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Public Service Company of New Hampshire
d/b/a Eversource Energy
Docket No. DE 21-XXX
Testimony of Douglas P. Horton and Erica L. Menard
February 10, 2021

STATE OF NEW HAMPSHIRE
BEFORE THE
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

DOCKET NO. DE 21-XXX
JOINT PETITION TO APPROVE POLE ASSET TRANSFER

DIRECT TESTIMONY OF DOUGLAS P. HORTON AND ERICA L. MENARD
Revenue Requirement for Pole Purchase

On behalf of Public Service Company of New Hampshire
d/b/a Eversource Energy

February 10, 2021

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STATE OF NEW HAMPSHIRE
BEFORE THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION
DIRECT TESTIMONY OF DOUGLAS P. HORTON AND ERICA L. MENARD
JOINT PETITION OF PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE
d/b/a EVERSOURCE ENERGY
AND CONSOLIDATED COMMUNICATIONS OF NORTHERN NEW ENGLAND
COMPANY, LLC d/b/a CONSOLIDATED COMMUNICATIONS
TO APPROVE POLE ASSET TRANSFER

February 10, 2021

Docket No. DE 21-XXX

I. INTRODUCTION

Q. Mr. Horton, please state your name and business address.

A. My name is Douglas P. Horton. My business address is 247 Station Drive, Westwood, Massachusetts 02090.

Q. By whom are you employed and in what capacity?

A. I am employed by Eversource Energy Service Company as Vice President, Distribution Rates and Regulatory Requirements.

Q. What are your principal responsibilities in this position?

A. In my position, I am responsible for the oversight, coordination, and implementation of revenue requirement calculations and distribution rates for the Eversource Energy operating companies in New Hampshire, Massachusetts, and Connecticut, including Public

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1 Service Company of New Hampshire d/b/a Eversource Energy (“Eversource” or the
2 “Company”). In addition, I have the overall responsibility for regulatory interfaces for all
3 revenue requirement-related filings before the New Hampshire Public Utilities
4 Commission (the “Commission”).

5 **Q. Please summarize your professional and education background.**

6 A. I graduated from Bentley College (now Bentley University) in Waltham, Massachusetts in
7 2003 with a Bachelor of Science degree. In 2007, I graduated from the Bentley University
8 McCallum Graduate School of Business with a Master of Business Administration degree.
9 I joined NSTAR Electric Company as a Senior Financial Planning Analyst in August 2007
10 and was promoted to Project Manager, Smart Grid, in March 2010. Following the merger
11 of NSTAR Electric Company and Northeast Utilities into Eversource Energy in 2012, I
12 was promoted to Manager of Revenue Requirements for Massachusetts. In February 2015,
13 I was promoted to Director of Revenue Requirements for Massachusetts. I assumed my
14 current role as Vice President, Distribution Rates and Regulatory Requirements in
15 December 2018.

16 **Q. Have you previously testified before the Commission?**

17 A. Yes, I testified before the Commission in support of Eversource’s Petition for Permanent
18 Rates in Docket No. DE 19-057, as well as in the docket pertaining to the audit of
19 Eversource’s generation divestiture costs, Docket No. DE 20-005. In addition, I have
20 testified on numerous occasions before other regulatory commissions, including the

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Massachusetts Department of Public Utilities and the Connecticut Public Utilities
Regulatory Authority.

Q. Ms. Menard, please state your full name and business address.

A. My name is Erica L. Menard. My business address is 780 North Commercial Street,
Manchester, New Hampshire.

Q. By whom are you employed and in what capacity?

A. I am employed by Eversource Energy Service Company as Manager of New Hampshire
Revenue Requirements.

Q. What are your principal responsibilities in this position?

A. In my role, I am responsible for the coordination and implementation of revenue
requirements calculations for Eversource, as well as the filings associated with the
Company's Energy Service rate, Stranded Cost Recovery Charge, Transmission Cost
Adjustment Mechanism, and Distribution Rates.

Q. Please summarize your educational background and professional experience.

A. I earned a Bachelor of Arts degree in Economics and Business Administration from the
University of Maine and a Master of Business Administration degree from the University
of New Hampshire. I joined Public Service Company of New Hampshire, now Eversource,
in 2003 and have held various positions in the Company with increasing levels of
responsibility. I was appointed to my current position of Manager of New Hampshire
Revenue Requirements in April 2019. Prior to my current role, I held the position of

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1 Manager of Budgets & Investment Planning from September 2012 to April 2019. In that
2 role, I oversaw the capital and operations and maintenance (“O&M”) plan budgets, actual
3 expenditures, and financial reporting for New Hampshire operations. From September
4 2003 to September 2012, I held the positions of Analyst and Senior Analyst in Economic
5 Development and Load Forecasting, and Supervisor of Performance Analysis and Business
6 Planning, where I was responsible for sales forecasting, economic analysis, performance
7 management, and business planning activities. Prior to joining the Company, from June
8 1997 to September 2003, I held various positions at ICF Consulting in Fairfax, Virginia,
9 ranging from analyst, product consultant, and project manager, with responsibilities for
10 implementing load profiling and load settlement software at various utilities around the
11 world.

12 **Q. Have you previously testified before the Commission?**

13 A. Yes, I testified before the Commission in support of Eversource’s Petition for Permanent
14 Rates in Docket No. DE 19-057, and have testified in numerous rate setting proceedings
15 pertaining to the Energy Service rate, Stranded Cost Recovery Charge, Transmission Cost
16 Adjustment Mechanism, and Distribution Rates.

17 **Q. What is the purpose of your joint testimony?**

18 A. Our testimony discusses the financial issues associated with the “Settlement and Pole Asset
19 Purchase Agreement” between Eversource and Consolidated Communications of Northern
20 New England Company, LLC d/b/a Consolidated Communications (f/k/a Northern New
21 England Telephone Operations LLC) (“Consolidated”), including calculation of the

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1 revenue requirement associated with Eversource's purchase of the utility poles currently
2 owned by Consolidated solely or jointly with Eversource (the "Transferred Poles"). As
3 part of the parties' request for approval of the purchase of the Transferred Poles,
4 Eversource is also requesting approval of its proposal to implement a funding mechanism
5 to support the necessary level of spending for the safety and reliability of the electric
6 system, customers, and the general public. This mechanism would enable the Company to
7 recover the incremental costs necessary to support proper maintenance and repair of the
8 Transferred Pole infrastructure, which is an integral component of the overall transaction.
9 Lastly, our testimony describes the estimated range of customer bill impacts expected to
10 result from the transaction, as proposed in this filing. Company Witness Lee G. Lajoie,
11 Manager of System Reliability for New Hampshire for Eversource Energy Service
12 Company, is providing testimony summarizing the Settlement and Pole Asset Purchase
13 Agreement between Eversource and Consolidated (the "Agreement") and the reliability
14 and operational benefits for customers resulting from the transaction. A copy of the
15 Agreement is attached to Mr. Lajoie's testimony as Attachment LGL-1 CONFIDENTIAL.

16 **Q. How is your testimony organized?**

17 A. Following this introductory section, Section II describes the costs and revenues related to
18 Eversource's purchase of the Transferred Poles, sets forth the estimated revenue
19 requirement associated with the transaction, and explains Eversource's cost recovery
20 proposal to reconcile net incremental revenue requirement incurred by Eversource
21 associated with the Transferred Poles. The net incremental revenue requirement will

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1 include the costs associated with the purchase, inspection, and replacement of the
2 Transferred Poles, along with the property taxes and vegetation management costs relating
3 to the Transferred Poles that, going forward, will be assumed by Eversource, all offset by
4 the incremental revenues that Eversource will collect related to the Transferred Poles.
5 Section III provides the customer bill impacts resulting from the transaction, as proposed.
6 Section IV is the conclusion.

7 **II. REVENUE REQUIREMENT AND COST RECOVERY PROPOSAL**

8 **Q. Please summarize the net purchase price for the Transferred Poles.**

9 A. As Mr. Lajoie describes in his pre-filed direct testimony, the net purchase price of the
10 Transferred Poles is **BEGIN CONFIDENTIAL** [REDACTED] **END CONFIDENTIAL**.

11 **Q. Will the pole attachments from Consolidated and other third-party attachers result**
12 **in incremental revenues for Eversource?**

13 A. Yes. The Transferred Poles will include attachments with associated revenues available
14 from both Consolidated and third-party attachers. For Consolidated's pole attachments,
15 Consolidated will pay Eversource \$5.0 million per year in pole attachment revenues for the
16 first two years following the closing date of the Agreement. Thereafter, the revenues for
17 Consolidated's pole attachments will be subject Eversource's pole attachment rates in
18 effect for solely-owned poles.

19 Upon the Agreement's closing, the pole attachment agreements in place between
20 Consolidated and current attachers will transfer to Eversource. As a result of the transfer
21 of the pole attachment agreements and because Eversource will be the sole owner of the

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1 utility poles, upon closing, Eversource will receive third-party attachment revenues directly
2 from all other third-party attachers under the terms of the contracts that are currently in
3 place with Consolidated.

4 **Q. Will the pole attachments rates charged by Consolidated to its attachers change as a**
5 **result of this transaction?**

6 A. No. The pole attachment agreements currently in effect will transfer to Eversource upon
7 closing of the transaction, including the rates currently authorized under those agreements.
8 Those agreements also describe the process to follow to update the attachment rates.
9 Therefore, approval of the Agreement will not result in any automatic change to the third-
10 party pole attachment rates in effect. Any change to rates would occur in the future and
11 follow the terms of the contracts in effect, as is the case today.

12 **Q. Based on the net purchase price and projected expenses and revenues related to the**
13 **transaction, please summarize the estimated revenue requirement associated with**
14 **Eversource's purchase of the Transferred Poles.**

15 A. As demonstrated in Attachment DPH/ELM-1 CONFIDENTIAL, Eversource estimates a
16 net revenue requirement of \$1.5 million in 2021, negative \$0.1 million in 2022, and \$2.7
17 million in 2023 for the purchase, inspection, and replacement of the Transferred Poles. The
18 estimated net revenue requirement in the first year following the agreement, i.e., 2021,
19 consists of the following elements: (1) an estimated gross revenue requirement of \$8.6
20 million comprised of Eversource's depreciation expense and return on average rate base,
21 plus estimated incremental O&M expense associated with the inspection and replacement
22 of the Transferred Poles; less (2) estimated pole attachment revenues of \$7.1 million from
23 Consolidated and other third-party attachers.

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1 In addition to the net revenue requirement, Eversource will also incur incremental costs
2 associated with the purchase of the Transferred Poles in the areas of property tax expense
3 and vegetation management expenses that need to be accounted for, from a rate recovery
4 perspective. As a result of the Company's most recent base distribution rate case in Docket
5 No. DE 19-057, the Company has in place approved mechanisms to review and recover
6 incremental amounts of property tax expense and vegetation management expenses. The
7 Company's proposal in this proceeding is to recover the incremental costs for those two
8 cost categories through those mechanisms for administrative simplicity and efficiency.
9 The Company has estimated the incremental revenue requirement associated with the costs
10 of property tax expense and vegetation management work related to the Transferred Poles,
11 based on recent billing activity to Consolidated. The property tax expense for the
12 Transferred Poles would be paid by Eversource after the transaction is complete. The
13 estimated revenue requirement for property taxes is estimated at \$0.9 million in 2021; \$1.1
14 million in 2022; and \$1.2 million in 2023. The vegetation-management expense consists
15 of work that Eversource was performing already at Consolidated's expense, but that
16 Eversource will no longer be collecting directly through reimbursements from
17 Consolidated to cover the costs of such work. The estimated revenue requirement for the
18 vegetation management work is \$7.0 million in 2021; \$7.2 million in 2022; and \$7.4
19 million in 2023.

20 As a result, the total annual revenue requirement to support Eversource's purchase of the
21 Transferred Poles is estimated at \$9.4 million in 2021; \$8.2 million in 2022; and \$11.3

1 million in 2023. These annual amounts are subject to change based on changes in
2 replacement rates, cost and level of vegetation management expenses, property tax
3 expenses, and pole attachment revenues, among other factors. However, the amounts
4 present the Company's best estimate of the annual incremental revenue requirement based
5 on current knowledge.

6 **Q. How does Eversource propose to recover the costs associated with its ownership of**
7 **the Transferred Poles?**

8 A. The Company's revenue requirement established in its recently completed base distribution
9 rate case does not contemplate the incremental costs associated with assuming ownership
10 of the Transferred Poles. Moreover, the incremental revenues that will accrue to
11 Eversource after the transaction are not expected to be sufficient to cover the incremental
12 costs. Therefore, as part of the Company's request for approval of the transaction, the
13 Company is requesting approval of a funding mechanism to annually reconcile the net
14 incremental costs associated with Eversource's purchase of the Transferred Poles, so that
15 necessary maintenance and repair activities can commence to the benefit of customer
16 immediately following the close of the transaction.

17 More specifically, as part of the Company's most recent distribution rate case, a new
18 Regulatory Reconciliation Adjustment ("RRA") mechanism was established. The
19 Company is proposing to include the incremental property tax expense in the property tax
20 component of the RRA and the incremental vegetation management expense in the
21 vegetation management component of the RRA. Additionally, the Company is proposing

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1 to add a new component to the RRA to recover and reconcile the net revenue requirement
2 of the Transferred Poles. A copy of the Company's proposed tariff changes that describe
3 the adjustment to the RRA is attached to our joint testimony as Attachment DPH/ELM-2.
4 The Company would submit to the Commission for review and approval relevant project
5 documentation justifying the actual capital expenditures completed in the prior calendar
6 year and documentation to support the calculation of incremental O&M expenses, as well
7 as incremental revenues recovered from pole attachers, which will serve to offset the
8 amount of net revenue requirement required to be collected from customers.

9 **Q. Why is Eversource seeking to recover the costs for the Transferred Poles outside of**
10 **base rates?**

11 A. The amounts recovered by Eversource through base rates are intended to cover the
12 Company's normally recurring O&M costs. To ensure the reliability and resiliency of the
13 poles despite the unpredictable nature of the capital investments required to maintain and
14 improve all approximately 346,942 Transferred Poles, the proposed funding mechanism is
15 necessary to ensure investment is recovered on a timely basis and will maintain alignment
16 between Eversource's revenues, controllable costs, and rate base. Customers will benefit
17 from this revenue support because pole improvements will mitigate the safety and
18 reliability risks Eversource and its customers face in relation to the potential failure of a
19 pole.

1 **Q. For how long would Eversource need the recovery amounts to flow through the**
2 **reconciling mechanism?**

3 A. Eversource would need the proposed reconciling recovery structure to remain in place until
4 the costs from the purchase, inspection and, where necessary, replacement of the
5 Transferred Poles are incorporated into base rates on a representative basis.

6 **Q. Will Eversource move forward with the purchase of the Transferred Poles without**
7 **the Commission's approval of the described funding arrangements?**

8 A. No, the Company is requesting that the Commission provide for reasonable cost recovery
9 for the immediate future to enable the transaction and allow for the Company to accomplish
10 safety and reliability objectives in relation to the pole inventory. For the reasons discussed
11 above, the Agreement is conditioned on, among other things, "a final, non-appealable
12 Order of the [Commission], free and clear of all contingencies or conditions acceptable to
13 the Parties and Seller's secured creditors, granting all necessary, final and non-appealable
14 asset transfer and cost recovery approvals acceptable to Buyer, related to the sale of the
15 Transferred Poles." Without approval of the Company's cost-recovery proposal, the
16 incremental revenue requirement incurred by Eversource in relation to the Transferred
17 Poles will exceed available attachment revenues, impeding the Company's ability to take
18 the steps necessary to maintain the poles.

19 **Q. How would the new reconciling mechanism work?**

20 A. On an annual basis, Eversource will calculate the net revenue requirement associated with
21 the Transferred Poles. This will include the return on the average rate base, depreciation
22 expense, O&M associated with transferring lines and appurtenances on replaced poles, and

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1 O&M inspection costs. The net revenue requirements would be reviewed and reconciled
2 annually to reflect the net plant resulting from the actual poles replaced and the associated
3 expense resulting from the replacement. The pole plant will include former Consolidated
4 poles that are replaced. The Consolidated pole plant replacements, associated transfer
5 expense and inspection of the Consolidated poles would be tracked separately from the
6 Company's existing pole plant to enable those costs to be separately identified and included
7 as an individual component in the RRA. The Company would perform this reconciliation
8 in the May 1 filing for the prior calendar year's net revenue requirement for the items
9 described above with rates effective August 1.

10 In addition to the net revenue requirement, the Company would include the incremental
11 property tax expense and vegetation management expense for the prior calendar year in the
12 May 1 RRA filing for rates effective August 1. The Company is proposing to include these
13 costs in the RRA components that are already in place because these costs are more difficult
14 to track separately as a direct result of the purchase of the Transferred Poles.

15 As it relates to property taxes, the RRA provides that the Company's actual annual property
16 tax expense will be compared against the amount in base distribution rates and reconciled
17 through the RRA. Therefore, there is no change to the function of the mechanism that is
18 required as a result of Eversource's acquisition of the Transferred Poles.

19 Regarding vegetation management expense, the RRA provides that the Company is
20 authorized to recover its annual amount of vegetation management as set in base rates of

1 approximately \$27.1 million, plus an additional amount up to 10 percent above the amount
2 in base rates, for a total of approximately \$29.1 million. The amount set in base rates was
3 set net of Consolidated's contribution amount that was billed to Consolidated, but not paid
4 by Consolidated, during the test year. As a result, after the transaction, the Company will
5 not be able to perform the requisite level of vegetation management activity without
6 accommodation for recovery of the amount of vegetation management expense that would
7 otherwise have been paid for by Consolidated. Therefore, the Company's proposal is to
8 recover the amount of vegetation management expenses that would have been charged to
9 Consolidated under the prior Joint Use/Ownership Agreement through the RRA going
10 forward. The Company will include the necessary documentation and support to justify its
11 calculation of the amount attributable to Consolidated that, going forward, will be
12 recoverable through the RRA.

13 **III. BILL IMPACTS**

14 **Q. What is the anticipated impact of Eversource's purchase of the Transferred Poles on** 15 **customer bills?**

16 A. For the average residential customer using 600 kilowatt-hours per month, Eversource's
17 purchase of the Transferred Poles and the associated revenue requirement will result in an
18 estimated monthly bill increase of \$1.02, or 0.88 percent, in the first full year under
19 Eversource ownership of the Transferred Poles. By the third year under Eversource
20 ownership, the average residential customer using 600 kilowatt-hours per month is
21 estimated to see a monthly bill increase of \$1.22 per month, or 1.04 percent, from the
22 current rates, depending upon certain assumptions including the rate of replacement of the

1 Transferred Poles, the level and cost of vegetation management activity, property tax
2 expenses, and incremental pole attachment revenues, among other factors.

3 **IV. CONCLUSION**

4 **Q. Do you have any concluding remarks to your testimony?**

5 A. Yes. As a public service company providing electric distribution service to New
6 Hampshire residents and businesses, it is in the best interest of the public for Eversource
7 to take ownership of the Transferred Poles so that it can more thoroughly and efficiently
8 inspect, maintain and replace as necessary the utility poles, and therefore ensure the proper
9 condition of the poles, reliability of its system, and the safety of the public. The Company's
10 current revenue requirement does not support the incremental costs associated with the
11 transfer of the Transferred Poles, so the proposed regulatory framework for recovery of
12 incremental costs is critical to recover the costs necessary to support proper maintenance
13 and repair of the Transferred Pole infrastructure.

14 **Q. Does this conclude your testimony?**

15 A. Yes.