STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DE 12-320

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE

Petition for Recovery of Pre-staging Costs through the Major Storm Cost Reserve

Order *Nisi* Approving Petition

O R D E R N O. 25,465

February 26, 2013

On October 26, 2012, the petitioner, Public Service Company of New Hampshire (PSNH), filed a Petition for Recovery of Pre-staging Costs through the Major Storm Cost Reserve (MSCR). The MSCR is an accounting mechanism that has previously been approved by the Commission and provides for the recovery from customers of a specified annual amount in distribution rates that is used to offset costs incurred in the event that a qualifying Major Storm occurs. Under the MSCR, a qualifying major storm is defined as a storm that results in either (1) 10% or more of PSNH's retail customers being without power in conjunction with more than 200 reported troubles, or (2) more than 300 reported troubles during the event. According to PSNH, the current terms of the MSCR, however, do not specifically provide for recovery of pre-staging or preparation costs incurred when an anticipated storm does not ultimately result in the outage or trouble levels that would qualify as a Major Storm. By its petition, PSNH seeks to establish criteria that, once met, would enable recovery of such costs.

The petition and subsequent docket filings, other than any information for which confidential treatment is requested of or granted by the Commission, is posted to the Commission's website at http://www.puc.nh.gov/Regulatory/Docketbk/2012/12-320.html.

On November 27, 2012, a prehearing conference and a technical session were held. The Office of Consumer Advocate (OCA) filed a letter of participation in the docket on November 28, 2012. Both the Staff and the OCA conducted discovery, and following that discovery, PSNH filed revised testimony on December 19, 2012.

In its petition and supporting testimony, PSNH explained that the Commission approved the establishment of the MSCR pursuant to the PSNH Restructuring Settlement Agreement in Order Nos. 23,443 and 23,549, *PSNH Proposed Restructuring Settlement*, 85 NH PUC 154 and 536 (2000). Through the MSCR, PSNH recovers from customers a specified annual amount in distribution rates that is to be used to offset costs incurred in the event that a major storm occurs. Simultaneously, PSNH records a liability equal to the amount it recovers from customers so that the recovery does not result in earnings accruing to PSNH. When a qualifying Major Storm occurs, costs related to restoring electric service are charged to the MSCR and all charges to the MSCR are audited by Commission Staff and approval by the Commission.

Although the MSCR's initial annual funding level was $3 million, it has changed over time based on actual storm experience. In 2012 the Commission increased the annual funding level to $7 million to recover expenses incurred in repairing damage to its electrical system caused by two major storms that occurred in 2011—Hurricane Irene (August 2011) and the October 2011 snowstorm.

Under the current MSCR mechanism, costs incurred by the Company in preparation for expected storms do not qualify for recovery through the MSCR if an anticipated storm does not ultimately escalate to the level of a qualifying major storm. In its petition, PSNH requested the establishment of certain recovery criteria that will support the funding through the MSCR of

certain planning and pre-staging costs incurred by the Company in advance of potential major storms, noting that the Commission highlighted the importance of pre-storm activity, or pre-staging, in its after-action report on the 2008 ice storm.

PSNH said that, given the number and severity of storms affecting New Hampshire in the last few years, the Company's power restoration and damage repair plans must be combined with pre-storm action that includes acquiring and placing crews on the system before the storm actually hits. Costs incurred when pre-staging crews include contractual retainer costs, contract costs associated with placing line and tree crews, administration and other costs to manage crew resources, food and lodging and fuel and other costs related to storm preparation. This approach, according to PSNH, is consistent with the mechanism approved for Unitil Energy Systems, Inc. *See* Order No. 25,214 (April 26, 2011).

PSNH stated that if its proposal is approved, any resulting changes that occur to its distribution rates would be over the long term. According to PSNH, pre-staging of crews can result in reduced power restoration costs after a Major Storm by expediting the restoration process. PSNH acknowledged that, if a storm does not materialize to the level of a Major Storm, pre-staging costs charged to the MSCR would ultimately be recovered from customers through the operation of the MSCR through a change to the annual funding level.

In its December 19, 2012 revised and updated testimony, PSNH clarified the indices to be used for determining qualification of costs to be charged to the MSCR. On page 8 of that testimony, PSNH explained that Northeast Utilities (NU), on behalf of its operating companies, has an existing long-term contract with Telvent-DTN to provide highly detailed weather forecasts by region and zone for the NU service area. PSNH proposes to employ an Energy

Event Index with five escalating levels of storm severity. For weather events having a "high" probability, that is, greater than 60% of reaching EEI Level 3, pre-staging costs would be charged to the MCSR.

On February 6, 2013, Staff filed a memorandum recommending approval of PSNH's petition. Staff noted that the *October 2011 Snowstorm Report*, available on the Commission's website, listed number a findings and corrective actions with respect to the utilities' preparation and response to the storm, including early planning and predictions of storm severity and potential electric system damage. According to Staff, the Commission identified planning and storm prediction as very important when assessing the preparedness and response of utilities when major storms occur, both in the *October 2011 Snowstorm* and the *2008 Ice Storm Reports*.

Staff concluded that the procedures and criteria to assess potential storm severity, as well as the proposed accounting procedures are consistent with measures the Commission has approved in the past. According to Staff, consistent procedures and criteria will aid not only in the decision-making process on PSNH's end, but also in assessing the actions of PSNH, both on an individual basis and a comparative basis with other New Hampshire electric utilities, in the wake of future major storm events.

On February 13, 2013, the OCA filed a letter commenting on PSNH's filing and Staff's recommendation. The OCA recommended the Commission deny PSNH's petition, arguing that though it is reasonable for the Commission to consider the costs associated with implementing planning and pre-staging actions, any cost recovery must be in compliance with the Settlement Agreement approved in PSNH's most recent distribution rate case, DE 09-035. In OCA's view, any costs for pre-staging repair crews prior to potential major storm events should continue to be

collected through distribution rates. To do otherwise, would shift pre-staging costs for qualifying storms from distribution rates to the MSCR and thus would shift risk from PSNH's shareholders to its ratepayers thereby upsetting the overall balance of factors considered by the signatories to the Settlement Agreement. OCA noted that, except under certain conditions described in the Settlement Agreement, changes to distribution rates are expressly forbidden and, therefore, PSNH's proposal with respect to pre-staging costs is not in compliance with the Settlement Agreement and must be rejected by the Commission.

We have reviewed PSNH's petition and supporting testimony along with the recommendations filed by Staff and the OCA. PSNH's petition seeks to provide a clear definition of the weather events for which pre-staging costs will be allowed to be booked to the MSCR, irrespective of whether the predicted storm event eventually qualifies as a Major Storm based on the numbers of electrical system troubles and customer outages. Costs of preparing and planning for predicted weather systems that are found to meet the criteria and be prudent and reasonable, should be recovered as part of good utility management. With respect to the OCA's contention that PSNH's proposal shifts the balance of risk contemplated by the signatories to the Settlement Agreement in DE 09-035, from shareholders to ratepayers, we disagree. Funding for the MSCR is one of many components included in the determination of PSNH's distribution rates and, as stated in PSNH's petition, approval of this petition will not result in any immediate change to distribution rates, nor will it affect the annual funding level of the MSCR. As storms occur and costs are charged to the MSCR, those costs will be reviewed and the balance of the MSCR monitored. To the extent that increases or decreases to the annual funding level of the

MSCR are warranted, any such changes will be subject to review and discovery through separate proceedings.

We find that the criteria proposed by PSNH for determining when pre-staging costs incurred with approaching storms should be allowed to be charged to the MSCR are reasonable and appropriate and, therefore, we approve PSNH's petition as modified by its December 19, 2012 revised testimony. As outlined in our *October 2011 Snowstorm* report, restoration of power is an essential electric utility function and proper pre-staging is an important element in ensuring timely restoration of service. To the extent that recovering appropriate pre-staging through the MSCR facilitates timely restoration, this should be encouraged. Further, as noted by Staff, having consistent and clearly defined procedures and criteria used by electric utilities in planning and preparing for oncoming storms helps standardize the assessment of each utilities preparation in response to those storms. While some approaching storms, due to a change in conditions, may not ultimately result in the levels of troubles and outages that would otherwise qualify as a Major Storm, PSNH's planning, preparation and obtainment of resources will be aided through the use of predictive criteria as well as standardized methods of accounting for the costs incurred.

Based upon the foregoing, it is hereby

ORDERED *NISI*, that subject to the effective date below, PSNH's petition for recovery of pre-staging costs through its Major Storm Cost Reserve, as modified by the December 19, 2012 revised testimony, is APPROVED; and it is

FURTHER ORDERED, that the Petitioner shall cause a copy of this Order *Nisi* to be published once in a statewide newspaper of general circulation or of circulation in those portions

of the state where operations are conducted, such publication to be no later than March 8, 2013 and to be documented by affidavit filed with this office on or before March 26, 2013; and it is

FURTHER ORDERED, that all persons interested in responding to this Order *Nisi* be notified that they may submit their comments or file a written request for a hearing which states the reason and basis for a hearing no later than March 15, 2013 for the Commission's consideration; and it is

FURTHER ORDERED, that any party interested in responding to such comments or request for hearing shall do so no later than March 22, 2013; and it is

FURTHER ORDERED, that this Order *Nisi* shall be effective March 26, 2013, unless the Petitioner fails to satisfy the publication obligation set forth above or the Commission provides otherwise in a supplemental order issued prior to the effective date; and it is

FURTHER ORDERED, that the Petitioner shall file a compliance tariff with the Commission on or before March 12, 2013, in accordance with N.H. Code Admin. Rules Puc 1603.02(b).

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

Amy L. Ignatius
Chairman

Michael D. Harrington
Commissioner

Robert R. Scott
Commissioner

Attested by:

Debra A. Howland
Executive Director

SERVICE LIST - EMAIL ADDRESSES - DOCKET RELATED

Pursuant to N.H. Admin Rule Puc 203.11 (a) (1): Serve an electronic copy on each person identified on the service list.

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FILING INSTRUCTIONS:

a) **Pursuant to N.H. Admin Rule Puc 203.02 (a), with the exception of Discovery, file 7 copies, as well as an electronic copy, of all documents including cover letter with:** DEBRA A HOWLAND
EXEC DIRECTOR
NHPUC
21 S. FRUIT ST, SUITE 10
CONCORD NH 03301-2429

b) **Serve an electronic copy with each person identified on the Commission's service list and with the Office of Consumer Advocate.**

c) **Serve a written copy on each person on the service list not able to receive electronic mail.**