STATE OF NEW HAMPSHIRE

BEFORE THE

NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

DOCKET NO. DE 19-057

REQUEST FOR PERMANENT RATES

DIRECT TESTIMONY OF

LEE G. LAJOIE and DAVID L. PLANTE

Step Adjustment

On behalf of Public Service Company of New Hampshire

d/b/a Eversource Energy

October 9, 2020

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PETITION OF PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE d/b/a EVERSOURCE ENERGY REQUEST FOR PERMANENT RATES

Docket No. DE 19-057

I. INTRODUCTION

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

A. My name is Lee G. Lajoie. I am employed by Eversource Energy Service Company as Manager of System Resiliency. My business address is 780 North Commercial Street, Manchester, New Hampshire.

Q. What are your principal responsibilities in this position?

A. As the Manager of System Resiliency, I provide services to Public Service Company of New Hampshire d/b/a Eversource Energy ("Eversource" or the "Company"). I am primarily responsible for the Company's capital budgeting process. In recent years, I have also had responsibility for the REP plan, which supported up to $40 million of capital investment annually targeted at reliability projects. As the REP program matured and tapered off, I have taken on broader responsibility for the capital budgeting process. In

addition, there are two internal groups that report to me, which are the reliability reporting group and the distribution automation group.

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

A. My name is David L. Plante. I am Manager of the New Hampshire Project Management Department for Eversource Energy Service Company. My business address is 13 Legends Drive, Hooksett, New Hampshire.

Q. What are your principal responsibilities in this position?

A. In this role, I am responsible for managing the Project Management Department as well as the overall capital program for the transmission business in New Hampshire. I also have direct project management responsibilities for a significant number of large transmission and distribution projects in New Hampshire.

Q. Did you both previously sponsor testimony in this docket that contains additional information on your professional experience and educational backgrounds?

A. Yes, Mr. Lajoie provided joint testimony with Company witness Joseph Purington as part of the Company's initial request for permanent rates on May 28, 2019 and we both provided joint rebuttal testimony with Company witness Erica L. Menard on March 4, 2020.

Q. What is the purpose of your testimony?

A. The purpose of our testimony is to support the Company's request for a step adjustment to distribution rates to be effective January 1, 2021, as provided in Section 10 of the Settlement Agreement filed on October 9, 2020 in this docket. This is the first step adjustment under the Settlement Agreement and pertains to certain projects placed in

service during calendar year 2019. Our testimony will describe the capital projects and the processes in place at the Company pertaining to project management and budgeting. In support of the step adjustment, the Company is also filing joint testimony from Company witnesses Erica L. Menard and Edward A. Davis on the step adjustment revenue requirement and rate impacts, respectively.

Q. Are you presenting any attachments in support of your testimony?

A. Yes, we are presenting Attachment LGL/DJP-1 containing the capital additions for calendar year 2019 by project.

Q. How is your testimony organized?

A. Following this introduction, Section II discusses the Company's capital planning and approval process and describes how the construction budget is developed and managed. Section III describes the capital projects and costs included in the step adjustment and the documentation being provided in support of those projects.

II. CAPITAL PLANNING AND APPROVAL PROCESS

A. ***Authorization Procedures***

Q. What is the Company's project authorization process?

A. The Company evaluates all capital projects in accordance with a Project Authorization Policy ("PAP"). In its initial request for permanent rates filed in Docket No. DE 19-057 on May 28, 2019 (the "Initial Filing"), Attachment ELM-5 provided the current version of the PAP. The purpose of the PAP is to provide a framework to guide decision-making, evaluation and approval of all capital and reimbursable project spending. Within this

framework, the Company is able to identify key corporate spending initiatives; enable the evaluation of all major projects; and prioritize the utilization of corporate financial resources.

Capital projects subject to the PAP include, but are not limited to, electric operations, real estate/facilities, customer care and information technology. The Company modified the PAP in 2015 to adopt the common process for project authorization and funding across the Eversource Energy organization. The Company primarily follows APS-1, a copy of which was provided in Attachment ELM-5 to the Initial Filing, and utilizes the PowerPlan® system as the repository for project authorizations. Authorizations are approved in accordance with the Delegation of Authority ("DOA"), a copy of which was provided in Attachment ELM-6 to the Initial Filing. This process is based on Eversource Energy's enterprise-wide project-authorization process, which is centralized and standardized across the organization. As an additional measure, the Company still conducts capital project reviews through a committee to monitor spending against the overall capital budget.

Q. What are the steps in the Company's project authorization process?

A. The Company's project authorization process starts with a mid-year meeting of the business planning group (the "Planning Group"). The Planning Group meets to review potential capital spending over the upcoming five-year period and develop a strategic plan (the "Strategic Plan") for presentation to senior management for approval. Each operating area presents its capital spending and resource requirements to the Planning Group for its consideration. The specific capital spending requests made by the operating areas are input

into the five-year planning models and the results are compared to financial and performance targets. In addition, spending requests for annual projects and programs are funded using historical spending levels. Together, the specific projects and the annual projects and programs make up the body of work that the Company expects to execute over the five-year period. The Planning Group uses this analysis to develop capital spending levels that balance the Company's financial and performance targets. The Strategic Plan is then presented to senior management for approval. Once approved, the Strategic Plan is used as the foundation for the annual planning process.

During the annual planning process, projects are reviewed and modified as needed and become the basis for the annual budget. Throughout the year, projects are presented at the appropriate Project Approval Committee ("PAC") meeting for discussion and approval by a quorum of committee members who review the technical merits of each specific project. Once authorized by the PAC, the project is routed for financial approval in the financial system (PowerPlan®) according to the Delegation of Authority.

Q. How are budgets developed for capital projects?

A. Budgets for annual blanket projects and programs are typically based on historical spending levels, adjusted for known changes for the next year. Specific projects are identified by engineering and operations groups within the Company and are individually reviewed by a group of Managers and Directors in New Hampshire. This group evaluates the merits and need for each proposed project and develops a priority ranking. Projects

with the most significant benefits or that address the most significant needs are included in the capital budget.

Q. How does the Company prioritize capital projects?

A. From an overall perspective, the Company's objective is to arrive at a capital budget that represents the optimal balance of executing investments necessary to maintain and improve the performance of the system, while assuring a cost-efficient use of the Company's limited resources. At the same time, Eversource must maintain a level of flexibility in the budget process to deal with contingencies that inevitably occur during the year. On an annual basis, the Company develops the capital plan by each operating area in collaboration with the engineering and operations departments to identify specific needs in each area. A variety of factors are considered during the prioritization process, including but not limited to aging infrastructure needs; system conditions; reliability improvements and initiatives; new customer growth; and resource availability. The portfolio of projects is ultimately evaluated by the Company's senior executives through an extensive budget-review process conducted near the end of each year. Annual projects, service to new customers, and load driven projects are considered necessary and included in the budget. Projects to improve reliability are evaluated based on anticipated impact on performance. Aging asset projects are prioritized based on a number of factors, including safety concerns, age of the asset, difficulty in maintaining the asset or in obtaining spare parts, and other similar considerations.

B. *Project Authorization Process*

Q. Please describe the approval requirements for the Company's capital project authorizations applicable to the proposed step adjustment.

A. Commencing in 2015, projects proposed for inclusion in the capital budget by an operating area require a request for project authorization to be submitted for approval to the senior manager of the relevant operating area in accordance with the PAP. The project sponsor, typically a project originator or a project manager, is responsible for preparing the necessary documentation for approval. As part of the annual budget process, each operating area submits a budget encompassing the requests for project authorization (although project authorizations may be granted throughout the year as circumstances warrant). In addition, a budget for annual projects and annual programs is developed based on historical costs associated with work on the distribution system. The proposed operating area budget must conform to the overall budget amount set by the senior executives. In addition, all capital projects are reviewed and approved by the Plant Accounting department to ensure proper capital and expense classification, project justification and unit of property accounting.

Projects are authorized by the Company's management in accordance with the Delegation of Authority on the basis of a Project Authorization Form ("PAF"). A PAF is required where a specific project estimate is expected to exceed the threshold outlined in the PAP. A PAF includes the following sections:

- Project Description and Objectives: This section provides a high-level overview of the project and why it should be undertaken.

- Scope and Justification: This section provides a detailed summary of the project scope, resource requirements and customer and Company impact.

- Financial Evaluation: This section provides an economic analysis of the proposed project. The nature of the economic analysis differs depending on the nature of the project. For example, projects may be evaluated on the basis of a cost-benefit analysis, an alternatives analysis, a cost analysis or another approach appropriate for the type of project under consideration.

- Risk Assessment: This section provides an identification of any special management, technical or operational issues and risks involved in the project.

- Alternatives Considered: This section evaluates alternatives where the project is a non-revenue project and feasible alternatives exist.

- Technology Assessment (Information System Projects only): This section discusses the technology to be employed in the project, internal and external resource requirements and an architectural review of system specifications.

- Project Schedule, Milestones and Implementation Plan: This section describes any timing implications and start-up schedules.

Because operating area budgets are prepared in advance for the next year, PAFs are generally prepared and authorized on the basis of conceptual estimates. As described below, the attachment accompanying our testimony listing the Eversource projects in the step adjustment includes descriptions of projects where the initial authorization differed from the pre-construction/post-design cost estimates.

Q. At what point do projects receive formal approval in the construction budget?

A. Prior to the start of the calendar year, the level of funding for the capital construction budget is finalized and projects that have been proposed and approved by the Engineering, Operations, and Shared Services groups are added to the budget. Once projects are ready for construction with refined project cost estimates, projects are presented to the PAC. The PAC meets at least monthly to review projects from an engineering, schedule, and cost

perspective as well as reviewing any projects that require supplemental funding. The PAC consists of a chairperson plus representatives from various disciplines including Engineering, Operations, Major Projects, Investment Planning and Integrated Planning & Scheduling. Once the PAC has approved a project for initial or supplemental funding, the project is then approved within the PowerPlan® system based on Delegation of Authority approval limits, as shown in Attachment ELM-6 to the Initial Filing.

C. Cost Control Procedures

Q. Once the construction budget is finalized, does the Company have measures in place to control costs as the projects are designed and completed?

A. Yes. Monthly meetings are held to discuss the status and cost of individual projects within the capital budget. The Company's process requires a Supplement Request Form with revised cost and justification when it becomes likely that the project cost is expected to increase from the original authorized dollar amount in accordance with certain threshold criteria. For Distribution Operations projects up to $250,000, this threshold is an increase in direct costs of $25,000 or more. For projects over $250,000 the threshold is 10 percent of direct costs. Supplement Request Forms are reviewed by the Project Authorization Committee and, if approved, routed for approval in PowerPlan® in the same manner as the original PAF.

III. STEP ADJUSTMENT CAPITAL PROJECTS

Q. What is the scope of projects for which the Company is seeking to commence cost recovery in this first step increase, as provided for in the Settlement Agreement?

A. The Company is seeking approval to commence cost recovery for the revenue requirement associated with $125.2 million of plant additions placed in service in calendar year 2019 as described below.

Q. What is your understanding of the Commission's standard for inclusion of plant investment in rate base?

A. It is our understanding that the Commission's long-standing standard for the inclusion of capital additions in rate base is that the capital expenditures must be prudently incurred and the resulting plant must be "used and useful" in providing service to customers. A prudence review involves a determination of whether the utility's actions, based on all that the utility knew or should have known at the time, were reasonable and prudent in light of the circumstances. The Commission considers plant to be "used and useful" if the plant is in service and provides benefits to customers. As demonstrated below and in the attachment that accompanies our testimony, the Company's capital additions placed in service in calendar year 2019 are consistent with the Commission's standard.

Q. Please explain how the Company has categorized its plant additions for purposes of the step adjustment.

A. As an initial matter, the Company has segregated all capital additions into three distinct categories for review purposes: (1) specific projects; (2) specific carryover projects; and (3) annual blanket and program projects. Each category of capital additions has distinct capital addition documentation requirements.

Specific projects are projects where a stand-alone project is being constructed. Examples of these projects include new substation, new lines, and circuit conversions. Specific projects have defined start and end dates for construction with a defined project cost and may be managed by a project manager and have unique project names for the specific body of work to be executed. For purposes of project review as part of the step increase, the Company has segmented the specific projects into current and carryover categories. Current specific projects are projects that were not reviewed as part of the rate case and had a substantial portion of plant placed in service in 2019. Carryover projects are projects that had a majority of the work orders placed in service prior to 2019 and therefore the 2019 plant additions are related to carryover work that continued into 2019 or where there are closeout adjustments made during the plant accounting closeout. In other words, carryover project costs are for projects that were in service and included as part of the rate case review in Docket No. 19-057, but have charges that have 'carried over' into 2019 that are now in service and being included in the calculation of the step adjustment in this filing. Carrying charges may also be credits (or reductions) to costs for adjustments that have been made in 2019.

Annual blanket projects are defined as projects that are high-volume and low dollar in nature. An annual project funds a variety of activities intended to address a particular issue. For example, an annual blanket project addressing the issue of voltage outside regulatory limits may involve activities such as the placement of regulators or capacitors, the replacement of conductors, or other activities. Work orders for annual projects are

typically under $100,000 in direct costs. Examples of annual projects are new services, capital tools, obsolescence and asset renewal, line relocations, and service work. These projects are funded at a consistent level from year to year and utilize the same project names each year.

Annual program projects support a particular body of work and are typically lower in volume but higher in cost. An annual program funds the same type of work in many different locations, such as reject pole replacements (the work associated with this program is always pole replacements due to an inspection that finds the pole has decayed). Other examples of annual programs include oil-circuit breaker replacements, direct-buried cable replacements, vehicle purchases, and tools and equipment projects. These projects are typically funded at a consistent level from year to year but can vary depending on the nature of the work to be completed in the year. These projects also utilize the same project names each year.

Q. Please describe the documentation you are providing in support of the Company's step adjustment.

A. Attachment LGL/DLP-1 identifies the capital projects placed in service in calendar year 2019 that are not currently in rate base. The attachment contains the following information:

- Page 1 contains a summary of the 2019 plant additions by category.
- Pages 2-3 contain the list of projects identified as current specific projects. For each project, the associated plant accounts(s), 2019 plant in service amount, pre-construction authorization amount and any supplemental authorizations and project

life-to-date costs through December 31, 2019 are provided. Dollar and percentage variances are calculated between the actual project life-to-date amount and initial pre-construction authorized amount, the last supplemental authorized amount and the pre-construction estimate amount, and the actual project life-to-date amount and last supplemental authorized amount. Also provided is an indicator of whether the project is considered final or still has expected charges in future years. An indicator of "106" means that one or more work orders within that project are either in Construction Work in Progress ("CWIP")/FERC Account 107 or Construction Complete not Categorized ("CCNC")/FERC Account 106. Work orders in Account 107 are not in service as of December 31, 2019 and are not part of this step increase. Work orders in Account 106 are in service as of December 31, 2019 and therefore are included in this step increase, but have not been through the completion, closeout and unitization process for accounting purposes. Projects with the 106 indicators can still accept charges. An indicator of "101" means that all of the work orders within the project are in Plant in Service/FERC Account 101. Work orders under projects with this status have gone through the completion process from a project management perspective and plant accounting unitization process and, in general, should not be incurring any additional charges and can be considered final. A reason for the revised authorization is also included to identify at a high level the reasons for needing supplemental funding to complete the project.

- Page 4 contains the list of projects identified as annual blanket and program projects. For each project, the associated plant accounts(s), 2019 plant in service amount, annual authorization amount and any supplemental authorizations and project life-to-date costs are provided. Dollar and percentage variances are calculated between the actual annual amount and initial annual authorized amount, the last supplemental authorized amount and the initial annual authorized amount, and the actual annual cost and final supplemental authorized amount. Additions included in 2019 can be for construction from the current year or carried over from prior years.

- Pages 5-7 contain the list of projects identified as carryover specific projects. For each project, the associated plant accounts(s), 2019 plant in service amount, current authorized amount and actual project life-to-date costs are provided. Dollar and percentage variances are calculated between the actual project life-to-date cost and current authorized amount. Also provided is an indicator of whether the project is final or still has expected charges in future years. An indicator of "106" means that one or more work orders within that project are in either CWIP/FERC Account 107 or CCNC/FERC Account 106. Work orders in Account 107 are not in service as of yet and are not part of this step increase. Work orders in Account 106 are in service and therefore are included in this step increase, but have not been through the completion, closeout and unitization process. Projects with the 106 indicator can still accept charges. An indicator of "101" means that all of the work orders

within that project are in Plant in Service/FERC Account 101. Work orders under projects with this status have gone through the completion process from a project management perspective and plant accounting unitization process and, in general, should not be incurring any additional charges and can be considered final. A reason for any projects with plant in service greater than $50,000 or having a variance between the actual project life-to-date cost and the current authorized amount of greater than 10 percent is also included.

After the Company's initial filing of this step adjustment proposal, and upon the request of Staff, the Company shall provide further information related to a sampling of the Company's projects, including but not limited to Project Authorization Forms, Supplemental Request Forms, and work order cost detail summarized at the project level by cost category over the life of the project.

Q. Please summarize the costs of the plant additions included in the step adjustment.

A. Table 1 below provides capital projects by category placed in service in 2019, excluding new business, and included in the step adjustment:

Table 1

Project Category	Plant Additions as of December 31, 2019
Specific Current Projects	$74,851,135
Specific Carryover Projects	$4,911,104
Annual Blanket and Program Projects	$45,441,214
Total Plant Additions	$125,203,453

Q. Is the level of documentation provided in this filing similar to the documentation provided previously in this docket for the Company's permanent rate request?

A. Yes. Given the timing of the filing and the historic nature of the investments, the scope of documentation is the same or similar to what was provided by the Company in support of its permanent rate request. However, in the proposed Settlement Agreement, the Company has agreed to a business process audit. If the Settlement Agreement is approved, the audit may recommend some changes to the way we create and keep project documentation. The Company will be working with the Staff, OCA, and the auditor in the coming months on that review and will be looking for ways to make its project documentation most useful for regulatory review. The Company has worked with Commission Staff to develop an interim template to provide a format that allows for a productive review of these historical projects.

Q. **Are all of the investments used and useful in providing service to customers?**

A. Yes, all of the investments placed in service in calendar year 2019 are used and useful in the provision of service to Eversource customers.

Q. Were all of the costs for these investments prudently incurred?

A. Yes. As described earlier, the Company follows a comprehensive process for project authorization and cost-control in developing and implementing its capital program.

Q. Does this conclude your testimony?

A. Yes, it does.