STATE OF NEW HAMPSHIRE

BEFORE THE

NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

DOCKET NO. DE 19-057

REQUEST FOR TEMPORARY RATES

DIRECT TESTIMONY OF ERIC H. CHUNG
AND TROY M. DIXON

On behalf of Public Service Company of New Hampshire

d/b/a Eversource Energy

April 26, 2019

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d/b/a EVERSOURCE ENERGY
REQUEST FOR TEMPORARY RATES**

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I. INTRODUCTION

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

A. My name is Eric H. Chung. I am employed by Eversource Energy Service Company as Director, Revenue Requirements (New Hampshire) and Regulatory Projects. My business address is 247 Station Drive, Westwood, Massachusetts 02090.

Q. What are your principal responsibilities in this position?

A. I am currently responsible for all regulatory activity affecting the financial requirements of Public Service Company of New Hampshire ("PSNH" or the "Company"). I am also responsible for certain enterprise-wide regulatory initiatives across Eversource Energy's operating businesses in the states of Connecticut, Massachusetts and New Hampshire.

Q. Please summarize your professional experience.

A. I was appointed to my current position in February 2015. From August 2013 to January 2015, I was Director of Revenue Requirements for Eversource Energy's operating companies in Massachusetts and New Hampshire, including PSNH.

Prior to joining Eversource, from 2011 to 2013, I was a Senior Manager in the Power Utilities Advisory practice at Ernst and Young LLP. From 2009 to 2011, I worked for PacifiCorp, a vertically-integrated electric utility serving approximately 1.7 million customers across six states in the Western United States, where my primary role was Director of Environmental Policy and Strategy. I also served as an Associate Partner in the Utilities practice at Oliver Wyman, a Senior Engagement Manager in the Power practice at Strategic Decisions Group, and a Senior Programmer Analyst at Goldman Sachs. I have over 20 years of relevant management consulting and industry experience, with most of my career dedicated to the power and utilities sectors.

Q. Please summarize your educational background.

A. I received a Bachelor of Arts degree in physics with honors from Harvard College, as well as a Master of Business Administration in finance and economics from the University of Chicago Booth School of Business.

Q. Have you previously testified before the New Hampshire Public Utilities Commission?

A. Yes, I have previously testified before the New Hampshire Public Utilities Commission (the "Commission") in numerous proceedings, including Docket No. DE 11-250 (Investigation of Merrimack Station Scrubber Project and Cost Recovery); Docket No. DE 13-274 (2014 Stranded Cost Recovery Charge Rate Change); Docket No. DE 13-275 (2014 Default Energy Service Rate Change); Docket No. DE 13-108 (Reconciliation of

Energy Service and Stranded Costs for Calendar Year 2012); Docket DE 14-238 (2015 Public Service Company of New Hampshire Restructuring and Rate Stabilization Agreement); Docket No. DE 15-464 (Lease Agreement Between Public Service Company of New Hampshire and Northern Pass Transmission); Docket No. DE 16-693 (Public Service Company of New Hampshire Power Purchase Agreement with Hydro-Renewable Resources); Docket No. DE 17-096 (Petition for Finding of Fact and Issuance of Financial Order); Docket No. DE 17-105 (Sale of Wyman 4 Interest); and Docket No. DE 17-124 (sale of generating assets).

Q. Mr. Dixon, please state your name, position and business address.

A. My name is Troy M. Dixon and I am employed by Eversource Energy Service Company as the Director of Revenue Requirements. My business address is 107 Selden Street, Berlin, Connecticut 06037.

Q. What are your principal responsibilities in this position?

A. As Director of Revenue Requirements, I am responsible for the preparation and presentation of distribution rate cases and various other regulatory filings.

Q. Please summarize your professional experience.

A. In 2003, I accepted a position with Aquarion Water Company of Connecticut ("AWC-CT") as Regulatory Compliance Specialist. Through 2009, I worked for AWC-CT in various roles with increasing responsibility. In October 2009, I was promoted to Director of Rates and Regulation for AWC-CT where I was responsible for the preparation and presentation of distribution rate cases and other various regulatory filings. In March 2018, I transitioned to my current position.

Q. Please summarize your educational background.

A. I received a Bachelor of Arts degree in economics and accounting from the College of the Holy Cross in Worcester, Massachusetts. I also have a Master of Business Administration from New York University's Stern School of Business.

Q. Have you previously testified before the Commission?

A. Yes, I have previously testified before the Commission in various proceedings for Aquarion Water Company of New Hampshire Inc. ("AWC-NH") in Dockets DW 08-098 and DW 12-085, which were the most recent rate cases for AWC-NH. I also testified in Dockets DW 10-293, DW 11-238, DW 12-325, DW 13-314, DW 14-300, and DW 16-828, which were Water Infrastructure and Conservation Adjustment filings for AWC-NH.

Q. What is the purpose of your testimony as it relates to the Company's request for temporary rates?

A. We developed this joint testimony on behalf of PSNH, to support the Company's request for the Commission to set new distribution rates effective July 1, 2019, as temporary rates pursuant to RSA 378:27. The Company's most recent rate case was submitted in 2009 in Docket No. DE 09-035, using a 2008 test year. In the intervening decade, the Company has made sizeable capital investments in distribution infrastructure to continue to provide customers with safe and reliable service. The Company has also invested substantial resources in the expansion of vegetation management work to further improve the reliability and resiliency of the distribution system and incurred costs to efficiently and safely restore power to customers following several major storm events in 2017 and 2018. As a result, the Company is experiencing a significant and unsustainable shortfall between operating revenues generated by current rates and operating costs, thus making it necessary to submit this application for temporary rate relief.

Specifically, our testimony is designed to: (1) explain why the Company is requesting authority to implement new rates effective July 1, 2019, as temporary rates; (2) describe the projected change to distribution rates that would occur on July 1, 2019, which is partially offset by the refund of the 2018 regulatory liability related to the federal Tax Cuts and Jobs Act of 2017 ("TCJA"); (3) provide the supporting distribution revenue requirements calculation for temporary distribution rates; and (4) explain the adjustments incorporated into the Company's distribution revenue requirement calculation.

This application will be followed by a request for a permanent rate increase during the pendency of the temporary rate request. The Company expects to file its application for approval of a permanent rate change on or about May 28, 2019.

Q. Are you presenting any schedules in addition to your testimony?

A. Yes, we are presenting the following attachments and schedules in support of the Company's petition:

Attachment Designation	Schedule Designation	Purpose/Description
Attachment EHC/TMD-2 (Temp)	Schedule EHC/TMD-1 (Temp)	Overall Financial Summary
	Schedule EHC/TMD-2 (Temp)	Computation of Gross Revenue Conversion Factor
	Schedule EHC/TMD-3 (Temp)	Revenue Requirement
	Schedule EHC/TMD-4 (Temp)	Operating Revenue Summary
	Schedule EHC/TMD-5 (Temp)	Summary of Proposed Utility Adjustments
	Schedule EHC/TMD-20 (Temp)	Vegetation Management
	Schedule EHC/TMD-30 (Temp)	Amortization of Deferred Assets
	Schedule EHC/TMD-36 (Temp)	Rate Base and Return on Rate Base
	Schedule EHC/TMD-37 (Temp)	Plant in Service by Major Property Grouping
	Schedule EHC/TMD-38 (Temp)	Depreciation Reserve
	Schedule EHC/TMD-40 (Temp)	Cost of Capital
	Schedule EHC/TMD-41 (Temp)	Cash Working Capital
Attachment EHC/TMD-3 (Temp)	Schedule EHC/TMD-1 (Temp)	Support for Vegetation Management Adjustment
	Schedule EHC/TMD-2 (Temp)	Support for Storm Recovery Adjustment
	Schedule EHC/TMD-3 (Temp)	Support for Deferred Tax Benefit Adjustment
	Schedule EHC/TMD-4 (Temp)	Support for Property Tax (Town of Bow) Adjustment
	Schedule EHC/TMD-5 (Temp)	Support for Regulatory Assessment Adjustment
Attachment EHC/TMD-4 (Temp)	Schedule EHC/TMD-1 (Temp)	2018 FERC Form 1 (Annual)
	Schedule EHC/TMD-2 (Temp)	PSNH d/b/a Eversource 2018 4Q NHPUC Form F-1
	Schedule EHC/TMD-3 (Temp)	NH & Federal Income Tax Factors
	Schedule EHC/TMD-4 (Temp)	Advertising – Above the Line $2,500 or more
	Schedule EHC/TMD-5 (Temp)	Trial Balances as of 12/31/2018
	Schedule EHC/TMD-6 (Temp)	Membership Fees/Dues/Lobbying/Donations – Above the Line
	Schedule EHC/TMD-7 (Temp)	Contractual Services > 100,000
	Schedule EHC/TMD-8 (Temp)	Quarterly Sales Volumes – 2013 -2018
	Schedule EHC/TMD-9 (Temp)	Outstanding Short-Term Debt

II. NEED FOR TEMPORARY RATE RELIEF

Q. Can you please summarize the reasons for the Company's request for temporary rate relief at this time?

A. PSNH is requesting authority to implement temporary rates effective July 1, 2019. As shown in Figure 1 below, PNSH's request for temporary rate relief is driven by three primary factors:

1. The revenue deficiency created by the difference between the capital investments made since the Company's last rate case and the current level of base-rate revenue allowed in distribution rates;
2. The need to adjust rates to reclassify certain vegetation management costs pursuant to the Commission's directives; and
3. The need to recover significant deferred storm costs.

This request for temporary rate relief also credits customers with the benefit of the tax savings accrued as a result of the income-tax rate changes taking effect under the TCJA.

Figure 1. Primary Drivers of the Request for Temporary Rate Relief

Driver	Amount
Per-book Distribution Revenue Deficiency	$12 million
Request for Temporary Rate Relief:	
Vegetation Management Reclassification	+$18 million
Storm Balance Amortization	+$15 million
TCJA Customer Credit for 2018 Savings	-$12 million
Total Net Deficiency	**$33 million**

The Company has incorporated certain normalizing adjustments in the cost of service for non-recurring items that are described more fully below; however, in the aggregate, these adjustments do not materially change the Company's overall requested revenue deficiency of $33 million.

Q. Please discuss the capital investments that are driving the Company's request for temporary rate relief.

A. As noted above, the principal driver of the Company's request for temporary rate relief is to allow for the recovery of the cost of significant electric distribution system investments implemented since the Company's last rate case, which are not offset by higher revenue. The current level of base-rate revenue is insufficient to support utility operations without impairing the integrity of the Company's financial operations, as demonstrated by the financial results of the Company in the test year (twelve months ended December 31, 2018). If the deficiency is not addressed, the Company will experience additional financial degradation during the course of the Commission's review of the upcoming permanent rate request.

In Docket No. DE 09-035 (the "2009 Rate Case"), the Commission granted PSNH a temporary rate increase and a permanent rate increase effective August 1, 2009 and July 1, 2010 respectively. The final approved rates included an allowed distribution Return on Equity ("ROE") of 9.67 percent and were based on a 2008 test year, as adjusted by decision of the Commission. Since that time, the Company's base distribution rates have remained relatively flat, except for a few specified changes, namely: (1) Commission-authorized step increases to allow recovery for a portion of the Company's capital additions completed through March 2013; changes in the storm reserve, inclusion of approved Reliability Enhancement Program ("REP") investments since the 2009 Rate Case; and, approved recovery of Commission assessment changes and consultant costs. In addition, as part of the 2015 Restructuring and Rate Stabilization Agreement, PSNH agreed to refrain from filing a base distribution rate case until at least the middle of 2017.[1] Thus, the Company's customers have experienced a relatively long period of steady distribution rates over the past 10 years, which is beneficial to them. However, the Company is now in the position that it needs to address a growing revenue deficiency.

In this 10-year interval, PSNH has continued to invest in the distribution system to replace aging infrastructure and maintain and improve service reliability and the resiliency of the electric grid. As shown in Figure 2 below, the Company's plant additions in the intervening decade since the 2009 Rate Case have been significant, resulting in substantial growth in distribution plant in service.

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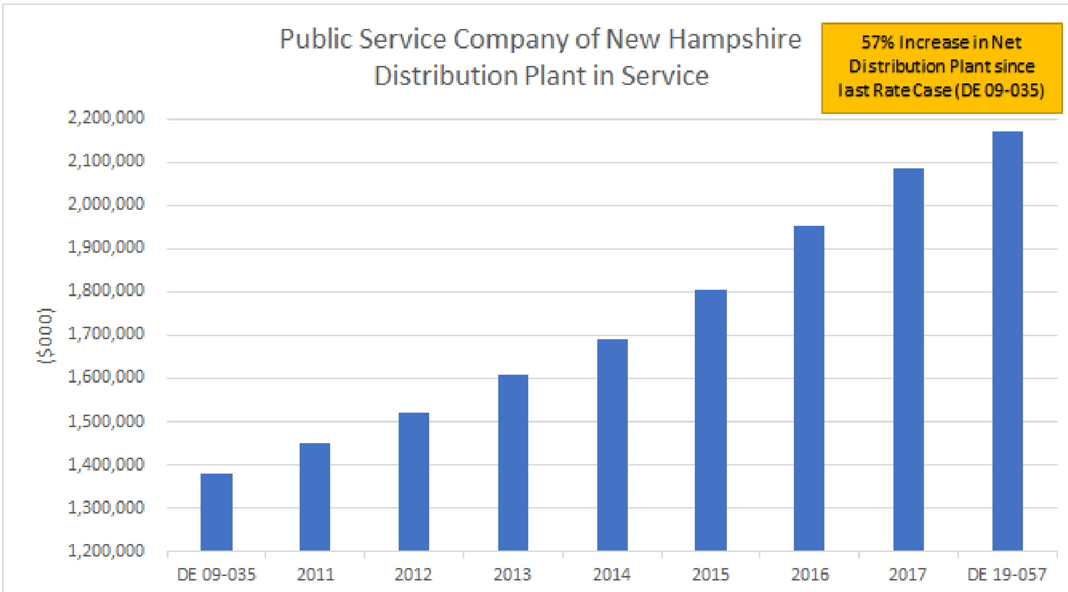
1 *See* Order No. 25,920 (July 1, 2016) at 39.

Figure 2. Gross Distribution Plant in Service



Q. Would you please describe the basis of the distribution rates resulting from the 2009 Rate Case in more detail?

A. Yes. The Settlement Agreement approved by the Commission in the 2009 Rate Case set new distribution rates and permitted the Company to adjust those rates to recover increased rate base from the December 31, 2008 (test year-end) to December 31, 2009, while also allowing for other adjustments to reflect changes in plant during the first quarter of 2010.[2] In addition, the Commission approved a methodology to allow recovery through annual step increases of 80 percent of the costs of non-REP plant added between April 2010 and

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[2] *See* Order No. 25,123 (June 28, 2010) at 6, 30-31.

March 2013, as well as investments associated with the REP.[3] However, even with these provisions allowing for more timely recovery of plant in service, the unrecovered amounts from April 2010 through March 2013 (20 percent of total non-REP plant costs) and between April 2013 and December 31, 2018 (100 percent of total non-REP plant costs), are considerable. As the Company's rate base has increased over time, the level of rate recovery allowed in the 2009 Rate Case as adjusted through the annual step increases has become increasingly outmatched.

The Company's ongoing investment to upgrade distribution infrastructure to improve reliability and resiliency has resulted in a marked degradation of the Company's earned rate of return. As of December 31, 2018, the distribution ROE for PSNH, as reported to the Commission, was 7.72 percent, which is below industry standards for a fair and reasonable return, and well below the ROE of 9.67 percent authorized by the Commission in the 2009 Rate Case.

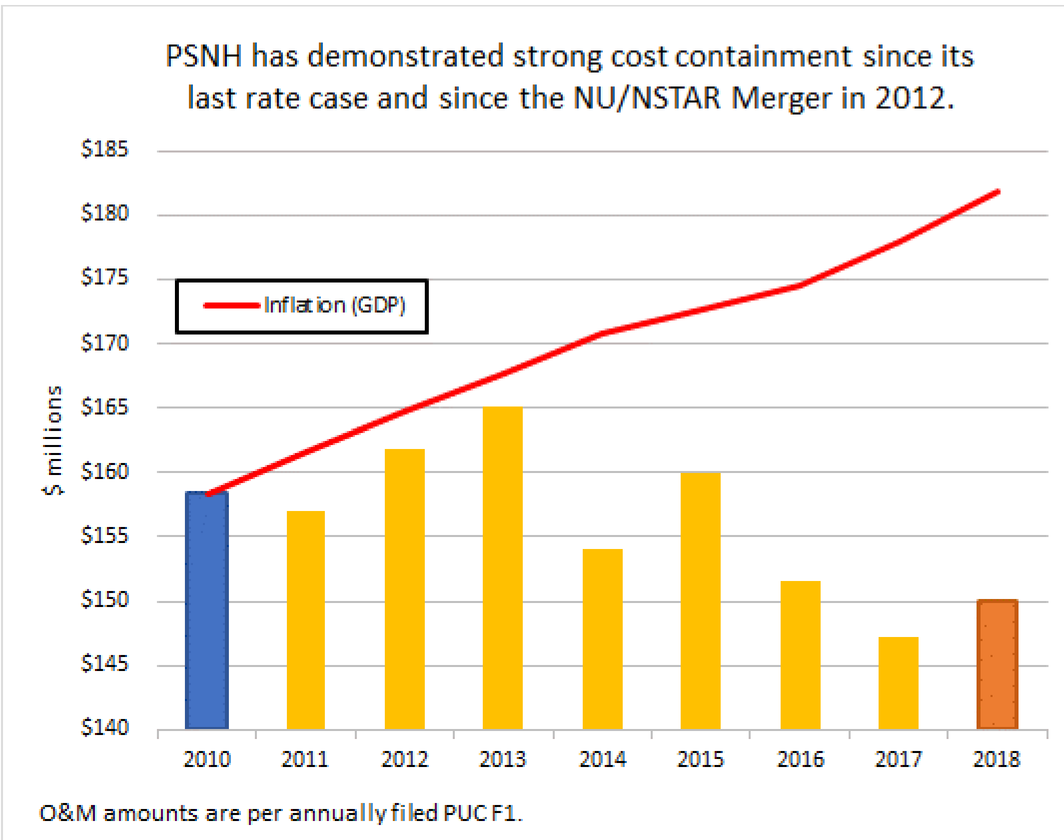
Q. Has the Company taken steps to control operations and maintenance expense to offset the need for a base-rate case?

A. Yes. As discussed in more detail in Mr. Quinlan's testimony, the Company has worked hard to control operations and maintenance ("O&M") expense, so that O&M costs have

[3] *Id*. at 6-7 ("The settlement agreement also calls for a series of step increases for effect on each July 1 in 2011, 2012 and 2013. These step increases are intended to account for a return on additions to the Company's net plant as well as a return on capital additions resulting from the Company's REP-related activities. As regards the non-REP items, under the settlement agreement, by April 30 of 2011, 2012, and 2013, the Company must file documentation demonstrating the change in its net plant between April 1 of the prior year and March 31 of the current year.") (citations omitted).

remained relatively flat over the past several years. As shown in Figure 3 below, the level of O&M experienced in the test year ending December 31, 2018 is $32 million **less** than in 2010, adjusted for inflation.

Figure 3. Total O&M Expense[4]

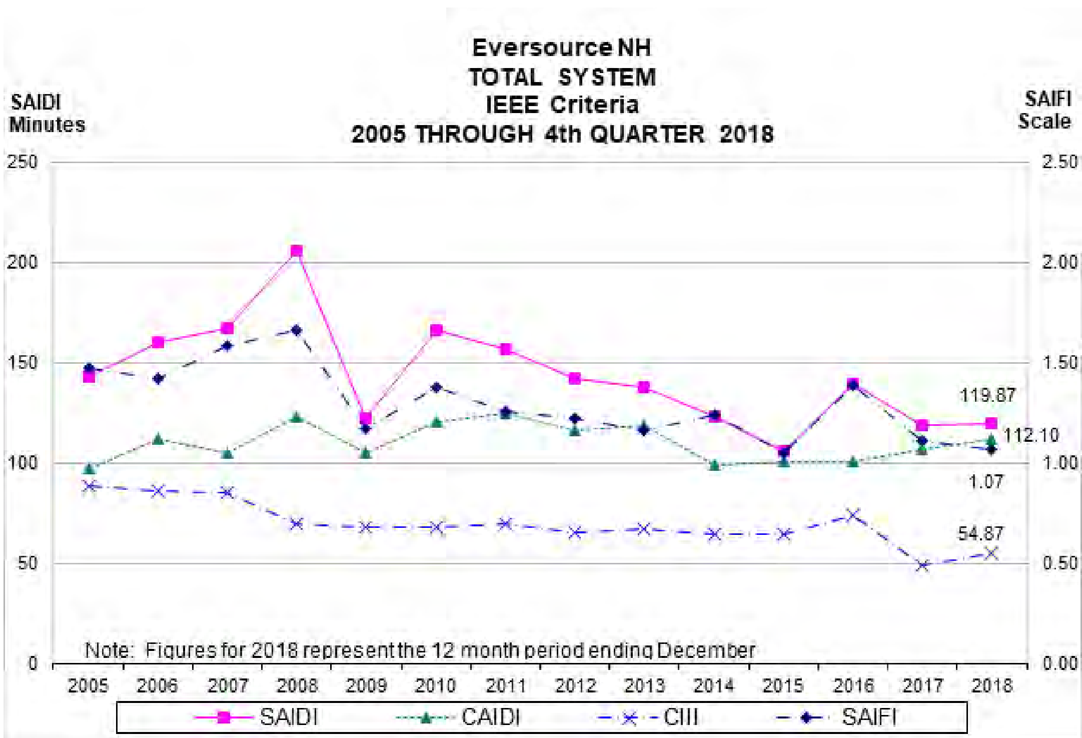


[4] The 2018 amount of $149,976,022 charted in Figure 3 above is shown in Attachment EHC/TMD-2, Schedule EHC/TMD-5, page 1 of 6, line 29, Column (B).

Q. Has the Company maintained the reliability of the electric distribution system while controlling O&M costs?

Yes. For over a decade, the Company has made targeted investments through its REP to deliver tangible benefits in reduced frequency and duration of outages to the Company's customers. As illustrated in Figure 4 below, and discussed in more detail in Mr. Quinlan's testimony, there has been a steady decline in the number of outages and the amount of time the typical customer is without power.[5]

Figure 4. Reliability Metrics



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5 The unusually large number of storms in 2016 led to an increase in System Average Interruption Duration Index ("SAIDI") in that year, but the overall trend since the start of the REP program has shown sustained improvement.

Q. Has the Company quantified the revenue deficiency that existed in the test year, as compared to the authorized ROE?

A. Yes. Calculated on the basis of the difference between actual financial results and the authorized ROE of 9.67 percent, the unadjusted test-year revenue deficiency is approximately $24 million.[6] This revenue deficiency is derived by comparing the 2018 earned rate of return of 5.67 percent[7] to the 2018 allowed rate of return of 7.08 percent, calculated at the Commission-approved ROE for PSNH of 9.67 percent.[8] This revenue deficiency is even greater once known and measurable cost increases beyond the test year are factored into the distribution system cost structure and associated revenue requirement. As a result, the Company's financial situation is not sustainable, compelling the Company to seek rate relief so that there are sufficient revenues to support utility operation and continued investment in the safe and reliable operation of the system.

Q. Please summarize the other factors driving the need for this rate case.

A. In addition to temporarily addressing the existing revenue deficiency for the core distribution operations, the Company's request for temporary rate relief is designed to address two discrete cost items that are also putting pressure on the Company's financial situation. These two cost items are: (1) vegetation management expense incurred to maintain and improve the reliability and resiliency of the distribution system, but not included in currently effective distribution rates; and (2) the recovery of costs incurred to

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6 Attachment EHC/TMD-2 (Temp), Schedule EHC/TMD-1 (Temp), line 31.

7 Attachment EHC/TMD-2 (Temp), Schedule EHC/TMD-1 (Temp), line 21.

8 Attachment EHC/TMD-2 (Temp), Schedule EHC/TMD-40 (Temp).

restore power that are primarily associated with extraordinary weather events occurring in 2017 and 2018. These two cost items are substantial in magnitude and are not currently recovered through customer rates, and therefore are having a negative impact on the Company's financial situation.

In addition, consistent with commitments made at the time that funding for the 2019 REP was extended in December 2018, the Company is proposing temporary rates that include a customer credit to offset the impact of including vegetation management expense in the temporary rate change. The Company's temporary rate proposal includes a one-time reduction in revenue requirement reflecting the benefit of the tax savings accrued as a result of the change in the tax gross-up under the TCJA from the period January 1, 2018 through June 30, 2019. This one-time adjustment will be credited in customer rates over one year (July 2019 through June 2020) and is reflected on Attachment EHC/TMD-2 (Temp), Schedule EHC/TMD-1 (Temp), line 33, with detailed support provided on Attachment EHC/TMD-2 (Temp), Schedule EHC/TMD-1 (Temp), page 2. Going forward, once new base distribution rates are established as part of this proceeding, the prospective rates will be established at the currently effective tax rates, such that new rates will fully reflect the benefit of the TCJA going forward.

A. Recovery of Vegetation Management Expense Offset by the TCJA Credit

Q. Please discuss the Company's proposal with respect to the recovery of vegetation management expense in the temporary rates and the offsetting TCJA credit.

A. On November 16, 2018, the Company submitted a proposal to the Commission requesting authorization to extend operation of the REP through 2019, until the effective date of new rates in a rate-case filing to be made in 2019.[9] This proposal was submitted to the Commission in accordance with findings and directives set forth in the Commission's Order No. 26,112.[10] Among other elements, the Company's November 16, 2018 proposal requested that the costs associated with enhanced tree trimming ("ETT"), hazard tree removal and full-width right-of-way clearing totaling $16.8 million be treated as expense items rather than capitalized costs going forward within the REP.[11]

In addition, the Company proposed that it would offset the rate impact of the 2019 REP program by the deferred benefits attributable to the change in the tax gross-up under the TCJA that have accrued since January 1, 2018. The Company committed to filing for a comprehensive rate review in 2019, using calendar year 2018 as the test year.[12] On December 28, 2018, the Commission approved the Company's proposal to continue

[9] November 16, 2018 Technical Statement of Robert Allen, Joseph Purington and Christopher Goulding, Bates Page 10, in Docket No. DE 18-177.

[10] Order provided in Attachment EHC/TMD-3 (Temp), Schedule EHC/TMD-1 (Temp).

[11] Order No. 26,112 (March 12, 2018) at 5 ("We approve the accounting changes proposed for effect after 2018 that remove certain expenditures from capital expense."); November 16, 2018 Technical Statement of Robert Allen, Joseph Purington and Christopher Goulding, Bates Pages 10, 13, in Docket No. DE 18-177 (proposing a REP consisting entirely of O&M activities with $16.8 million for vegetation management). The Company also requested "continuation of the present level of funding for the troubleshooter program at $2 million for 2019, and proposed adjustments to account for changes in the Commission's assessment, recovery of consultant costs, and removal of a credit for a prior over-collection." Order No. 26,206 (Dec. 28, 2018) at 2, provided in Attachment EHC/TMD-3 (Temp), Schedule EHC/TMD-1 (Temp).

[12] November 16, 2018 Petition for Continuation of Reliability Enhancement Program, Bates Pages 2 and 7, in Docket No. DE 18-177.

funding REP activities for 2019.[13]

As a result, and consistent with the Company's proposal approved by the Commission, the Company has continued funding the REP activities for 2019 at a level of approximately \$16.8 million in annual expense and has established a regulatory asset associated with the actual 2019 expense activity associated with this program. At the same time, the Company has established a regulatory liability as a result of the change in the tax gross-up under the TCJA at a rate of approximately \$1 million per month starting in January 2018. The Company has incorporated both the regulatory asset associated with 2019 REP activity as well as the regulatory liability associated with 2018 and 2019 deferred tax benefit into its request for temporary rate relief in this proceeding, as shown in Attachment EHC/TMD-2, Schedule EHC/TMD-1, page 2 of 2.

Q. Please provide additional background on the benefits attributable to the TCJA.

A. The tax benefits attributable to the TCJA occurred as a result of the Company's proposal made in compliance with the Commission's *Investigation to Determine Rate Effects of Federal and State Corporate Tax Reductions*, Order No. 26,096 (January 3, 2018). In that decision, the Commission directed the Company to file a proposal addressing the effects of the TCJA. There are two main drivers of rate reductions resulting from the TCJA: (1) reduced annual tax expense to be reflected in rates as a result of the reduction in the federal

[13] Order No. 26,206 (Dec. 28, 2018) at 4-5, provided in Attachment EHC/TMD-3 (Temp), Schedule EHC/TMD-1 (Temp).

income tax rate from 35 percent to 21 percent (the change in tax gross up), and (2) an excess deferred income tax ("EDIT") balance, which results in a credit to customers over time as the EDIT 'turns around' over the depreciable lives of the underlying assets. In Docket No. DE 18-049, the Company provided a calculation of the change in annual tax expense reflected in the cost of service (i.e., the change in the tax gross-up) associated with the TCJA, for which the Company estimated a monthly deferred tax benefit amount of $1.023 million.[14] In that proceeding, the Company also provided a preliminary estimate of the EDIT arising as a result of the TCJA.

In Order No. 26,177, the Commission directed the Company to:

> [A]ddress the rate effects of the tax reductions by March 31, 2019, and request a rate for effect July 1, 2019, that is designed to provide customers with the full benefit of the tax reductions when Eversource files its certification of 2018 Exogenous Events, if, by that time, Eversource has not already done so in a rate case filing.[15]

Consistent with the Company's commitments in Docket No. DE 18-177, and as discussed in more detail herein, this request for temporary rate relief includes recovery of the deferred REP-related vegetation management expense incurred between January 1, 2019 and June 30, 2019 of approximately $7 million, which is being offset by the return to customers of the regulatory liability associated with change in annual tax gross up reflected in the cost

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[14] March 30, 2018 Technical Statement of Christopher J. Goulding, Attachment CJG-1, Bates Page 5, in Docket No. DE 18-049.

[15] Order No. 26,177 (Sept. 27, 2018) at 1, *provided as* Attachment EHC/TMD-3 (Temp), Schedule EHC/TMD-3 (Temp).

of service resulting from the TCJA totaling approximately $19 million.[16] This results in a net credit of $11,993,902 to be returned to customers over one year.

Consistent with the Commission's requirements in Order No. 26,177, the Company plans to address the treatment of EDIT in its permanent rate filing, which is expected to be filed on or about May 28, 2019.[17]

B. Storm Cost Recovery

Q. Please summarize the unrecovered storm costs driving the need for an adjustment.

A. Pursuant to Order No. 25,534 (June 27, 2013), the Company's Major Storm Cost Reserve ("MSCR") is currently funded at $12 million annually. In 2017 and 2018, the region experienced severe storm activity and the Company's pre-staging and restoration costs far exceeded the annual funding level of the MSCR. Consequently, as of end of the test year, the Company experienced a shortfall of approximately $68.5 million in unrecovered storm costs.[18] This shortfall is significant, making it necessary and advisable for the Commission to commence recovery from customers given that additional storms may occur. Commencement of recovery will help to avoid an unreasonably burdensome layering of storm costs over time. Therefore, to address this shortfall, the Company is proposing to

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16 Attachment EHC/TMD-2 (Temp), Schedule EHC/TMD-1 (Temp), page 2.

17 *Id*. at 10.

18 *See* Secretary Letter Recovery of Storm Expenses, DE 18-058 (March 26, 2019) (granting recovery of storm costs for December 2013 to April 2016); Petition for Recovery of Storm Expenses, DE 19-050 (filed March 19, 2019) (addressing storm costs between July 2016 and December 2017; currently being audited by Commission); Petition for Recovery of Storm Expenses Between January 2018 to December 2018 (The Company expects to file this on June 1, 2019 for Commission audit). *See also* Attachment EHC/TMD-3 (Temp), Schedule EHC/TMD-2 (Temp) for additional detail.

commence recovery of this deficit, including carrying charges at the previously approved stipulated rate of return, over a five-year period commencing July 1, 2019. The details of this proposed adjustment are provided in Section IV below.

III. SUMMARY OF REVENUE REQUIREMENT ANALYSIS

Q. Please provide an overview of the attachments and schedules accompanying your testimony.

A. We have provided three attachments as part of our testimony:

- Attachment EHC/TMD-2 (Temp) includes the revenue requirement schedules for the temporary rate review. The Company has limited the revenue requirement schedules to those necessary to support the Commission's investigation of the Company's request for temporary rate relief. The Company will provide the additional schedules necessary to support a full rate case filing when it submits its proposal for permanent rates on or about May 28, 2019.
- Attachment EHC/TMD-3 (Temp) includes supporting documentation for the material adjustments to the proposed cost of service in Attachment EHC/TMD-2 (Temp) that are described in further detail below.
- Attachment EHC/TMD-4 (Temp) contains additional reference documents provided to facilitate the Commission's review of the Company's temporary cost of service presented in this proceeding.

As noted above, the Company will seek authorization for new permanent rates in an application to be submitted on or about May 28, 2019. That request will be supported by all of the information required by the Commission's rules, including a comprehensive presentation of testimony and exhibits demonstrating the need for permanent rate relief, as well as the Commission's Standard Filing Requirements that must accompany such a request.

Q. What is the test year period that PSNH used for its revenue requirement analysis?

A. The test year period used for the revenue requirement analysis is the 12-month period ended December 31, 2018 ("Test Year").

Q. Would you please summarize the Company's distribution cost of service and resulting revenue requirement?

A. Attachment EHC/TMD-2 (Temp), Schedule EHC-3 (Temp) presents the Company's Revenue Requirement Summary, computing a total cost of service of $410,714,170. The Company has calculated a distribution revenue deficiency of $45,091,934 based on adjusted Test Year revenues of $365,622,236. The computation of the revenue deficiency reflects total rate base of $1,219,366,601 and assumes a weighted cost of capital of 7.08 percent.

In addition, this distribution revenue deficiency includes the material items referenced above: (1) a base distribution revenue deficiency of $24 million; (2) an increase in annual vegetation management expense of $18 million; (3) amortization of the unrecovered storm cost balance of $68.5 million as of December 31, 2018, or $15 million per year; (4) all being offset by an increase in revenues of approximately $12 million, which has the effect of lowering the distribution revenue deficiency to $45 million.

The $12 million normalizing adjustment to revenues is necessary because, during the test year, the Company recorded a regulatory liability of $12 million associated with the TCJA as a reduction to revenue in account 449 (Provision for Rate Refunds), as shown on Attachment EHC/TMD-2 (Temp), Schedule EHC/TMD-4 (Temp), line 39, Column (E). As noted above and shown on Attachment EHC/TMD-2 (Temp), Schedule EHC/TMD-1 (Temp), the Company is applying the net refund of federal income-tax savings associated with the TCJA/2019 Vegetation Management costs totaling approximately $12 million, which reduces the requested distribution revenue deficiency to $33,098,032.

Q. Why is the Company proposing normalizing adjustments to the cost of service in this filing?

A. Although the Company relies substantially on unadjusted 2018 test year data in the development of the cost of service, it is important to make normalizing adjustments to the cost of service. One reason is that included in any representative test year are cost or revenue elements that are non-recurring, out-of-period, or otherwise not appropriate to be reflected in the revenue requirement. Similarly, to the extent that the test year excludes certain known-and-measurable cost or revenue elements that are understood to be incurred on a continuing basis, those elements are appropriate for inclusion in the revenue requirement.

Q. Please describe the process for identifying normalizing adjustments.

A. In order to remove out-of-period or non-recurring items from the test year level of expense activity, the Company performed a detailed review of account activity to normalize out-of-period or non-recurring activity. As a supplement to this review, the Company's Accounting Department identified any accounting entries that were recorded on PSNH's books that were "out-of-period," meaning the entries were booked during the Test Year but are related to a different time period. In addition, the Company's Accounting Department identified entries that were recorded outside of the 12-month test year but that should have been recorded within the Test Year. This exercise has resulted in the Company's proposal for an adjusted test year that is reflected in the various schedules of Attachment EHC/TMD-2 (Temp). As described elsewhere in this joint testimony, a limited number of adjustments are included in Temporary Rates, with the remainder to be proposed as part of Permanent Rates.

Q. Did the Company make any adjustments to Test Year Operating Revenues?

A. As shown on Attachment EHC/TMD-2 (Temp), Schedule EHC/TMD-5 (Temp), page 1, line 21, Column (E), the Company made normalizing adjustments to increase operating revenues totaling $13,289,292. The largest normalizing adjustment reflected in this amount is related to the accrued regulatory liability associated with the TCJA. As discussed above, and in more detail in Section IV below, the accrued regulatory liability associated with the TCJA is equal to $12,276,000 and was recorded as a reduction to revenues during the Test Year. Because new rates resulting from this case will reflect currently prevailing income tax rates, the Company will cease to accrue this regulatory liability after new rates are set going forward. Therefore, the Company has made this normalizing adjustment to its recorded test year revenues to reverse the effect of this accounting treatment during the Test Year.

Q. Did the Company make any adjustments to Test Year O&M Expenses?

A. As shown on Attachment EHC/TMD-2 (Temp), Schedule EHC/TMD-5 (Temp), page 1, line 29, Column (E), the Company has made adjustments to O&M expenses totaling $17,941,149, which principally pertains to an increase of $16,800,000 associated with the reclassification of ETT and Hazard Tree Removal costs as O&M expense consistent with annual amounts approved for the REP in Docket No. DE 18-177.

Q. Did the Company make any adjustments to Test Year Other Operating Expenses?

A. As shown on Attachment EHC/TMD-2 (Temp), Schedule EHC/TMD-5 (Temp), page 1, line 33, Column (E), the Company made adjustments to amortizations totaling $14,746,439 to reflect certain increases and decreases to Other Operating Expenses. The primary driver of this total is a $15,512,608 increase to account for the amortization of deferred storm costs related to events through 2018.

Q. Did the Company make any adjustments to Test Year Taxes Other than Income?

A. As shown on Attachment EHC/TMD-2 (Temp), Schedule EHC/TMD-5 (Temp), page 1, line 38, Column (E), the Company made normalization adjustments totaling $3,120,992 to reflect a number of increases and decreases to Other Operating Expenses. The primary driver of this total is a $3,058,417 increase to account for the 2018 decision of the Supreme

Court of New Hampshire ("Supreme Court") upholding a tax abatement on PSNH property which is described more fully below.

Q. Please describe the indirect cost reallocation included in Attachment EHC/TMD-2 (Temp), Schedule EHC/TMD-5 (Temp), page 1, Column (C).

A. The indirect cost reallocation in Attachment EHC/TMD-2 (Temp), Schedule EHC/TMD-5 (Temp), page 1, Column (C) is a two-step process designed to provide a more simplified cost of service presentation by aligning net credits for capitalization with total direct costs from PSNH and total allocated costs from Eversource Energy Service Company related to the following six cost of service expense adjustments: (1) Employee Benefits, (2) Insurance, (3) Payroll Taxes, (4) Enterprise IT Projects Expense, (5) Enterprise IT Projects Depreciation, and (6) Lease Expense.

The first step is to reverse in total the Test Year activity recorded using cost elements ZPB (Payroll Benefit Loader) and ZGS (General Service Company Benefit Loader). The second step is to develop composite Test Year capitalization percentages for PSNH and Eversource Energy Service Company in order that the ZPB and ZGS indirect costs will follow where the actual test year PSNH and Eversource Energy Service Company employee labor was charged (i.e., either O&M or capital). When the total Test Year PSNH direct costs and Eversource Energy Service Company allocated costs (for the six expense items listed above) are multiplied by these capitalization percentages, it aligns credits for capitalization with the precise accounts where Test Year labor is charged. As shown on

Attachment EHC/TMD-2 (Temp), Schedule EHC/TMD-5 (Temp), page 1, line 49, Column (C), the net effect of this reallocation on the cost of service for ratemaking purposes is zero.

Q. Please describe how this request for temporary rates is designed to address the critical financial needs of PSNH, while minimizing rate impacts for customers.

A. PSNH has structured this request for temporary rates in a way that addresses the critical financial needs that the Company's has in relation to distribution operations, while also mitigating rate increases to customers. As noted above, the Company is confronting three financial challenges. These challenges include the need to address a worsening revenue deficiency; the need to adjust rates to reflect the impact of the Commission's decision in Docket No. DE 17-196 to reclassify ETT and Hazard Tree Removal costs as O&M expenses, rather than capital expenditures; and the need to recover deferred costs primarily associated with major storm events occurring in 2017 and 2018. It is imperative that PSNH address these needs so that its ability to continue investing in the system for the benefit of customers is maintained. However, PSNH is also sensitive to balancing the needs of the business to support operations and capital investment with the interests of customers in mitigating and/or minimizing rate impacts.

Q. Please describe the impacts that the Company's rate proposal would have on customers.

A. As discussed in more detail in the testimony of Company Witness Edward A. Davis, the proposed change in distribution rates would result in an average overall increase in total retail billed revenue of 2.2 percent. The estimated effect of the temporary rate proposal on each distribution rate class is shown below in Figure 5:

Figure 5. Estimated Effect by Class

Residential	2.9%
General Service Rate G	2.5%
Primary General Service Rate GV	1.2%
Large General Service Rate LG	0.9%
Outdoor Lighting	6.3%
Average	**2.2%**

The Company's proposal for addressing the Test Year revenue deficiency is limited to the recovery of per-book Test-Year expenses and a test-year end rate-base computation, plus the normalizing adjustments discussed in Section IV below.

IV. REVENUE REQUIREMENT ANALYSIS

Q. What adjustments have you made to the revenue requirement calculation?

A. PSNH's revenue requirement includes adjustments to Operating Revenues, O&M and Administrative and General ("A&G") Expenses, Amortization and Property Taxes. These proposed adjustments are summarized on Attachment EHC/TMD-2 (Temp), Schedule EHC/TMD-5 (Temp), page 1 and are described in detail below.

A. Operating Revenues

Q. Which schedule shows the adjustments to Operating Revenues?

A. Attachment EHC/TMD-2 (Temp), Schedule EHC/TMD-4 (Temp), page 1 shows the Test Year revenue per books in Column (B). Non-distribution revenues of ($694,676,467) that were recognized in the Test Year as distribution revenue have been removed from Test Year revenues as shown in Column (C). More specifically, as shown in lines 27 through 32, Column (C), the non-distribution revenues of ($603,842,286) that have been removed from the Test Year are recovered through other reconciling rate mechanisms established by the Commission, including transmission, Energy Efficiency, transition, retail, electric assistance program, and Energy Service. Other Revenues shown in lines 38 through 44, Column (C) totaling ($90,834,182) were also removed from Test Year revenues. Adjustments to account for the TCJA benefit and other revenues are shown in Column (E). Lastly, adjusted Test Year revenues are shown in Column (F).

Q. Please explain in more detail how the adjustment for the TCJA was derived.

A. As noted above, in Docket No. DE 18-049 the Company proposed to address the TCJA-related accrued refunds due to customers in the context of the Company's 2019 base-rate case.[19] This proceeding sets that process in motion, so that PSNH customers can realize

[19] *See* March 30, 2018 Technical Statement of Christopher J. Goulding, Bates Pages 3-4, in Docket No. DE 18-049.

the full benefits of the tax savings beginning with the effective date of temporary rates on July 1, 2019.[20]

As also noted above, in Docket No. DE 18-049, the Company estimated a monthly tax benefit due to the change in the tax gross-up of $1.023 million, which is equivalent to an annualized amount of $12.3 million.[21] As discussed previously, this amount was recorded in the Test Year as a reduction in revenues, but needs to be added back to revenues going forward because new distribution rates will properly reflect changes in Federal and State tax rates as of January 1, 2018. Accordingly, as shown on Attachment EHC/TMD-2 (Temp), Schedule EHC/TMD-4 (Temp), line 39, Column (E) the Company has increased its revenues and lowered its revenue deficiency to reverse the annual credit associated with the total TCJA benefit amount of $12.3 million.

Q. Please describe any other significant normalizing adjustments that were made to Operating Revenues.

A. As shown on Attachment EHC/TMD-2 (Temp), Schedule EHC/TMD-4 (Temp), line 40, Column (E), the Company has made an adjustment of $999,432 to account for certain late payment charges in the Test Year. More specifically, the amount of $999,432 relates to the Commission's suspension of the Company's ability to collect late-payment charges to

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20 *See* Order No. 26,177 (Sept. 27, 2018) at 1 (directing the Company to "address the rate effects of the tax reductions by March 31, 2019, and request a rate for effect July 1, 2019, that is designed to provide customers with the full benefit of the tax reductions when Eversource files its certification of 2018 Exogenous Events, if, by that time, Eversource has not already done so in a rate case filing.") *provided as* Attachment EHC/TMD-3 (Temp), Schedule EHC/TMD-3 (Temp).

21 March 30, 2018 Technical Statement of Christopher J. Goulding, Attachment CJG-1, Bates Page 5, in Docket No. DE 18-049.

customers who pay their bills by mail in Docket No. DE 17-171.[22] After making the transition to a payment processing vendor located in Boston, Massachusetts, the Company made a filing on December 13, 2018, requesting an amendment to its tariff to reinstitute late payment charges. On January 24, 2019, the Commission approved the Company's proposed tariff changes.[23] Therefore, the Company has included a normalizing adjustment to increase Test Year revenues in the amount of $999,432 to reflect a representative amount that would have been billed for late charges in the Test Year, calculated using a historical, three-year average. This has the effect of lowering the revenue deficiency associated with the temporary rate request in this proceeding by the same amount.

B. Adjustments to O&M Expense

Q. What is the amount of per-book Test Year O&M Expense?

A. In the Test Year, the Company incurred $144,859,395 in O&M Expense, as shown on Attachment EHC/TMD-2 (Temp), Schedule EHC/TMD-5 (Temp), page 2, line 46, Column (B).

Q. Has the Company removed non-distribution expenses, such as those associated with power production and transmission expenses?

A. Yes. Non-distribution expenses are removed as shown in Attachment EHC/TMD-2 (Temp), Schedule EHC/TMD-5 (Temp), page 3, Column (D). Additional details supporting Column D are provided on Schedule EHC/TMD-5 (Temp), page 5. As shown

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22 *See* Order No. 26,110 (March 7, 2018).

23 Secretary Letter Approving Tariff Changes, DE 17-171 (Jan. 24, 2019).

on page 5, the Company has removed expenses recovered through other rate mechanisms established by the Commission, including default service, transition, energy efficiency, electric assistance program, transmission and generation charges.

Q. Please describe the normalizing adjustments to O&M Expense included in Schedule EHC-5 (Temp), page 2.

A. The normalizing adjustments presented on Attachment EHC/TMD-2 (Temp), Schedule EHC/TMD-5 (Temp), page 2, line 46, Column (E), result in a net increase to Test Year O&M Expense of $17,941,149. This net increase is primarily driven by one item, which is $18,013,743 for vegetation management expense.

Q. Please provide more detail with respect to the normalizing adjustment to account for vegetation management expense.

A. As discussed above, in Docket No. DE 18-177, the Commission authorized the continuation of the Company's REP for calendar year 2019 in a manner that accounted for certain changes in tree maintenance activities and the continuation of the Company's Troubleshooter program. As described therein, the Company estimated the continuation of the REP to require an incremental annual revenue requirement of $16,800,000 in 2019.[24] As approved, that deficiency was to be deferred until July 1, 2019, and was to be offset by a portion of the customer tax benefit to mitigate any rate change at that time.[25] As shown

[24] *See* November 16, 2018 Technical Statement of Christopher J. Goulding, Bates page 13, in Docket No. DE 18-177.

[25] *See* Order No. 26,206 (December 28, 2018) at 4-5, provided in Attachment EHC/TMD-3 (Temp), Schedule EHC/TMD-1 (Temp).

on Attachment EHC/TMD-2 (Temp), Schedule EHC/TMD-20 (Temp), page 2, line 32, the Company has adjusted O&M expenses by $16,800,00 to account for the reclassification of vegetation management costs from capital to O&M expense. Additional support for this adjustment is provided in Attachment EHC/TMD-3 (Temp), Schedule EHC/TMD-1 (Temp).

In addition, as shown on Attachment EHC/TMD-2 (Temp), Schedule EHC/TMD-20 (Temp), page 2, line 21, the Company has made an adjustment of $1,213,743 to account for tree-trimming services that the Company performs on behalf of a third-party pole owner. These services are critical to maintain the reliability of the electric distribution system. The amount of $1,213,743 is an actual expense incurred in the Test Year and represents the balance of billings to the third-party pole owner that currently remain unpaid.

Q. Please describe any other significant normalizing adjustments that were made to O&M Expense.

A. The Company has made additional normalizing adjustment to O&M Expense as itemized on Attachment EHC/TMD-2 (Temp), Schedule EHC/TMD-5 (Temp), page 6. The Company has discussed the most material adjustments elsewhere in this testimony, including the amortization of unrecovered storm costs as of December 2018 (line 19), the revenue adjustment related to the TCJA (line 27), and the Vegetation Management expense adjustment (lines 39 and 40). The most significant of the remaining normalizing adjustments are summarized as follows:

- As shown on Attachment EHC/TMD-2 (Temp), Schedule EHC/TMD-5 (Temp), page 6, line 75, the Company made an adjustment of ($724,870) to reduce expenses to reflect actual amounts invoiced by the Commission for Fiscal Year ("FY") 2019 regulatory assessments. More specifically the reduction of ($724,870) reflects the difference between the amount booked for regulatory assessments in the Test Year of $5,501,189 and the actual invoiced amount in FY 2019 of $4,776,319. The Commission's invoice for regulatory assessments for FY 2019 is provided in Attachment EHC/TMD-3 (Temp), Schedule EHC/TMD-5 (Temp).

- As shown on Attachment EHC/TMD-2 (Temp), Schedule EHC/TMD-5 (Temp), page 6, line 62, the Company made an adjustment of ($760,111) to reduce expenses to remove certain non-recurring consulting costs for which the Company is not requesting recovery in this proceeding.

- As shown on Attachment EHC/TMD-2 (Temp), Schedule EHC/TMD-5 (Temp), page 6, line 54, the Company made a normalizing adjustment of $547,623 to account for a credit related to Test Year employee overhead expenses. Specifically, the Company uses a historical rate (developed based on prior year actual experience) to allocate non-productive time (i.e., vacation, sick time, jury duty, etc.) to where an employee's productive time was charged (e.g., O&M, capital, etc.). Since the rate used to allocate non-productive time was based on historical data, it did not match the actual Test Year non-productive amounts. The discrepancy caused by using a historical rate versus actual activity caused a net credit in Account 920 in the amount of ($547,623). In order to resolve this discrepancy, the Company is adding back this net credit as a normalizing adjustment to bring the Test Year balance in this account back to zero, or what a normal Test Year would reflect.

- As shown on Attachment EHC/TMD-2 (Temp), Schedule EHC/TMD-5 (Temp), page 6, line 77, the Company made an adjustment of $351,238 to reclassify interest charged on customer deposits from FERC Account 431 to FERC Account 930. Customer deposits are shown as a liability on a utility's balance sheet and represent a source of non-investor supplied capital. As explained in the NARUC Rate Case and Audit Manual ("NARUC Manual"), customer deposits are generally treated in one of three ways:

> The first method does not reduce rate base by the customer deposits balance and classifies any interest accrued or paid on those deposits as a below-the-line (or non-operating) expense.
>
> The second method reduces rate base by the customer deposits balance, and classifies any interest accrued or paid on those deposits as an above-the-line (or operating) expense that is included in the revenue requirement computation.
>
> The third method includes the liability for customer deposits in the utility's capital structure at a zero cost, reducing the overall rate of return.[26]

[26] *Rate Case and Audit Manual*, NARUC Staff Subcommittee on Accounting and Finance at 21 (2003), *available at* http://regulationbodyofknowledge.org/wp-content/uploads/2013/03/NARUC_Rate_Case_and.pdf.

The Company employs the second method described in the NARUC Manual. Therefore, the adjustment in the amount of $351,238 is necessary to reflect the fact that the Company reduces rate base by the customer deposits balance, and classifies any interest accrued or paid on those deposits as an expense that is included in the revenue requirement.

- As shown on Attachment EHCTMD-2 (Temp), Schedule EHC/TMD-5 (Temp), page 6, line 48, the Company made an adjustment of $315,000 to add back out-of-period (2017) customer service costs—meaning the entry was booked during the Test Year but related to a different time period. The Company's Accounting Department identified this adjustment as part of its comprehensive review of accounting entries recorded on PSNH's books.

C. Amortization of Deferred Assets

Q. Has the Company made adjustments to the Test Year amortization expense?

A. Yes. Attachment EHC/TMD-2 (Temp), Schedule EHC/TMD-5 (Temp), page 2, line 51, Column (E) shows an increase to amortization expense of $14,746,439. The detail supporting this adjustment is provided on Attachment EHC/TMD-2, Schedule EHC/TMD-30, page 2 and shows that this net increase is primarily driven by one item, which is an increase of $15,512,608 associated with the amortization of deferred storm costs.

Q. What is the current status of unrecovered major storm costs for PSNH?

A. As of December 31, 2018, the net deficit for the Company totaled $68.5 million.[27] The current annual storm funding collected in distribution rates is $12 million annually. This annual funding is offset against the deferred storm cost to create a net funding or a net deficit position for storms. Due primarily to significant storm activity in 2017 and 2018, the storm fund reflects a net deficit position of $68.5 million as of December 31, 2018.

Q. Please explain how the current annual storm funding amount was established for PSNH.

A. The Company is allowed to defer costs attributable to pre-staging and restoration efforts associated with severe weather events. Under the settlement in Docket No. DE 99-099, PSNH established the MSCR, with annual funding of $3 million, for the purpose of covering the incremental costs associated with severe weather events. Under the settlement in Docket No. DE 09-035, PSNH was authorized to increase the funding level to $3.5 million annually. PSNH was subsequently authorized to increase the funding level to $7 million annually pursuant to Order No. 25,382 (June 27, 2012) in Docket No. DE 12-110. Order No. 25,465 in Docket No. DE 12-320 then allowed pre-staging events that had a "high" probability of reaching "Level 3" according to the Edison Event Index ("EEI") framework to be eligible for recovery under the MSCR. Under Order No. 25,534 (June 27, 2013) in Docket No. DE 13-127, PSNH was authorized to increase the funding level to $12

[27] *See* Attachment EHC/TMD-3 (Temp), Schedule EHC/TMD-2 (Temp) for additional detail.

million annually, where it has remained since that time.

Q. Please explain in more detail how the adjustment for the amortization of deferred storm costs was derived.

A. As noted above, as of end of the Test Year, the Company had a shortfall of approximately $68.5 million in unrecovered storm costs primarily as a result of the severe storm activity in 2017 and 2018. To address this shortfall, the Company is proposing to commence recovery of this deficit including carrying charges at the previously approved stipulated rate of return over a five-year period. As shown on Attachment EHC/TMD-2 (Temp), Schedule EHC/TMD-30 (Temp), page 2, the Company is proposing a normalizing adjustment to the Test Year of $15,512,608 to recover the first year of amortization in base rates effective July 1, 2019. Additional support for this adjustment is provided in Attachment EHC/TMD-3 (Temp), Schedule EHC/TMD-2 (Temp).

Q. Please describe any other significant normalizing adjustments that were made to amortization.

A. The Company has made additional normalizing adjustments to amortization, which are itemized on Attachment EHC/TMD-2 (Temp), Schedule EHC/TMD-30 (Temp), page 2, as follows:

- Removal of amortization of various assets previously approved by the Commission totaling ($1,102,799) that are expiring prior to the effective date of temporary rates on July 1, 2019. These deferred asset items are itemized on Attachment EHC/TMD-2 (Temp), Schedule EHC/TMD-30 (Temp), page 2, lines 19 to 24, Column (C).

- An adjustment of $336,630 to account for regulatory assessment expenses as shown on Attachment EHC/TMD-2 (Temp), Schedule EHC/TMD-30 (Temp), page 2, line 27. This adjustment is necessary because, as of January 1, 2019, the Company was allowed to recover expenses related to the increase in the Fiscal Year 2019 regulatory assessment as compared to base levels and the deferred 2018 regulatory assessment for Office of Consumer Advocate and Commission consultant expenses.[28] By June 30, 2019, the Company will have amortized and collected one-half of the $673,260. Therefore, the Company is proposing to recover the remaining half in rates effective July 1, 2019.

D. Property Tax Expense

Q. Has the Company adjusted the Test Year expense for property taxes?

A. Yes. The Company has adjusted Test Year property taxes, as shown on Attachment EHC/TMD-2 (Temp), Schedule EHC/TMD-5 (Temp), page 2, line 55, Column (E) by $3,058,417.

Q. How did the Company determine this adjustment?

A. The adjustment of $3,058,417 was necessary to reflect the 2018 decision of the Supreme Court upholding the lower court's decision abating taxes on PSNH's special-purpose utility

[28] *See* Order No. 26,206 (Dec. 28, 2018) (approving, among other things, adjustments regarding assessment and consulting costs); *see also* November 16, 2018 Technical Statement of Rob Allen, Joseph Purington, and Christopher J. Goulding (Nov. 16, 2018), Bates Page 13, in Docket No. DE 17-196.

property in the Town of Bow (the "Town").[29]

At the time of the dispute, PSNH owned certain special-purpose utility property in the Town, including Merrimack Station, two combustion turbines, and a high-voltage regional electric transmission and distribution network. The dispute centered on a disagreement between the Town and PSNH regarding the proper valuation of this special-purpose utility property for tax years 2012 and 2013. The trial court found PSNH's valuation more credible and held that PSNH was entitled to a tax abatement for tax years 2012 and 2013. The Town moved for reconsideration, which was denied, and then appealed to the Supreme Court. The Supreme Court upheld the trial court's decision.

This adjustment is necessary because the tax abatement was recorded during the Test Year as a reduction to property tax expense. This abatement is a one-time, non-recurring event that reduces the Company's cost of service.

V. CONCLUSION

Q. How does this temporary rate request relate to the Company's anticipated request for permanent distribution rates?

A. Pursuant to RSA 378:28, PSNH will be filing an application with the Commission to request a permanent distribution rate change. The Company expects to file this request on or about May 28, 2019 and the filing will include detailed testimony and exhibits, consistent with the Commission's requirements. The Company's request for temporary

[29] *Pub. Serv. Co. of New Hampshire v. Town of Bow*, 170 N.H. 539 (2018), provided in Attachment EHC/TMD-3 (Temp), Schedule EHC/TMD-4 (Temp).

rates will provide a partial measure of rate relief during the adjudication of the permanent rate request.

Q. Will the Commission's approval of the proposed temporary distribution rates allow PSNH to recover its full cost of service?

A. No. The revenue level that would be set by the Commission's approval of this temporary rate request is less than the total revenue requirement adjustment that the Company will seek in the permanent case. Because the process for review of temporary rates is generally conducted on an expedited basis, temporary rate filings typically include only easily verifiable major costs that are driving the need for the requested rate relief. The temporary rates are eventually reconciled in a final order of the Commission issued in the permanent rate docket. Therefore, PSNH customers are protected against an unjustified rate level.

Q. Are the proposed temporary rates "sufficient to yield not less than a reasonable return on the cost of the property of the utility that is used and useful in the public service less accrued depreciation, as shown by the reports of the utility filed with the [C]omission[?]"[30]

A. Yes. With the proposed temporary rates in place, the Company will have the opportunity to earn a reasonable return on its investment calculated based on the books and records on file with the Commission and subject to the normalizing adjustments described above. The Company determined the capital structure and cost of long-term debt, short-term debt, and equity using an average of the five quarter-ending balances spanning the Test Year. As shown on Attachment EHC/TMD-2 (Temp), Schedule EHC/TMD-40 (Temp), page 1, and

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[30] R.S.A. § 378:27.

summarized in Figure 6 below, the Company's requested rate of return is equal to 7.08 percent.

Figure 6. Cost of Capital (5-Quarter Average – December 31, 2018)

	Component Percentage	**Cost**	**Weighted Cost**
Common Equity	54.33%	9.67%	5.25%
Long-Term Debt	39.16%	4.30%	1.68%
Short-Term Debt	6.51%	2.21%	0.14%
Total	**100%**		**7.08%**

The weighted cost of capital of 7.08 percent requested in this proceeding is over 43 basis points lower than the 7.513 percent allowed rate of return approved by the Commission in Docket No. DE 09-035.

Q. What action are you requesting of the Commission at this time?

A. The Company requests that the Commission approve a temporary rate increase of approximately $33 million with an effective date of July 1, 2019. This increase will provide critically needed rate relief to the Company during the Commission's detailed and comprehensive review of the permanent rate filing. Under the Company's proposal, the temporary increase will be reconciled beginning July 1, 2019, relative to any change ordered by the Commission in the permanent rate review.

Q. Does this conclude your testimony?

A. Yes, it does.