CORE Programs and saved 1.4 billion lifetime kilowatt-hours –
29 or approximately 100 million kilowatt-hours annually. PSNH has leveraged these energy

1 savings to the benefit of customers by taking the initiative to bid energy efficiency
2 resources into the ISO-New England (ISO-NE) Forward Capacity Market (FCM). The
3 FCM provides an opportunity for energy efficiency and load response programs to
4 participate in the same market structure as supply side resources. PSNH has enrolled the
5 CORE Program capacity reductions in the FCM since the market's inception in
6 December 2006. As of December 31, 2008, ISO-NE has paid \$1.2 million for these
7 capacity reductions – and these dollars from ISO-NE have been flowed back to PSNH's
8 customers through increased funding of the CORE Programs.

9 In the spring of 2008, PSNH took the additional initiative to introduce the PeakSmartPlus
10 program, based on ISO-NE's Real Time Demand Response Program. PeakSmartPlus is
11 designed to reduce the region's peak electricity demand and provide financial incentives
12 to businesses when they agree to reduce their power consumption during periods of peak
13 demand as determined by ISO-NE. As of December 31, 2008, 15 customers have signed
14 up for 6,567 kW and annual capacity payments to participating customers are estimated
15 to be \$460,000. Participating customers pay the incremental costs of the program, and
16 the average payback period is about 2 months.

17 Reliability Enhancement – Under the Reliability Enhancement Program (REP) which
18 began on July 1, 2007, PSNH has been able to perform more work at a lower cost than
19 originally planned. The result of PSNH's efforts has been a leveling off of performance
20 in tree-related power interruptions (“SAIDI”), which had been trending upward (i.e.,
21 poorer reliability), and a decline in equipment failure-related and substation-related
22 power interruptions. Over time, PSNH anticipates that system reliability as measured by
23 SAIDI performance will continue to improve as a result of the REP.

24 Community Service – PSNH's employees have continued their active involvement in
25 community service, with full support from PSNH. Efforts include participation in the
26 United Way's annual Day of Caring, support for Easter Seals, and a strong commitment
27 to local communities through volunteerism. PSNH's employees are voluntary members
28 on over 100 non-profit boards of directors throughout the state. Moreover, PSNH is
29 proud to host and sponsor the statewide “2-1-1” health and human services information
30 and referral service in coordination with the State and New Hampshire United Ways.

1 Environmental Stewardship – PSNH has implemented a pilot program to utilize biodiesel
2 fuel in 14 of its line trucks at two of its area work centers in an effort to reduce emissions.
3 Based on the experience to date, PSNH intends to expand the use of biodiesel fuel to an
4 additional 58 line trucks in 8 additional area work centers.

5 PSNH has also developed a Community Water Supply protection initiative to
6 significantly reduce the exposure of public water supplies to PSNH’s oil filled
7 equipment. The initiative involves a two part strategy. First we ensure that the
8 installation of all future oil filled distribution equipment in proximity to public water
9 supplies meets new strict standards. Second, we are implementing a multi year strategy
10 to review historical installations throughout the state and to implement prescribed steps to
11 mitigate public water supply exposure to oil filled equipment.

12 Emergency Restoration – PSNH has implemented an Incident Management System
13 Emergency Response Plan that enables PSNH to effectively and efficiently respond to all
14 types of emergencies. The plan is based on the Federal Emergency Management Agency
15 (“FEMA”) supported Incident Management Systems deployed throughout the country.
16 One main advantage is the system’s scalability; it is not only extremely effective for
17 small restoration events but also for moderate events like the July 2008 tornadoes that
18 struck central New Hampshire, and for the very largest of events like the December 11,
19 2008 ice storm.

20 PSNH developed and implemented an Automated Outage Dispatch System that provides
21 PSNH the ability to automatically dispatch routine reported outages to standby crews
22 without human intervention. Implementation of this system improved the average
23 response time to outages outside of normal working hours by our line crews on standby.

24 PSNH developed an automated Outage Assessment Report that has enabled PSNH to
25 perform statewide initial damage assessment during storm events in a matter of minutes.
26 The former system took several hours to perform initial damage assessment. This tool
27 enabled PSNH to very quickly recognize the magnitude of the December 11, 2009 ice
28 storm, and led to putting out a request for over 200 additional line crews and 200
29 additional tree crews within the first hour of activating PSNH’s Emergency Operations
30 Center.

1 PSNH has supported mutual aid deployments over the past three years providing critical
2 emergency services to citizens across the eastern United States. PSNH crews have
3 provided services to citizens of Kentucky, Ohio, Pennsylvania, Louisiana, and New York.
4 In addition to the critical services PSNH's management and line crews provided, they
5 also gained valuable emergency restoration experience that will continue to benefit
6 customers.

7 While the above efforts are not an all-inclusive list, they demonstrate that PSNH is still
8 focused on providing reliable service and on being engaged in local and statewide
9 organizations in an effort to provide benefits to all customers and improve the quality of
10 life in New Hampshire.

11 **IV. PSNH'S REQUEST FOR TEMPORARY RATES**

12 **Q. Why is PSNH requesting temporary distribution rates in this proceeding?**

13 A. PSNH's reports on file with the Commission indicate it is not earning a reasonable return
14 on its property used and useful in the public service. Therefore, PSNH is requesting that
15 the Commission grant a temporary rate adjustment for effect July 1, 2009 in order to
16 adjust distribution revenues to a level sufficient to yield not less than a reasonable return
17 on distribution plant that has been placed into service on behalf of PSNH's customers.
18 Such adjustment is necessary to recognize recovery of some of the cost increases
19 discussed above that PSNH has experienced.

20 PSNH is filing for temporary rates now to allow sufficient time for the Commission and
21 parties to fully examine PSNH's cost structure and financial results in order to verify the
22 need for temporary rate relief prior to the July 1 proposed effective date.

23 PSNH is attempting to mitigate the impact of its temporary rate request on customers'
24 bills, and to that end PSNH is requesting what it considers a "bare bones" approach to
25 temporary rate level that provides needed rate relief while also maintaining a level of
26 overall rate stability. Moreover, PSNH is recommending that the effectiveness of a
27 temporary rate increase coincide with a reduction to the Energy Service rate that will
28 likely occur on July 1, 2009, as discussed in Mr. Baumann's testimony.

1 **Q. What is the financial significance of establishing temporary rates on July 1?**
2 A. PSNH's reports on file with the Commission and Mr. Baumann's testimony provides
3 support and documentation that PSNH's distribution segment earned a 6.26% Return on
4 Equity (ROE) for the twelve months ended December 31, 2008 -- more than 300 basis
5 points below the compensatory levels approved in PSNH's last rate proceeding. Mr.
6 Baumann's testimony also clearly illustrates the continuing decline in distribution ROE
7 expected for 2009 due to unabated cost pressures combined with decreasing sales,
8 leading to a lack of recovery for a significant amount of capital investment made by
9 PSNH on behalf of retail customers. The temporary distribution rate increase that PSNH
10 is requesting will halt some of the continuing earnings erosion that PSNH is facing while
11 the permanent rate case is being conducted.

12 **Q. How does this temporary rate request relate to a determination of permanent
13 distribution rates for PSNH?**

14 A. PSNH will file a Notice of Intent to File Rate Schedules in the near future, as required by
15 the Commission's rules. PSNH plans to file extensive supporting data under the
16 Commission's tariff filing rules to permanently change PSNH's retail distribution rates.

17 **Q. Will the proposed temporary distribution rates fully recover PSNH's costs?**

18 A. No. The rate level in this temporary rate request is less than the total revenue
19 requirement adjustment that PSNH will seek in the permanent case. Because the process
20 for review of temporary rates is generally conducted on an expedited basis, temporary
21 rate filings typically include only the easily verifiable major costs that are driving the
22 need for the rate relief. Since temporary rates are eventually reconciled in a final order of
23 the Commission issued in the permanent rate docket, PSNH's customers and investors
24 are both protected against an unjustified rate level.

25 **V. DECEMBER ICE STORM**

26 **Q. Can you provide us with a general overview of the effect of the December ice storm?**

27 A. Certainly. Regardless of the metric one uses to measure the impact of the December
28 2008 ice storm, it is difficult to convey the devastating impact that it had on New
29 Hampshire, PSNH and our customers. More than two inches of freezing rain fell across
30 southern New Hampshire on December 11 and 12, and a lesser amount in other parts of

1 the state, which resulted in approximately 55% of the state being without power. PSNH's
2 outages peaked at 322,000 customers without power; the Company had nearly 350
3 electric circuits out of service. The storm caused far more damage than any other
4 weather event to hit the state in recorded history and, in terms of outages, the total
5 number exceeded the sum of outages experienced in the next four largest major storms.
6 PSNH's response to the storm was also of historic proportion and cost. As the storm
7 approached, PSNH set into action a plan designed to restore service to all customers as
8 quickly and safely as possible. We mobilized a workforce that ultimately included 1205
9 crews and nearly 1700 employees and retirees assigned to storm duty in a multitude of
10 functions. PSNH's Customer Service team received more than 400,000 calls. As part of
11 the restoration effort, PSNH restrung more than 100 miles of cable, replaced
12 approximately 780 poles, more than 13,000 fuses and 1,300 transformers. The
13 restoration of electric service came at a cost of about \$75 million. All of these figures
14 significantly exceed the statistics of any previous storm.

15 **Q. How does PSNH propose to recover the December ice storm cost?**

16 A. The December ice storm clearly was a major storm under the Commission's definition,
17 the costs of which are normally dealt with by the Major Storm Cost Reserve. However,
18 the existing level of that reserve is nowhere near sufficient given the severity of this
19 storm. As described in Mr. Baumann's testimony, PSNH proposes that the total cost of
20 the December storm be amortized and recovered over a period of years commencing on
21 July 1, 2009. The establishment of temporary rates for PSNH effective July 1, 2009, will
22 aid PSNH's ability to respond when – not if – the next storm curtails electric service to
23 retail customers.

24 **Q. Are there others reasons to set temporary and permanent rates to provide timely
25 recovery of costs and a reasonable financial performance of PSNH's distribution
26 business?**

27 A. Yes. I previously mentioned that the multi-year electric sales reduction has significantly
28 contributed to the decline in the financial performance of PSNH's distribution business.
29 With the increased national and state focus on significantly increasing the energy
30 efficiency of New Hampshire, which is a goal shared by PSNH, PSNH can expect a

1 continued lag in recovery of its costs. Even with a flat or declining sales volume, PSNH
2 needs to replace older components of our distribution system at a replacement cost which
3 is far above the embedded historic book costs.

4
5 There is increased interest in the implementation of new automation on electric
6 distribution systems as evidenced in the American Recovery and Reinvestment Act
7 regarding “smart grid” technology. Clearly such an implementation requires both startup
8 funding and continuing operations revenue or cost saving sources; none of which are
9 provided for in current rates and would not be pursued in a declining financial
10 performance situation.

11 The historic regulatory practice of looking back, rather than forward, to measure costs,
12 combined with the new policy direction toward lower growth and/or lower sales, greater
13 automation, and the need to replace old equipment combine to create a significant
14 mismatch between costs and revenues. While this long standing “regulatory lag” was
15 typically mitigated with higher sales in the past, this past paradigm no longer applies and
16 new approaches to aligning rates with costs is needed. PSNH wishes to work with the
17 Commission and all parties to explore ways to address this problem as we progress to the
18 new energy economy. As a first step, PSNH is requesting an improved alignment of
19 costs and revenue through the implementation of this temporary rate request.

20 **Q. Does this conclude your pre-filed direct testimony?**

21 **A.** Yes, it does.