

# STATE OF NEW HAMPSHIRE

## Inter-Department Communication

DATE: June 24, 2011  
AT (OFFICE): NHPUC

*SEM*  
**FROM:** Steven E. Mullen, Assistant Director – Electric Division  
**SUBJECT:** DE 11-095, Public Service Company of New Hampshire  
Step Increase for Changes in Net Plant for the Period  
April 1, 2010 – March 31, 2011  
**TO:** Commissioners  
Debra A. Howland, Executive Director



On April 29, 2011, Public Service Company of New Hampshire (PSNH) filed a petition requesting a step increase to its distribution rates resulting from changes to its net plant in service that occurred during the period March 31, 2010 and March 31, 2011. PSNH's filing was made pursuant to a Settlement Agreement (Settlement) approved by the Commission in Docket No. DE 09-035, PSNH's most recent distribution rate case.<sup>1</sup> Section 5 of that Settlement describes in great detail the process associated with certain agreed-upon step increases and the related reporting requirements. Specifically, annual estimated step increases are provided for but are limited to 80% of the change to net distribution plant in service excluding those capital projects associated with PSNH's Reliability Enhancement Program (REP). Section 5.1 of the Agreement described a \$9.3 million estimated step increase, based on PSNH's then-forecasted increases to net plant in service, to be effective July 1, 2011.

Further limitations and details of the July 1, 2011 step increase are set forth in the following sections of the Agreement:<sup>2</sup>

5.2 By April 30 of the years 2011, 2012 and 2013, PSNH will file financial documentation showing the actual changes to Net Distribution Utility Plant between April 1 of the prior year and March 31 of the current year, as well as the Net Distribution Utility Plant balance as of March 31 for each year. The information filed by PSNH will be subject to review by the Staff and the OCA. Changes to Net Distribution Utility Plant reported annually by PSNH will exclude capital additions made under the REP. In its annual filings, PSNH will explain any material variations between actual increases to Net Distribution Utility Plant and the forecasted increases shown below.

<sup>1</sup> See Order No. 25, 123 (June 28, 2010).

<sup>2</sup> Certain sections of the Agreement that deal specifically with step increases on dates other than July 1, 2011 have been omitted from this memorandum.

5.3 PSNH shall calculate the actual change to non-REP Net Distribution Utility Plant balance for the step adjustments as follows:

5.3.1 For the 2011 step, PSNH will subtract the total Net Distribution Utility Plant balance as of March 31, 2010 from the total Net Distribution Plant balance as of March 31, 2011.

5.4 The actual change to Net Distribution Utility Plant will then be compared to the following forecasted increases:

5.4.1 For the 2011 step, if the actual change to Net Distribution Utility Plant (as calculated in Section 5.3.1) is equal to or greater than \$75 million, and the Staff and the OCA agree with PSNH's calculations and inputs to the calculations, then the step increase shall take effect on July 1, 2011, subject to approval by the Commission that the plant additions are prudent, used and useful and providing service to customers. If the actual change to Net Distribution Utility Plant is less than \$75 million, the step increase shall be calculated in the manner described in Section 5.5.

5.4.4 If the Staff or the OCA do not agree with PSNH's calculations or any input to the calculations, then they may request that the Commission hold a hearing to determine whether the step adjustment should take effect as scheduled, as calculated by PSNH.

5.5 If the actual change to Net Distribution Utility Plant is less than the amounts specified in Sections 5.4.1 (2011 step), 5.4.2 (2012 step), or 5.4.3 (2013), then the actual Net Distribution Utility Plant balance as of March 31 of the step year will be compared to the forecasted amounts for March 31 of the step year, as listed below:

Step Year	Forecasted Net Distribution Utility Plant Balance as of 3/31
2011	\$997 million
2012	\$1,073 million
2013	\$1,149 million

5.5.1 If the actual Net Distribution Utility Plant balance as of March 31 is greater than or equal to the amounts shown in Section 5.5, and the Staff and OCA agree with PSNH's calculations and inputs to the calculations, then the step increase shall take effect as planned, subject to approval by the Commission that the plant additions are prudent, used and useful and providing service to customers.

5.5.2 If the actual Net Distribution Utility Plant balance as of March 31 is less than the amount shown above, the step increase will be adjusted downward and shall take effect as planned, subject to review of the Staff and the OCA and approval by the Commission. The amount of downward adjustment to the step increase will be determined by calculating the revenue requirement associated with the difference between the forecasted and actual Net Distribution Utility Plant balance as of March 31. That revenue requirement will be determined using the cost of capital and capital structure contained in Section 3, and the same methodology used to calculate the step increases shown in Attachment 1.

5.5.3 If the Staff or the OCA do not agree with PSNH's calculations or any input to the calculations, then they may request that the Commission hold a hearing to determine whether the step increase should take effect as scheduled, as calculated by PSNH.

Following the procedures set forth above, PSNH submitted its April 29, 2011 filing. In that filing, PSNH requested a distribution rate step increase of \$4.4 million—a substantial reduction from the originally estimated \$9.3 million. PSNH explained that, as compared to the \$997 million of budgeted non-REP net plant as of March 31, 2011, the actual balance of non-REP net plant as of that date was \$957 million. As a result, the actual change in net plant was \$35 million, as compared to the budgeted \$75 million, with the resulting change in revenue requirements calculated to be \$4.4 million rather than \$9.3 million.

PSNH further explained in its filing that there were two main reasons for the lower requested increase to distribution revenue requirements. First, PSNH stated that the Agreement used simple averages of budgeted numbers for three quarters of one calendar year and one quarter of the following calendar year. Differences in timing of when plant additions were actually placed in service as well as variances in the actual amounts as compared to the budgeted amounts contributed to the variance. In addition, PSNH stated that it made decisions, based on its routine review of capital spending, to decrease the level of spending during 2010, with one major driver of those decisions being lower actual peak loads than originally forecasted.

As contemplated in the Settlement, Staff conducted discovery, Staff and OCA reviewed the information and held discussions with PSNH. That review included gathering information regarding the installed plant additions as well as those that were not undertaken due to lower peak loads.

Having reviewed the filing, the supporting calculations and the information provided through discovery, Staff can report that PSNH followed the procedures set forth in the Agreement for the July 1, 2011 step increase. In addition, the proposed increase of \$4.4 million was calculated in accordance with Section 5.5.2 above regarding downward

adjustment to the originally estimated increase in the event of lower than then-budgeted changes in distribution net plant. Therefore, Staff recommends that the Commission approve the increase to distribution rates for service rendered effective July 1, 2011.

Staff has reviewed this recommendation with the OCA and can report that the OCA does not oppose this recommendation.

Please contact me if you have any questions or would like to discuss this further.

cc: Service List