

STATE OF NEW HAMPSHIRE  
before the  
PUBLIC UTILITIES COMMISSION

Public Service Company of New Hampshire

Request for Permanent Distribution Rates Change  
Docket No. DE 09-035

Certification of Exogenous Events  
Technical Statement of Robert A. Baumann and Stephen R. Hall

Calendar Year 2010

## I. Introduction

The approved Settlement Agreement on Permanent Distribution Service Rates (“Settlement Agreement”) established a series of permanent distribution rates for PSNH beginning on July 1, 2010 and terminating on June 30, 2015. Within the Settlement Agreement, specifically SECTION 12 titled EXOGENOUS EVENTS; adjustments to the approved rates could be made under certain conditions. Specifically Section 12.1 states:

**12.1 During the term of this Settlement Agreement, PSNH will be allowed to adjust distribution rates upward or downward resulting from Exogenous Events, as defined below.**

Section 12 then goes on to list and explain the five specific exogenous events that could trigger a rate change which are summarized as follows:

12.2.1 State Initiated Cost Change

12.2.2 Federally Initiated Cost Change

12.2.3 Regulatory Cost Reassignment

12.2.4 Externally Imposed Accounting Rule Change

12.3 Excessive Inflation

Section 12.4 calls for PSNH to file with the Commission, no later than March 31 of each year during the term of this Settlement Agreement, a Certification of Exogenous Events for the prior calendar year. It is PSNH’s intent that this filing meets the certification obligation for 2010. As a result of our review of exogenous events for 2010, PSNH is requesting through this filing that the Commission approve an increase to the distribution rates contained in the Settlement Agreement for effect on July 1, 2011, as a result of two Exogenous Events related to Section 12.2.2, as explained in detail below.

## II. PSNH Certification of Exogenous Events for 2010

PSNH certifies that the two Exogenous Events explained below took place in 2010 specifically related to Section 12.2.2 of the Settlement Agreement. The sum of these events exceeded the revenue requirement rate adjustment threshold of \$1,000,000 as noted in Section 12.2 of the Settlement Agreement. In addition, approval of this requested increase in PSNH's revenues, as it relates to these Exogenous Events, will not trigger the Earnings Sharing Agreement, Section 4 of the Settlement Agreement, as the 2010 12-month ROE is under the 10% threshold set in the Settlement Agreement.

Specifically, the two events and PSNH's proposed revenue requirements change effective July 1, 2011 are as follows:

Medicare Subsidy Credit (Event No. 1)	\$ 3.164 million
Bonus Tax Depreciation (Event No. 2)	<u>(.234)</u>
Total proposed change	\$ 2.930

PSNH is not aware of any other exogenous events in 2010 related specifically to Sections 12.2.1, 12.2.3, 12.2.4 or 12.3 that would trigger a rate adjustment in accordance with the Settlement Agreement.

## III. Exogenous Event – Medicare Subsidy Credit (Event No. 1)

In this filing, PSNH is requesting an increase to Distribution revenue requirements as a result of an exogenous event that falls under the Settlement Agreement, Section 12.2.2, Federally Initiated Cost Change. Section 12.2.2 reads as follows:

**12.2.2 “Federally Initiated Cost Change” shall mean:**

**(i) any externally imposed changes in the federal tax rates, laws, regulations, or precedents governing income, revenue, or sales taxes or any changes in federally imposed fees, which impose new obligations, duties or undertakings, or remove existing obligations, duties or undertakings, and which individually decrease or increase PSNH's distribution costs, revenue, or revenue requirement.**

The trigger event that is covered under this section is the federal Health Care Reform Act legislation passed by Congress and signed into law in March 2010. As a result of the complexity and timing of this legislation, the issue was known at the time of the Settlement Agreement; however, the impacts on PSNH's revenue requirements were unknown at that time.

The legislation eliminated previously allowed Medicare related federal tax benefits that PSNH and many other companies had been receiving. This change in Federal Law impacted PSNH's financial position in 2010 as follows:

1. There is a \$1.331 million Medicare subsidy credit embedded in the currently allowed Distribution revenue requirements. This credit is a component of the deferred tax expense. The credit to expense was included in the test year costs in the most current Distribution rate case (DE 09-035) and is benefiting customers today through lower rates. The health care legislation passed in March 2010 eliminated this credit. Therefore, beginning July 1, 2011, an increase of \$1.331 million to revenue requirements is necessary, and is consistent with the intent of the Exogenous Events section of the Settlement Agreement.
2. Beginning in 2005, PSNH recorded the Medicare subsidy credit to a tax asset account while crediting deferred tax expense. The credit to deferred tax expense was a benefit to customers as it reduced revenue requirements in the last two distribution rate proceedings.

The health care legislation changed the deductibility of certain allowable tax benefits and as a result required companies like PSNH to write-off those tax assets that had been previously recorded on the books as of December 31, 2009. This write-off was taken by PSNH in the March 2010 financial closing. The revenue requirement impact of the write-off was \$5.336 million.

In addition, the loss of the tax credit for the period of January 2010 through June 2011 is and will be deferred for a total revenue requirement impact of \$1.997 million (1.5 years x \$1.331 million).

Therefore the combined revenue requirement impact associated with the write-off and deferral of tax assets is \$7.333 million (\$5.336 + \$1.997).

#### **PSNH's Proposal - Medicare Subsidy Credit (Event No. 1)**

PSNH proposes an increase to Distribution rates on July 1, 2011 associated with the change in federal law as described above of \$3.164 million per year through the end of the term of the Settlement Agreement, June 30, 2015. This will keep PSNH whole with respect to this exogenous event for the term of the Settlement Agreement. The \$3.164 million is a combination of the annual \$1.331 million shortfall as described in III, item 1 above and a four (4) year amortization and recovery of the accumulated deferred tax shortfall write-off at June 30, 2011 which totals \$7.333 million, and is described in III, item 2 above. One quarter of the \$7.333 million would be \$1.833 million per year and when combined with the annual \$1.331 million value, the total is the requested \$3.164 million.

A detailed calculation and supporting work papers are attached to this Technical Statement as Attachment RAB-1.

#### **IV. Exogenous Event – Bonus Tax Depreciation (Event No. 2)**

The second trigger event that is covered under Section 12.2.2 noted above is the federal 2010 Tax Act that was passed by Congress and signed into law on December 17, 2010. As a result of the timing of this legislation, the impacts on PSNH's revenue requirements were unknown at the time of the Settlement Agreement.

This Act provides companies the opportunity to utilize 100 percent accelerated bonus tax depreciation for tangible personal property placed in service after September 8, 2010 and through December 31, 2011. This is an increase from the current 50% bonus tax depreciation level that was embedded in the rate case Settlement. For tangible personal property placed into service after December 31, 2011, and through December 31, 2012, the Act provides for the continuation of the 50% bonus depreciation.

As a result of this change in Federal Law, PSNH is entitled to recognize for tax purposes, additional bonus depreciation of approximately \$6.25 million related to 2010. This action will result in the creation of additional deferred tax obligations of \$2.2 million, which is a reduction to rate base. The revenue requirement impact of those additional deferred taxes is an annual reduction in revenue requirements of \$ 192,000 effective July 1, 2011.

In addition, the bonus tax depreciation benefit accrued prior to and up through June 30, 2011 would be three quarters of a year covering Q4 in 2010 and Q1 & 2 in 2011. This value is \$144,000 ( $\$192,000 \times .75$ ).

#### **PSNH's Proposal – Bonus Tax Depreciation (Event No. 2)**

PSNH proposes a decrease to Distribution rates on July 1, 2011 associated with the change in federal law as described above by \$ 234,000 per year through the end of the term of the Settlement Agreement, June 30 2015. This value is the summation of the annual \$192,000 noted above plus a four year amortization of the \$144,000 prior benefits noted above with carrying charges of \$24,000 ( $\$168,000/4 = \$42,000$ ). The total decrease of \$234,000 ( $\$192,000 + \$42,000$ ) will keep PSNH whole with respect to this exogenous event for the term of the Settlement Agreement. When this decrease is combined with the increase associated with the Medicare Subsidy Credit noted above, the total rate change effective July 1, 2011 for 2010 Exogenous Events will be a \$2.930 million increase ( $\$3.164 - \$.234$ ).

A detailed calculation and supporting work papers are attached to this Technical Statement as Attachment RAB-2.

## V. All rate impacts on July 1, 2011 related to the Settlement Agreement

In accordance with the Settlement Agreement, there will be a change to the Distribution rates effective July 1, 2011. This section provides the specific categories that PSNH believes will require a change and PSNH's best estimate at this time as to the total amount of the change, compared to the changes anticipated in Section 2.4 of the Settlement Agreement. We are providing this early in the process so that all interested parties have information as to the components of the future Distribution rate change. PSNH will be updating Item 3. below as more current financial information becomes available. The five categories and their revenue requirement impacts are as follows:

	<u>Estimate</u>	<u>Settlement</u>	
	( millions of dollars)		<u>Difference</u>
1. Exogenous Events	\$ 2.930	\$ 0.000	
2. Step 1 of REP	1.500	1.500	
3. Step increase – Net plant	2.600 (est.)	9.300	
4. Storm expense	3.069	0.000	
5. Recoupment end	(13.696)	(13.696)	
Total July 1, 2011 rate change	<u>\$ (3.597) (est.)</u>	<u>\$ (2.896)</u>	<u>\$(0.701)</u>

1. The \$2.930 million increase is detailed in this filing and is a firm amount for a July 1, 2011 rate change. The amounts provided for the Bonus Depreciation portion of this section represent the best information available but they remain subject to expected guidance from the IRS in the near future.

2. The \$1.5 million complies with Section 5 of the Settlement Agreement and is a firm amount per the Settlement Agreement.

3. The \$2.6 million is an estimate using actual net plant balances as of December 31, 2010 and budgeted values as of March 31, 2011 in accordance with Section 5 of the Settlement Agreement. This value will be finalized using actual March 31, 2011 net plant values and will be filed with the Commission on or before April 29, 2011. The expected net plant balance is estimated to be lower than what was contemplated in the Settlement Agreement resulting from lower than expected capital expenditures. The decrease in capital expenditures will be explained in our April 29, 2011 filing.

4. The \$3.069 million represents a four year recovery associated with the February 2010 wind storm costs, net of anticipated insurance proceeds, in compliance with Section 7.3 of the Settlement Agreement. A separate filing is being made, simultaneous to this filing, which supports this value.

5. The \$(13.696) million decrease in rates reflects the end of the one year recovery of recoupment costs in compliance with Section 2.4 of the Settlement Agreement. This is a firm amount per the Settlement Agreement.

## VI. Calculation of rates effective July 1, 2011

Attachment 2 to the Settlement Agreement shows a test year revenue target of \$307,501(000) effective July 2011, based on the net rate adjustment of \$(2.896) million described in Section 2.4 of the Settlement Agreement. Attachment 3 to the Settlement Agreement contains distribution rates which achieve this target and meet the rate design objectives negotiated by the parties and approved by the Commission.

Section 10.3 of the Settlement prescribes the method of adjusting these rates to reflect the type of changes described in this Technical Statement. It states:

**10.3 The rates will become effective on the dates specified unless the proposed step increases are changed pursuant to the provisions of Sections 4, 5 or 12 of this Settlement Agreement. In that event, the rates and charges in Attachment 3 will be proportionally adjusted based on the amount of change to overall distribution rate level calculated pursuant to Sections 4, 5 or 12.**

Using the estimated changes shown in Section V above, PSNH would decrease the July 2011 revenue target by \$0.701 million and decrease each July 2011 charge in Attachment 3 of the Settlement Agreement by the same percentage (approximately 0.23%) in order to achieve the new revenue target.

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

DE 09-035  
CERTIFICATION OF EXOGENOUS EVENTS COMPLIANCE FILING

FEDERALLY INITIATED COST CHANGE  
HEALTH CARE REFORM ACT--CHANGE IN TAXES- MEDICARE SUBSIDY CREDIT

(Thousands of Dollars)

		Total PSNH Dist	
1			
2			
3	Annual revenue requirement increase to offset the loss of the Medicare subsidy	1,331	RAB-1 ; Pge 2
4	Annual revenue requirement increase to recover the amortization of the deferred		
5	Medicare subsidy, from 2006 through June 2011, over four years.	1,833	RAB-1 ; Pge 3
6	Total proposed revenue requirement increase, effective July 1, 2011	<u>3,164</u>	
7	Amounts shown above may not add due to rounding.		

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE  
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 FEDERALLY INITIATED COST CHANGE  
 HEALTH CARE REFORM ACT--CHANGE IN TAXES- MEDICARE SUBSIDY CREDIT  
 (Thousands of Dollars)

1	Impact on the Test Year (TY) ended December 31, 2008:	
2	<u>PSNH</u>	
3		<u>PSNH Allocated to Dist. Segment</u>
4	Total PSNH Medicare subsidy --TY 12 months ended 12/31/2008 per books	2,307
5	Credit portion allocated to segment 6D (70.82%)	1,634
6	X PSNH deferred tax rate of 39.55%	39.55%
7	Medicare subsidy credited to PSNH distribution deferred taxes in TY	<hr style="border-top: 1px solid black;"/> 646 <hr style="border-top: 1px solid black;"/>
8	<u>NUSCO</u>	
9	PSNH Dist. Share of NUSCO tax billing (credited to acct 409.PM)	222
10	Total NUSCO billed tax credit in TY	1,820
11	PSNH Dist Share of NUSCO tax bill as a percentage of total NUSCO	12.21%
12	NUSCO Medicare subsidy benefit --12 mths 12/31/2008 per books	2,999
13	Allocated based on NUSCO tax allocation--12.21%	366
14	X NUSCO deferred tax rate of 39.77%	39.77%
15	NUSCO portion Medicare subsidy credited to PSNH in TY (acct 409.PM)	<hr style="border-top: 1px solid black;"/> 146 <hr style="border-top: 1px solid black;"/>
16	<u>Total--PSNH/NUSCO</u>	
17	Medicare subsidy credited to PSNH deferred taxes in TY--from above	646
18	NUSCO portion Medicare subsidy credited to PSNH in TY--from above	146
19	Total--Loss of PSNH tax benefits related to the Medicare subsidy in TY	<hr style="border-top: 1px solid black;"/> 792 <hr style="border-top: 1px solid black;"/>
20	X the tax gross revenue conversion factor (GRCF)	1.6814
21	Increase in Revenues required	<hr style="border-top: 1px solid black;"/> <b>1,331</b> <hr style="border-top: 3px double black;"/>
22	Amounts shown above may not add due to rounding.	

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

DE 09-035  
 CERTIFICATION OF EXOGENOUS EVENTS COMPLIANCE FILING

FEDERALLY INITIATED COST CHANGE  
 HEALTH CARE REFORM ACT--CHANGE IN TAXES- MEDICARE SUBSIDY CREDIT

(Thousands of Dollars)

1 Calculation and recovery of the Medicare Subsidy Credit deferral:

2 1. Write-off and deferral of the existing  
 3 Medicare subsidy asset from 2006 through  
 4 2009 in March 2010.

	PSNH Dist-Total Tax	NUSCO Allocated to Dist	Total PSNH Dist
5 Tax asset written off re Medicare as calculated by Tax	2,664	857	3,521
6 X the tax GRCF	1,6814	N/A (1)	
7 Estimated balance to be recovered	4,478	857	5,336

8 2. Deferral of the Medicare subsidy based  
 9 on the TY for January 2010 through December 2010

	PSNH Dist-Total Tax	NUSCO Allocated to Dist	Total PSNH Dist
10 Medicare subsidy deferred in 2010 based on the TY calculation	646	146	792
11 X the tax GRCF	1,6814	1,6814	1,6814
12 Estimated balance to be recovered	1,086	245	1,331

13 3. Deferral of the Medicare subsidy based  
 14 on the TY for January 2011 through June 2011

	PSNH Dist-Total Tax	NUSCO Allocated to Dist	Total PSNH Dist
15 Medicare subsidy deferred in 2011 based on the TY calculation	323	73	396
16 X the tax GRCF	1,6814	1,6814	1,6814
17 Estimated balance to be recovered	543	122	666

18 Sum of deferrals 1, 2, and 3--Total balance to be recovered beginning July 1, 2011

7,333

19 Increase in Revenues required over a four year period beginning July 1, 2011

1,833

20 (1) Excludes NUSCO, amount already grossed up by Tax

21 Amounts shown above may not add due to rounding.

**PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE**  
**DE 09-035**  
**CERTIFICATION OF EXOGENOUS EVENTS COMPLIANCE FILING**  
**FEDERALLY INITIATED COST CHANGE**  
**BONUS DEPRECIATION**  
**(Thousands of Dollars)**

	<u>Total PSNH Dist</u>
1 Proposed annual revenue requirement decrease to reflect the impact of 100% bonus	
2 tax depreciation on revenue requirements	(192) RAB-2 ; Page 2
3 Proposed annual revenue requirement decrease to refund, through amortization over	
4 four years , the deferred revenue requirements impact of 100% bonus depreciation for	
5 the period October 2010 through June 2011.	(42) RAB-2 ; Page 3
	<hr/>
6 Total proposed revenue requirement decrease effective July 1, 2011	<u><u>(234)</u></u>
7 Amounts shown above may not add due to rounding.	

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE  
DE 09-035  
CERTIFICATION OF EXOGENOUS EVENTS COMPLIANCE FILING

FEDERALLY INITIATED COST CHANGE  
BONUS DEPRECIATION

(Thousands of Dollars)

1		Total
2	Adjustment of Revenues:	<u>PSNH Dist</u>
3	Projected increase in tax depreciation in 2010 from increasing "bonus	
4	depreciation" from 50% to 100%	(6,250)
5	X Federal tax rate	<u>35%</u>
6	Adjustment	<u>(2,188)</u>
7	Include 80% of the adjustment to rate base [Line 6 * 80%] (1)	(1,750)
8	X Allowed Weighted Cost of Capital, adjusted for taxes (2)	10.966%
9	Proposed change in revenue requirements effective July 1, 2011	<u><u>(192)</u></u>
10	Amounts shown above may not add due to rounding.	

11 (1) The adjustment to rate base is limited to 80% of the change in  
12 rate base consistent with Section 2 of the DE 09-035 Settlement  
13 Agreement on Permanent Distribution Rates (settlement).

14	(2) DE 09-035--PSNH Weighted Cost of Capital--Adjusted for Taxes	<u>[a]</u>	<u>[b]</u>	<u>[c]</u>	<u>[d]</u>	<u>[e]</u>
15		Capital	Cost/	Wgted Avg.	Tax Adj	Tax-Adj
16	Tax Rate = 40.525%	Percent	Return	[a] * [b]	[c]/ [1-TR]	Return
17	Long-term Debt	45.730%	5.263%	2.407%	N/A	2.407%
18	Short-term Debt	1.870%	2.100%	0.039%	N/A	0.039%
19	Equity	52.400%	9.670%	5.067%	8.520%	8.520%
20	Total	<u>100.000%</u>		<u>7.513%</u>		<u>10.966%</u>

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE  
 DE 09-035  
 CERTIFICATION OF EXOGENOUS EVENTS COMPLIANCE FILING

FEDERALLY INITIATED COST CHANGE  
 BONUS DEPRECIATION

(Thousands of Dollars)

	Total PSNH Dist
1	
2 Calculation and Refunding of Interim Revenues:	
3 Projected increase in tax depreciation in 2010 from increasing "bonus	
4 depreciation" from 50% to 100%	(6,250)
5 X Federal tax rate	<u>35%</u>
6 Adjustment	<u>(2,188)</u>
7 Include 80% of the adjustment to rate base [Line 6 * 80%] (1)	(1,750)
8 X Allowed Weighted Cost of Capital, adjusted for taxes (2)	10.966%
9 Proposed annualized change in revenue requirements	(192)
10 Interim period which is the percentage of the annualized period (3)	<u>75%</u>
11 Interim period revenue adjustments deferred for refunding	(144)
12 Return	<u>(24)</u> RAB-2 ; Page 4
13 Interim period revenue adjustments and return that will be refunded	<u>(168)</u>
14 Amortization of the refund over a four year period beginning July 1, 2011	<u><u>(42)</u></u>
15 Amounts shown above may not add due to rounding.	

16 (1) The adjustment to rate base is limited to 80% of the change in  
 17 rate base consistent with Section 2 of the DE 09-035 Settlement  
 18 Agreement on Permanent Distribution Rates (settlement).

	[a] Capital Percent	[b] Cost/ Return	[c] Wqted Avg. [a] * [b]	[d] Tax Adj [c] / [1-TR]	[e] Tax-Adj Return
19 (2) DE 09-035--PSNH Weighted Cost of Capital--Adjusted for Taxes					
20 Tax Rate = 40.525%					
22 Long-term Debt	45.730%	5.263%	2.407%	N/A	2.407%
23 Short-term Debt	1.870%	2.100%	0.039%	N/A	0.039%
24 Equity	<u>52.400%</u>	9.670%	<u>5.067%</u>	8.520%	<u>8.520%</u>
25 Total	<u>100.000%</u>		<u>7.513%</u>		<u>10.966%</u>

26 (3) Legislation was signed in December 2010, and effective for capital  
 27 projects as of September 2010. The interim period is the nine month period  
 28 from October 2010 through June 2011.

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

DE 09-035  
CERTIFICATION OF EXOGENOUS EVENTS COMPLIANCE FILING

FEDERALLY INITIATED COST CHANGE  
BONUS DEPRECIATION

(Thousands of Dollars)

1 Calculation of the return on the interim revenues

2

Quarter Ending:

3

	Sept 10	Dec 10	Mar 11	June 11	Sept 11	Dec 11	Mar 12	June 12	Sept 12	Dec 12	Mar 13	June 13	Sept 13	Dec 13	Mar 14	June 14	Sept 14	Dec 14	Mar 15	June 15	Total
4 Beginning balance		-	(48)	(98)	(148)	(139)	(131)	(123)	(114)	(106)	(97)	(88)	(79)	(69)	(60)	(51)	(41)	(31)	(21)	(11)	
5 Additions		(48)	(48)	(48)																	
6 Amortization		-	-	-	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10
7 Balance prior to the return calculation		(48)	(96)	(146)	(137)	(129)	(121)	(112)	(104)	(95)	(86)	(77)	(68)	(59)	(50)	(40)	(30)	(20)	(10)	(0)	
8 Average balance to calculate return		(24)	(72)	(122)	(142)	(134)	(126)	(118)	(109)	(100)	(92)	(83)	(74)	(64)	(55)	(45)	(36)	(26)	(16)	(5)	
9 Def taxes calculated at 39.55%		9	29	48	56	53	50	47	43	40	36	33	29	25	22	18	14	10	6	2	
10 Net of taxes to calculate return		(15)	(44)	(74)	(86)	(81)	(76)	(71)	(66)	(61)	(55)	(50)	(44)	(39)	(33)	(27)	(21)	(16)	(9)	(3)	
11 x Return (1)		2.741%	2.741%	2.741%	2.741%	2.741%	2.741%	2.741%	2.741%	2.741%	2.741%	2.741%	2.741%	2.741%	2.741%	2.741%	2.741%	2.741%	2.741%	2.741%	2.741%
12 Return		(0)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(1)	(1)	(1)	(1)	(1)	(1)	(0)	(0)	(0)	(24)
13 Ending balance, including the return		-	(48)	(98)	(148)	(139)	(131)	(123)	(114)	(106)	(97)	(88)	(79)	(69)	(60)	(51)	(41)	(31)	(21)	(11)	(0)

14 (1) DE 09-035--PSNH Weighted Cost of Capital--Adjusted for Taxes--

15

16 Tax Rate = 40.525%

17

	[a] Capital Percent	[b] Cost/ Return	[c] Wqted Avg [a] * [b]	[d] Tax Adj [c]/ (1-TR)	[e] Tax-Adj Return	[f] Return By Qtr
18 Long-term Debt	45.730%	5.263%	2.407%	N/A	2.407%	
19 Short-term Debt	1.870%	2.100%	0.039%	N/A	0.039%	
20 Equity	52.400%	9.670%	5.067%	8.520%	8.520%	
21 Total	100.000%		7.513%		10.966%	2.741%

22 Amounts shown above may not add due to rounding.