

Public Service of New Hampshire d/b/a Eversource Energy
Docket No. DE 21-020

Date Request Received: 06/29/2021

Date of Response: 07/14/2021

Request No. STAFF 3-005

Page 1 of 2

Request from: New Hampshire Public Utilities Commission Staff

Witness: Lee G. Lajoie

Request:

Reference Joint Petitioners' Response Staff 1-005(d).1, which appears to be a 2016 inspection report.

- a. Please confirm that, as suggested by the sheet labels, (d).1 is a 2016 report, (d).2 is a 2017 report, (d).3 is a 2018 report, that (d).4 is a 2019 report, and that (d).5 is a 2020 report.
- b. Please explain why there are no inspection dates included in the Eversource reports until 2019.
- c. Please explain why, over the past five years, Eversource appears to have been inspecting between approximately 32,000 and 74,000 poles a year when the Company's policy is to inspect poles on a ten-year rotating basis.
- d. For columns Z, AA, AB, and AE, please define the following terms and indicate the most likely course of action taken by Eversource with respect to those designations: (1) Partial; (2) Partial Reject; (3) Treatable; (4) Priority; (5) Reinforce; (6) Replace.
- e. Please explain the difference between sheet "rejects" and sheet "2016 pole inspections."
- f. Please explain why some poles are classified as both "treatable true" and "replace."
- g. Please explain the course of action taken by the Company for those poles identified as having "shell rot" but not identified for replacement.

Response:

- a. This is correct.
- b. The formatting of the "Last Update" field in the 2016 through 2018 Excel sheets was inadvertently switched from "Date" to "General". That has been corrected so the dates are visible and the revised live Excel sheets are being provided with this response. Please see attachments Staff 3-005.b2016.xlsx, Staff 3-005.b2017.xlsx, Staff 3-005.b2018.xlsx, Staff 3-005.b2019.xlsx and Staff 3-005.b2020.xlsx.
- c. As previously explained, Eversource does ground line inspection on poles in its maintenance area on a 10 year basis but also does visual inspections on poles in Consolidated's maintenance area looking for above ground defects on those poles and obvious NESC issues. The inspection reports include both ground line inspections and visual inspections, hence the larger number of total inspections.
- d. Column Z Partial – refers to the activity of performing a partial excavation at the base of the pole to perform ground line testing.
Column AA Partial reject – Non-priority or normal reject. Normal reject poles are those poles which have effective circumferences equal to or less than the minimum ground line circumference

at replacement (normally 67% of original circumference) but which are not deteriorated enough to be classified as "priority poles".

Column AB Treatable – A pole with decay which could be treated with chemicals by the contractor at an additional cost which will extend its' life for some period of time.

In column AE Reject

Priority – A priority pole is one which is in imminent danger of falling because it is completely decayed across the grain, or it has a hollow heart with sound wood in the outer shell of one inch thickness or less. (This is from EMP 6.61)

Reinforce – A pole which could be reinforced with a metal C truss but these are not installed in NH

Replace - Pole recommended for replacement by the inspection company

The most likely course of action for poles in all these categories is to replace the pole.

- e. The tab labeled "Rejects" was originally intended to filter out rejected poles but that was not the case for the 2016 report. It should not have been included as it was simply duplicate information and has been deleted from the updated attachments to avoid further confusion.
- f. Poles are classified as both "treatable true" and "replace" are poles which should be replaced, or they could be treated with a combination of a steel C truss and a fiber wrap of the ground line area as an option.
- g. Shell rot indicates that decay has started around the outside circumference of the pole and the Company's position is that the pole should be replaced rather than waiting another 10 years for the next inspection and risking a pole failure in the interim. Regardless of the inspection company's failure to list the pole as "Replace" Eversource will replace the pole on a planned basis.

DE 21-020
Exhibit MS/SD-02

Public Service of New Hampshire d/b/a Eversource Energy
Docket No. DE 21-020

Date Request Received: 04/12/2021

Date of Response: 05/03/2021

Date Revision Request Received: 05/07/2021

Date of Revision Response: 05/07/2021

Request No. STAFF 1-031-RV01

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Request from: New Hampshire Public Utilities Commission Staff

Witness: Douglas P. Horton, Erica L. Menard
Michael Shultz, Senior Vice President (Consolidated Communications)
Sarah Davis, Senior Director (Consolidated Communications)

Request:

Reference Horton/Menard Testimony, Bates 51-52, stating "On an annual basis, Eversource will calculate the net revenue requirement associated with the Transferred Poles," including "the return on the average rate base, depreciation expense, O&M associated with transferring lines and appurtenances on replaced poles, and O&M inspection costs."

- a. Please provide the net book value of the transferred poles as it exists on Consolidated's books today, including any relevant depreciation schedules by FCC/FERC account. Please provide copies of all relevant ARMIS reports as filed with the FCC.
- b. Please provide the net book value of the transferred poles as it existed on Consolidated's books at the time of Consolidated's acquisition of FairPoint, including any relevant depreciation schedules by FCC/FERC account. Please provide copies of all relevant ARMIS reports as filed with the FCC.
- c. Please explain whether it is Eversource's position that the Commission should consider the estimated incremental revenue requirement detailed at Bates 55 when determining whether the transfer is in the public interest.
- d. Please explain whether material deviations from the estimated revenue requirement during reconciliations would trigger reconsideration of whether the pole transfer is for the public good.

Response:

ORIGINAL RESPONSE:

Objections: Consolidated Communications objects to subsections (a) and (b) of this request on the grounds that they are not intended to lead to the discovery of relevant or admissible evidence in this Docket, and are overly broad and burdensome. Without waiving these or any other objections, Consolidated Communications responds as follows:

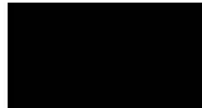
- a. As an initial matter, it is important to note that Consolidated, as a minimally regulated Excepted Local Exchange Carrier under New Hampshire law, is not required to adhere to regulatory accounting requirements applicable to EDCs for ratemaking purposes. In particular, the depreciation expense recorded for GAAP purposes is not required to be the result of a Commission-approved depreciation study, as is the case for regulated utilities. Consequently, from the point at which Consolidated purchased FairPoint Communications in 2017, it has depreciated its purchased pole plant over an approximate 5-year period. This extraordinarily shortened amortization period was the result of a management decision based on GAAP purchase accounting and has the effect of allowing Consolidated Communications to minimize any potential accounting losses at the time of sale that would arise from having a higher GAAP net book value.

Exhibit MS/SD-6

As a result, the Joint Petitioners do not see Consolidated's GAAP net book value as a relevant or useful data point for purposes of going forward ratemaking for Eversource post-acquisition. Unlike the net book value reported for a regulated utility, which represents the unrecovered plant balance not-yet-paid for by customers, Consolidated's GAAP reported net book value does not represent an amount paid for (or not paid for) by its customers.

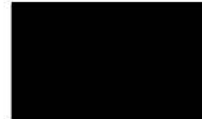
Notwithstanding this practicality, to be responsive to this question, Consolidated's GAAP net book value of the Transferred Poles as of March 2019 when the Joint Petitioners initially started negotiating this transaction was as follows.

Total Costs
Total Accumulated Depreciation
Net Book Value



As of December 31, 2020, the GAAP net book value of the Transferred Poles was:

Total Costs
Total Accumulated Depreciation
Net Book Value



The net book value of the poles as of December 31, 2020, is the most recent net book value of the poles that is available. In accordance with GAAP, Consolidated Communications classified the poles as "held for sale" (as of the date of the Joint Petitioners' agreement) and stopped depreciating the poles. GAAP accounting requires that the poles not be further depreciated pending the sale. There is no depreciation by "FCC/FERC account".

Lastly, Eversource notes that it jointly owns the vast majority of poles being purchased as part of this transaction. Naturally, Eversource follows traditional regulatory accounting for its assets, including adhering to regulated utility practices for recording depreciation of pole plant over a 30+ year period. The current balance of all Eversource jointly owned poles, the majority of which are joint-owned with Consolidated, is as follows.

Total Eversource Costs	\$129,060,753
Total Accumulated Depreciation	\$61,635,989
Net Book Value	\$67,424,764

This served as assurance to Eversource during negotiations that the net purchase price for the Transferred Poles, which is less than half the net book value of those same poles recorded in Eversource's financial statements, is a fair and reasonable price to pay for the Transferred Poles.

Consolidated Communications has provided its last ARMIS report filed for FY 2017 in PDF in Attachment Staff 1-031. Consolidated Communications is not required to file ARMIS reports for its study area for New Hampshire.

b. Consolidated Communications has no mechanism to produce the net book value of the Eversource poles at the time of the closing of the Consolidated Communications/FairPoint Communications acquisition transaction. However, as of the data of the closing of that transaction,

Exhibit MS/SD-02

the net book value of all of Consolidated Communications' New Hampshire utility poles as of July 3, 2017 was:

Pole Investment - NH	[REDACTED]
% Estimated as Eversource	68%
Estimated Eversource NBV	[REDACTED]

There is no depreciation by "FCC/FERC account".

c. It is not clear what is intended by this question. If the question is asking about the nature of the public interest review, as described in the petition, the public interest standard, as it has been interpreted by the Commission, is a no net harm standard where the Commission would approve the transaction if there is no adverse impact on the public based upon all the circumstances. Thus, the Commission should look at all of the circumstances, including the operational benefits and the customer safety and satisfaction issues, rather than merely the incremental revenue requirement in determining whether the public interest is met.

To the extent the question is seeking to know whether the estimated incremental revenue requirement is accurate, the estimates are based upon the information presently available subject to the assumptions noted. It is Eversource's position that the estimate is reasonable and presents an appropriate initial estimate of the incremental revenue requirement.

d. No, Eversource does not view that deviations, material or otherwise, revealed during a reconciliation would trigger reconsideration. Presuming that the Commission approves the transaction, it would necessarily have to find that the transaction is reasonable and prudent. It would be inappropriate, and potentially illegal, for the Commission to later rescind that approval on the basis of a deviation from an estimate years later.

Also, as noted in the testimony (Bates page 50) without approval of the cost recovery mechanism, Eversource would not move forward with the transaction. If the Commission were to condition the approval on a later reconciliation at an unknown future date and under which it could void the transaction, that would present an untenable risk for Eversource and Eversource would not move forward with the transaction.

Lastly, as a practical matter, such reconsideration would be impossible. Once the transaction closes and Eversource pays Consolidated in accordance with the Joint Petitioners' agreement, Eversource owns the assets. Any reconsideration would, of necessity, force Eversource to return the assets (at some to be determined price), and would force Consolidated to retake ownership of the assets and reincorporate them into its business. It is not clear the Commission would have authority to order such an outcome.

REVISED RESPONSE:

Objections: Consolidated Communications objects to subsections (a) and (b) of this request on the grounds that they are not intended to lead to the discovery of relevant or admissible evidence in this Docket, and are overly broad and burdensome. Without waiving these or any other objections, Consolidated Communications responds as follows:

- a. As an initial matter, it is important to note that Consolidated, as a minimally regulated Excepted Local Exchange Carrier under New Hampshire law, is not required to adhere to regulatory

Exhibit MS/SD-02

accounting requirements applicable to EDCs for ratemaking purposes. In particular, the depreciation expense recorded for GAAP purposes is not required to be the result of a Commission-approved depreciation study, as is the case for regulated utilities. Consequently, from the point at which Consolidated purchased FairPoint Communications in 2017, it has depreciated its purchased pole plant over an approximate 5-year period. This extraordinarily shortened amortization period was the result of a management decision based on GAAP purchase accounting and has the effect of allowing Consolidated Communications to minimize any potential accounting losses at the time of sale that would arise from having a higher GAAP net book value.

As a result, the Joint Petitioners do not see Consolidated's GAAP net book value as a relevant or useful data point for purposes of going forward ratemaking for Eversource post-acquisition. Unlike the net book value reported for a regulated utility, which represents the unrecovered plant balance not-yet-paid for by customers, Consolidated's GAAP reported net book value does not represent an amount paid for (or not paid for) by its customers.

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Exhibit MS/50 - v2

Consolidated Communications has provided its last ARMIS report filed for FY 2017 in PDF in Attachment Staff 1-031. Consolidated Communications is not required to file ARMIS reports for its study area for New Hampshire.

- b. Consolidated Communications has no mechanism to produce the net book value of the Eversource poles at the time of the closing of the Consolidated Communications/FairPoint Communications acquisition transaction. However, as of the data of the closing of that transaction, the net book value of all of Consolidated Communications' New Hampshire utility poles as of July 3, 2017 was:

Pole Investment - NH
 % Estimated as Eversource
 Estimated Eversource NBV

75%

There is no depreciation by "FCC/FERC account".

- c. It is not clear what is intended by this question. If the question is asking about the nature of the public interest review, as described in the petition, the public interest standard, as it has been interpreted by the Commission, is a no net harm standard where the Commission would approve the transaction if there is no adverse impact on the public based upon all the circumstances. Thus, the Commission should look at all of the circumstances, including the operational benefits and the customer safety and satisfaction issues, rather than merely the incremental revenue requirement in determining whether the public interest is met.

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Consistent with Puc 203.08(d), the Joint Petitioners state that they have a good faith basis for confidential treatment of the material provided in this response and will file an appropriate motion for confidential treatment prior to the commencement of hearings in this matter.