STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DE 13-127

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

Petition for Step Adjustment to Reflect Change in Net Plant, Major Storm Cost Reserve and Removal of Certain Costs

Order Following Hearing

O R D E R N O. 25,534

June 27, 2013

APPEARANCES: Matthew J. Fossum, Esq. on behalf of Public Service Company of New Hampshire; Office of Consumer Advocate by Susan W. Chamberlin on behalf of residential ratepayers; and Suzanne G. Amidon, Esq. on behalf of Commission Staff.

I. PROCEDURAL HISTORY

On April 30, 2013, Public Service Company of New Hampshire (PSNH or Company) filed a petition, with a supporting technical statement and related schedules, requesting approval of a step adjustment to its distribution rates pursuant to a Settlement Agreement approved by the Commission in PSNH's most recent distribution rate case. *See* Order No. 25,123 (June 28, 2010) in Docket No. DE 09-035. The terms of the Settlement Agreement include a provision that established a series of step adjustments to the Company's distribution rates. In the instant filing, PSNH requested approval of the final step increase which is scheduled for effect on July 1, 2013.

Section 2 of the Settlement Agreement sets forth the elements of the step adjustment, including a projected step increase for effect July 1, 2013 to recover the revenue requirements associated with 80% of changes to PSNH's non-reliability enhancement program (non-REP) net plant balances for the period April 1, 2012 through March 31, 2013. The Settlement Agreement forecast a revenue requirement of $9.5 million effective July 1, 2013 associated with a then-budgeted change in net plant of $76.5 million. The actual change in non-REP net plant for the year ending March 2013 was $49 million, resulting in an associated revenue requirement of $6.1 million. PSNH requested that $6.1 million be added to distribution revenues for recovery on a service rendered basis as of July 1, 2013.

PSNH requested four additional changes to distribution revenues as follows: (1) an annual increase of $5 million to its Major Storm Cost Reserve (MSCR); (2) an increase of $1.6 million for additions to REP net plant; (3) the removal of $73,000 in marketing costs associated with the Company's renewable energy service (RES) rate; and (4) removal of $72,000 associated with work performed by an independent consultant.

On May 9, 2013, the Office of Consumer Advocate (OCA) filed a letter indicating its participation in this docket on behalf of residential ratepayers pursuant to RSA 363:28. The Commission issued an order of notice on May 14, 2013 scheduling a hearing on June 20, 2013.

On June 21, 2013, PSNH filed a response to a record request (Hearing Exhibit 2) made at the hearing.

II. POSITIONS OF THE PARTIES AND STAFF

A. Public Service Company of New Hampshire

PSNH testified that the approved Settlement Agreement in Docket No. DE 09-035 established a series of step adjustments to the Company's distribution rates with step increases scheduled for July 1, 2011, July 1, 2012 and July 1, 2013. The Commission approved the first of those step adjustments in Order No. 25,240 (June 24, 2011) in Docket No. DE 11-095 and the second step adjustment in Order No. 25,382 (June 27, 2012) in Docket No. DE 12-110. In this filing, PSNH seeks the third and final of those step increases.

According to the filing, Section 2 of the Settlement Agreement sets forth the series of changes to PSNH's permanent distribution rate level, including a projected step increase in distribution rates of $9.5 million for effect on July 1, 2013 to recover the revenue requirements associated with 80% of changes to then-budgeted non-REP net plant balances of $76,5 million for the period April 1, 2012 through March 31, 2013. PSNH testified that the actual change in the level of non-REP net plant as of March 31, 2013 was $49 million, and the associated revenue requirement is $6.1 million. PSNH said that the $49 million additions to plant were less than the forecasted additions of $76.5 million due to the sluggish economy, which continued to impact new service and new customer work. PSNH requested that $6.1 million, the revenue requirement associated with $49 million more in non-REP net plant, be added to distribution rates.

PSNH said that it requested a $3.5 million annual increase to the funding level in the MSCR in its 2012 step adjustment filing which the Commission approved in Order No. 25,382, bringing total annual revenue to the MSCR to $7.0 million. PSNH stated that subsequent to approval of the annual $7.0 million level, the Company deferred $11.2 million in costs associated with the October 2012 Storm Sandy and $2.6 million in costs associated with four pre-staging events that occurred December 2012 through March 2013. In its filing, PSNH requested an annual increase of $5 million to the MSCR to take into account the unprecedented magnitude and number of major storms the region has experienced in recent years. According to PSNH, a $12 million annual funding level will provide for more adequate recovery of storm costs and over the next few years, especially when taking into account the unrecovered balances of costs associated with storms that occurred in 2011 through 2013. In the absence of an increase in annual funding to the MSCR, PSNH said that its net unrecovered balance of major storm costs will be approximately $10 million as of June 30, 2015, assuming there are no major storms in the next two years. PSNH said that it is not seeking final approval to recover any particular storm costs, noting that all storm costs are audited by Commission Staff.

PSNH also proposed to increase distribution rates by $1.6 million for the July 1, 2013 step associated with REP plant, as specifically provided for in Sections 2.6 and 5.1 of the DE 09-035 settlement agreement. Finally, PSNH proposed to remove $72,000 in consultant costs related to work performed and paid in connection with the Settlement Agreement and $73,000 associated with marketing of the RES rate because the Company has requested in Docket DE 12-358 that the rate be discontinued if the rate of participation does not meet a specified level.

PSNH concluded its testimony by affirming that the instant filing was consistent with its most recent least cost integrated resource plan on file with the Commission.

B. Office of Consumer Advocate

The OCA stated its opposition to PSNH's proposal to recover from the MSCR the pre-staging costs of $2.3 million associated with two storms that occurred prior to the issuance of Order No. 25,465 on February 26, 2013.

In addition, the OCA questioned PSNH regarding its change to the accounting treatment of hazard tree removal as part of its REP. According to the Company, in mid-2012, a determination was made to capitalize the cost of hazard tree removal based on the interpretation of accounting rules applicable to costs associated with rights of way (ROW). Prior to this determination, hazard tree removal and full width ROW clearing was treated as an O&M expense. In its closing, the OCA stated its opposition to the accounting treatment of hazard tree removal costs as a capital expense.

C. Staff

Staff stated that the Company appropriately calculated the step adjustment to distribution rates with respect to both REP and non-REP additions. Regarding the proposed increase to the MSCR, Staff said that while the Company was asking for a large increase to revenue to the MSCR, the request reflected the severity of storms experienced in recent years and costs of restoring power and repairing damage to the electrical system resulting from major storms.

Staff recommended that the Commission allow PSNH to recover pre-staging costs associated with qualifying storms from the MSCR even if those events occurred before Order No. 25,465 was issued on February 26, 2013. According to Staff, permitting PSNH to recover those pre-staging costs would be consistent with Order No. 25,465 and recommendations that the Commission made in its report of utility storm recovery efforts related to the October 2011 snowstorm.

Staff stated its support for the elimination of the RES marketing costs and the consultant costs from PSNH's distribution rate. Staff concluded expressing its support for the filing.

III. COMMISSION ANALYSIS

We have reviewed the filing and the supporting calculations along with the additional information offered in evidence on the record. We find that the petition is consistent with the terms of the settlement agreement approved in connection with PSNH's most recent distribution rate case and, therefore, approve the step increase in distribution rates to include $6.1 million to recover the revenue requirements associated with non-REP net plant additions.

We also grant PSNH's proposal to remove from distribution rates $72,000 associated with consultant work and $73,000 associated with marketing the renewable energy service rate.

We approve PSNH's request to increase by $5 million the annual revenue amount to be deposited in the major storm reserve fund from $7 million to $12 million. We acknowledge the significance of the increase; however, given the frequency and severity of storms in recent years, and the extent of costs the Company has incurred in connection with restoration and repair after major storms, we find it reasonable and in the public interest to make an upward adjustment to the annual revenue allocated to the major storm reserve. We note for the record that we can revisit the level of annual funding of the major storm reserve at any time.

We will also approve PSNH's request to recover the costs of pre-staging for qualifying storms from the major storm reserve pursuant to Order No. 25,465 for those storms that occurred from December 2012 through March 2013. In our after-event review of the December 2008 ice storm and the October 2011 snowstorm, we encouraged New Hampshire's electric distribution utilities to pre-stage for major storms. As we noted in Order No. 25,465, "[c]osts of preparing and planning for predicted weather systems that are found to meet the criteria [of major storms] and be prudent and reasonable, should be recovered as part of good utility management." Order No. 24,465 at 5.

By the terms of the settlement agreement approved in DE 09-035, PSNH's distribution revenues will increase by $1.6 million for REP plant additions on July 1, 2013. The OCA did not object to this increase but did object to the fact that PSNH capitalized the costs associated with hazard tree removal. According to PSNH, the decision to capitalize hazard tree removal (a subset of PSNH's overall REP), which was formerly treated as operation and maintenance expense, was made based on an interpretation of accounting treatment that finds value in costs that extend the life of a capital asset. While PSNH's filing does not request us to rule on the merits of the accounting decision as it affects hazard tree removal, we find no evidence that

PSNH's capitalization of the costs of hazard tree removal is inconsistent with the Federal Energy Regulatory Commission's chart of accounts and we note that the accounting treatment is subject to the review of PSNH's independent auditors. Therefore, we will not direct PSNH to reconsider its accounting treatment decision.

We also find that pursuant to RSA 378:41, PSNH's energy service filing in the instant docket is consistent with its most recently filed least cost integrated resource plan found adequate by the Commission.

This is one of several orders we are issuing for PSNH rates for effect with services rendered on and after July 1, 2013: the instant proceeding, an adjustment to distribution rates for additions to net plant and an adjustment to collections to be deposited in PSNH's major storm reserve; Docket No. DE 12-292, an adjustment to PSNH's energy service charge; Docket No. DE 12-291, an adjustment to PSNH's stranded cost recovery charge; and Docket No. DE 13-167, an adjustment to PSNH's transmission cost adjustment factor. Overall, the average total bill impact of these rate changes effective July 1, 2013 is an approximate decrease of 5.3% for residential customers taking energy service from PSNH. We find that the resulting rates are just and reasonable.

Based upon the foregoing, it is hereby

ORDERED, that Public Service Company of New Hampshire's petition for a step adjustment to its distribution revenues to recovery $6.1 million of revenue requirements associated with certain qualifying investments in distribution plant is hereby APPROVED; and it is

FURTHER ORDERED, that Public Service Company of New Hampshire's request to increase the annual accrual to the major storm reserve fund from $7 million to $12 million is hereby APPROVED; and it is

FURTHER ORDERED, that Public Service Company of New Hampshire's request to decrease distribution rates by $72,000 related to consultant work that has been completed and $73,000 in marketing of the renewable energy service option rate is hereby APPROVED; and it is

FURTHER ORDERED, that Public Service Company of New Hampshire shall file tariffs conforming within 30 days of the date of the Order, consistent with N.H. Code Admin. Rule Puc 1603.

By order of the Public Utilities Commission of New Hampshire this twenty-seventh day of June, 2013.

Amy L. Ignatius
Chairman

Michael D. Harrington
Commissioner

Attested by:

Debra A. Howland
Executive Director