STATE OF NEW HAMPSHIRE

BEFORE THE

NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

DOCKET NO. DE 24-070

REQUEST FOR CHANGE IN RATES

DIRECT TESTIMONY OF

Ashley N. Botelho and Yi-An Chen

Permanent Rate Revenue-Requirement Analysis

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

June 11, 2024

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STATE OF NEW HAMPSHIRE

BEFORE THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

DIRECT TESTIMONY OF ASHLEY N. BOTELHO AND YI-AN CHEN

PETITION OF PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE d/b/a EVERSOURCE ENERGY

REQUEST FOR CHANGE IN RATES

June 11, 2024

Docket No. DE 24-070

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1 **I. INTRODUCTION**

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

3 A. My name is Ashley N. Botelho. My address is 247 Station Drive, Westwood,
4 Massachusetts 02090. I am the Director of Revenue Requirements, Distribution for
5 Eversource Energy Service Company ("ESC").

6 **Q. What are your principal responsibilities in this position?**

7 A. In this position, I am responsible for the oversight, coordination and implementation of
8 revenue requirement calculations in base distribution rate proceedings as well as other
9 proceedings before our state regulatory agencies. I have previously supported base
10 distribution rate proceedings for the Connecticut operating subsidiaries of Eversource
11 Energy. I am also responsible for the oversight, coordination and implementation of
12 revenue requirement calculations for the Massachusetts operating subsidiaries of
13 Eversource Energy, including NSTAR Electric Company, NSTAR Gas Company, and

1 Eversource Gas Company of Massachusetts each d/b/a Eversource Energy. In addition, I
2 have the overall responsibility for regulatory interfaces for all revenue requirement-
3 related filings before the Massachusetts Department of Public Utilities (the
4 "Department").

5 **Q. Please provide your educational and professional background.**

6 A. I graduated from Drexel University in Philadelphia, Pennsylvania in 2010 with a
7 Bachelor of Science in Business Administration with a concentration in finance. In 2013,
8 I graduated from the Bryant University Graduate School of Business with a Master of
9 Business Administration. I began working as a contractor for NSTAR Electric in July
10 2010 in support of NSTAR Electric's Smart Grid programs. In October 2011, I was hired
11 as a Smart Grid Associate Project Manager. In December 2012, I assumed the role of
12 Analyst in Revenue Requirements. In July 2014, I was promoted to a Senior Revenue
13 Requirements Analyst. In January 2018, I was promoted to Manager, Revenue
14 Requirements. In July 2022, I was promoted to my current role of Director, Revenue
15 Requirements, Distribution.

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

18 A. No, I have not.

19 **Q. Ms. Chen, please state your name, position, and business address.**

20 A. My name is Yi-An Chen. My business address is 780 North Commercial Street,
21 Manchester, New Hampshire. I am employed by Eversource Energy Service Company

1 (“ESC”) as the Director of Revenue Requirements for New Hampshire. In that position, I
2 support the Public Service Company of New Hampshire d/b/a Eversource Energy
3 (“PSNH” or the “Company”) regarding revenue and rate-related matters.

4 **Q. What are your current responsibilities?**

5 A. I am currently responsible for the coordination and implementation of revenue
6 requirements calculations for the Company to support the rate and regulatory filings
7 associated with the Company’s default Energy Service, Stranded Cost Recovery Charge
8 (“SCRC”), Transmission Cost Adjustment Mechanism (“TCAM”), System Benefits
9 Charge (“SBC”), Regulatory Reconciliation Adjustment mechanism (“RRA”), Pole
10 Purchase Adjustment Mechanism (“PPAM”), and base distribution rates.

11 **Q. Please provide your educational and professional background.**

12 A. I received a Bachelor of Business Administration in International Business from
13 Soochow University in Taipei, Taiwan and Master of Business Administration from
14 Clark University. I joined ESC in 2023 with more than 15 years of experience at
15 National Grid USA in various roles of increasing responsibility including Regulatory and
16 Compliance, Finance and Performance Management, Program and Project Management,
17 and Reporting and Analysis.

18 **Q. Have you previously testified before the New Hampshire Public Utilities**
19 **Commission (the “Commission”)?**

20 A. Yes. I have provided testimony in multiple dockets.

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

2 A. Our testimony presents the revenue requirement calculation and existing revenue
3 deficiency for PSNH. The calculations supporting the revenue requirement are provided
4 in Exhibit ES-REVREQ-1. As part of the revenue requirement analysis, our testimony
5 discusses the mechanics of the Company's proposals for certain rate base and expense
6 adjustments based on the adoption of the performance-based ratemaking ("PBR")
7 regulatory plan proposed in this proceeding. The Company proposes, as part of its PBR
8 design, to eliminate and/or simplify certain reconciling mechanisms in this proceeding.
9 The Company proposes to eliminate (1) Property Tax, (2) Vegetation Management,
10 (3) Storm Cost LTD true-up, (4) Rate Case Expense, and (5) Lost Base Revenues
11 associated with Net Metering currently recovered through the RRA mechanism effective
12 August 1, 2024. The Company is proposing that, as part of its PBR plan, if adopted by
13 the PUC in this proceeding, certain cost elements currently collected and/or reconciled
14 through reconciling mechanisms could be eliminated on a going forward basis once the
15 cost elements are fully reflected in base distribution rates and PBR is implemented as
16 outlined in this docket.

17 The Company is also proposing to eliminate the PPAM, which was established following
18 the PSNH and Consolidated Communications, Inc. ("CCI") Pole Purchase Agreement
19 ("PPA") executed in December 2020 and amended in May 2023, and to eliminate the
20 recovery of lost base revenues ("LBR") from the SBC. Section IX below discusses the

1 background and elimination of the PPAM and LBR associated with energy efficiency as
2 part of the Company's overall PBR proposal.

3 The Company discusses how and whether these expenses are incorporated into base rates
4 and the timing of final reconciliations through each mechanism for expenditures incurred
5 through July 31, 2024 in Section IX, below.

6 Pursuant to RSA 378:29, the Company's temporary rates will be effective until the final
7 determination of this proceeding. Upon final disposition of the issues in this proceeding,
8 and to the extent the permanent rates are in excess of the temporary rates, the Company
9 will recover by means of a temporary increase over and above the final rates determined,
10 referred to as "recoupment." Such sum will represent the difference between the gross
11 income obtained from temporary rates and the gross income that would have been
12 obtained under the permanent rates if applied during the period that the temporary rates
13 were in effect. The Company's request for temporary rate changes are documented in
14 separate joint testimony of Ashley N. Botelho and Yi-An Chen ("Temporary Rate
15 Revenue-Requirement Analysis Testimony").

16 **Q. Are you presenting any Attachments in support of your joint testimony?**
17 A. Yes, we are presenting the following Attachments in support of the Company's filing:

Exhibit	Schedule	Purpose/Description
Attachment ES-REVREQ-1	**Revenue Requirement Analysis**	
	Summary Financial Schedules	
	Schedule ES-REVREQ-1	Overall Financial Summary
	Schedule ES-REVREQ-2	Computation Of Gross Revenue Conversion Factor
	Schedule ES-REVREQ-3	Revenue Requirement
	Schedule ES-REVREQ-4	Operating Revenue Summary
	Schedule ES-REVREQ-5	Summary Of Proposed Utility Adjustments
	O&M Adjustment Schedules	
	Schedule ES-REVREQ-6	Postage Expense
	Schedule ES-REVREQ-7	Information Services
	Schedule ES-REVREQ-8	Uncollectibles / Bad Debts
	Schedule ES-REVREQ-9	Fee Free Payment Processing
	Schedule ES-REVREQ-10	Customer Service
	Schedule ES-REVREQ-11	Dues & Memberships
	Schedule ES-REVREQ-12	Employee Benefits
	Schedule ES-REVREQ-13	Insurance Expense & Injuries & Damages
	Schedule ES-REVREQ-14	Payroll Expense
	Schedule ES-REVREQ-15	Variable Compensation
	Schedule ES-REVREQ-16	Enterprise It Projects Expense
	Schedule ES-REVREQ-17	Environmental
	Schedule ES-REVREQ-18	Field Operations
	Schedule ES-REVREQ-19	Facilities Expense
	Schedule ES-REVREQ-20	Vegetation Management
	Schedule ES-REVREQ-21	Lease Expense
	Schedule ES-REVREQ-22	Regulatory Assessments
	Schedule ES-REVREQ-23	Materials & Supplies
	Schedule ES-REVREQ-24	Vehicles
	Schedule ES-REVREQ-25	New Start Program Expense
	Schedule ES-REVREQ-26	Storm Reserve Accrual
	Schedule ES-REVREQ-27	Rate Case Expense
	Schedule ES-REVREQ-28	Residual O&M Inflation Adjustment
	Other Adjustment Schedules	
	Schedule ES-REVREQ-29	Depreciation & Amortization Expense
	Schedule ES-REVREQ-30	Amortization Of Deferred Assets
	Schedule ES-REVREQ-31	Property Tax Expense
	Schedule ES-REVREQ-32	Payroll And Other Taxes
	Schedule ES-REVREQ-33	Current Income Tax Expense

Exhibit	Schedule	Purpose/Description
	Schedule ES-REVREQ-34	Deferred Income Tax Expense
	Schedule ES-REVREQ-35	Investment Tax Credit
	Rate Base Schedules	
	Schedule ES-REVREQ-36	Rate Base And Return On Rate Base
	Schedule ES-REVREQ-37	Plant In Service By Major Property Grouping
	Schedule ES-REVREQ-38	Depreciation Reserve
	Schedule ES-REVREQ-39	Accumulated Deferred Income Taxes
	Schedule ES-REVREQ-40	Cost Of Capital
	Schedule ES-REVREQ-41	Cash Working Capital
Attachment ES-REVREQ-2	**Lead Lag Study Analysis**	
	Schedule ES-REVREQ-1	Cash Working Capital
	Schedule ES-REVREQ-2	Calculation of Total Revenue Lag
	Schedule ES-REVREQ-3	Calculation of Total Collection Lag
	Schedule ES-REVREQ-4	Calculation of Payroll Lead (Lag)
	Schedule ES-REVREQ-5	Calculation of Benefits Lead (Lag)
	Schedule ES-REVREQ-6	Calculation of Regulatory Assessment Lead (Lag)
	Schedule ES-REVREQ-7	Calculation of Insurance Lead (Lag)
	Schedule ES-REVREQ-8	Calculation of Other O&M Lead (Lag)
	Schedule ES-REVREQ-9	Calculation of NH Property Tax Lead (Lag)
	Schedule ES-REVREQ-10	Calculation of PSNH Employer Taxes Lead (Lag)
	Schedule ES-REVREQ-11	Calculation of Federal Income Tax Lead (Lag)
	Schedule ES-REVREQ-12	Calculation of State Income Tax Lead (Lag)

1 **Q. Has PSNH submitted other documentation as required by Puc 1604?**

2 A. Yes. The documentation required by Puc 1604 is included with this filing in a separate

3 volume.

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

5 A. Our testimony is organized into the following sections:

6 - **Section I** – provides the introduction to our testimony.

7 - **Section II** – provides an overview of the revenue requirement analysis.

1 • **Section III** – provides a comprehensive discussion of the Company's calculation of
2 the test year revenue requirement, including a discussion of the normalizations and
3 adjustments to test year operating expenses, depreciation, amortization of deferred
4 assets, and tax issues.
5 • **Section IV** – provides an overview of the Company's employee compensation
6 program.
7 • **Section V** – provides an overview of the Company's employee benefit program.
8 • **Section VI –** describes the Company's computations of Rate Base and Rate of
9 Return.
10 • **Section VII –** summarizes the Lead Lag analysis.
11 • **Section VIII –** presents the Company's storm cost recovery proposal.
12 • **Section IX** – presents the Company's reconciling mechanism, including the proposal
13 to simplify and eliminate certain mechanisms as part the proposed PBR plan.
14 • **Section X** – summarizes how the Company's proposed revenue requirement and cost
15 recovery proposals would change if the Company's PBR design was not adopted as
16 filed.
17 • **Section XI** – provides the conclusion.

18 **II. SUMMARY OF REVENUE REQUIREMENTS ANALYSIS**

19 **Q. What is the test year period that PSNH used for the revenue requirement analyses**
20 **presented in this case?**

21 A. The test year is the 12-month period ending December 31, 2023 ("Test Year").

1 **Q. What is the "Rate Year" in this this case?**

2 A. The term "Rate Year" for purposes of this permanent rate case filing refers to the first 12
3 months during which the rates established in this proceeding will be in effect (August 1,
4 2025 to July 31, 2026).

5 **Q. Would you please provide a summary of PSNH's financial results as of the Test**
6 **Year?**

7 A. Yes. Attachment ES-REVREQ-1, Schedule ES-REVREQ-1 provides the overall
8 financial summary for PSNH for the Test Year demonstrating the need for the
9 Company's rate request in this proceeding. The Company's rate base as of December 31,
10 2023 is $1,692,173,678. PSNH's operating income was $61,953,971 for its Adjusted
11 Test Year analysis resulting in an earned rate of return of 3.66 percent. Following the
12 known and measurable changes reflected in this rate request, the Company's operating
13 income would be $5,728,545 and the resulting earned rate of return would be 0.31
14 percent without an increase to base distribution rates. The requested after-tax weighted
15 average cost of capital in this proceeding is 7.44 percent. To earn its rate of return, the
16 Company's required operating income would need to be $137,786,437, resulting in an
17 income deficiency of $132,057,892 ($137,786,437 less $5,728,545). After applying the
18 gross revenue conversion factor of 1.36846 to reflect an adjustment for income taxes,[1]
19 plus including the amount of the revenue increase that would be deemed uncollectible

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[1] The calculation for the gross revenue conversion factor is calculated in Attachment ES-REVREQ-1, Schedule ES-REVREQ-2.

1 from customers, the Company's total distribution revenue increase required is
2 $181,898,881.

3 **Q. Would you please summarize the PSNH distribution cost of service and resulting**
4 **revenue requirement?**

5 A. Yes. Attachment ES-REVREQ-1, Schedule ES-REVREQ-3 presents the revenue-
6 requirement summary for PSNH, computing a total cost of service of $618,188,728. For
7 the Test Year, the calculated distribution revenue deficiency is $181,898,881, based on
8 adjusted Test Year revenues of $436,289,846. The computation of the PSNH revenue
9 deficiency reflects total adjusted rate base of $1,852,291,891 and assumes a weighted
10 average cost of capital of 7.44 percent as supported by the testimony of Vincent V. Rea
11 ("Cost of Capital Testimony").

12 As noted above, in addition to the permanent base rate increase, the Company is seeking
13 approval of a PBR mechanism that will adjust base rates annually as discussed in the
14 joint testimony of Douglas W. Foley, Robert S. Coates, Jr. and Douglas P. Horton ("Case
15 Overview Testimony").

16 **Q. Did the Company make any normalizing or post-Test Year adjustments to the cost of**
17 **service in this filing?**

18 A. Yes. The Company first reviews the Test Year activity to identify any cost or revenue
19 elements that are non-recurring, out-of-period, or otherwise not appropriate to be
20 reflected in the revenue requirement. Where the Company has identified such elements,
21 it has reflected the elements as normalizing adjustments to the cost of service in this
22 filing to establish a "normalized" revenue requirement, referred throughout the revenue

1 requirement analysis as the Adjusted Test Year. Similarly, to the extent that the Test
2 Year excludes certain known and measurable costs or revenue changes that will be
3 incurred on a continuing basis, those elements are appropriate for inclusion in the revenue
4 requirement. The Company reflects pro-forma or post-Test Year adjustments to capture
5 these known and measurable changes, referred throughout the revenue requirement
6 analysis as Pro Forma Adjustments. The final revenue requirement, inclusive of
7 normalizing and pro forma adjustments, are to be included in base distribution rates
8 beginning with the Rate Year are referred to throughout the revenue requirement analysis
9 as the Test Year Pro Forma.

10 **Q. Please describe the process for identifying normalizing adjustments.**

11 A. In order to identify and normalize out-of-period or non-recurring items from the Test
12 Year level of expense activity, the Company performed a detailed review of account
13 activity to identify expense activity that is out-of-period or non-recurring activity. As a
14 supplement to this review, the Company's Accounting Department identified any
15 accounting entries that were recorded on PSNH's books that were "out-of-period,"
16 meaning the entries were booked during the Test Year but are related to a different time
17 period. In addition, the Company's Accounting Department identified entries that were
18 recorded outside of the 12-month Test Year but that should have been recorded within the
19 Test Year. This exercise has resulted in the Company's proposal for an adjusted Test
20 Year that is reflected in the various schedules of Attachment ES-REVREQ-1. A detailed
21 listing of all normalizing adjustments included in the revenue requirement calculation are

1 summarized in Attachment ES-REVREQ-1, Schedule ES-REVREQ-5, page 5. All of the
2 normalizing adjustments in the Company's permanent rate filing and described below are
3 consistent with those made in the temporary rate filing.

4 **Q. Did the Company make any normalizing adjustments to Test Year Operating**
5 **Revenues?**

6 A. Yes. Attachment ES-REVREQ-1, Schedule ES-REVREQ-4 provides the operating
7 revenue summary including normalizing adjustments as detailed on Attachment ES-
8 REVREQ-1, Schedule ES-REVREQ-5, page 1, line 22, Column (E), the Company made
9 normalizing adjustments to operating revenues totaling $(36,000). These adjustments are
10 associated with prior period rental revenues of $(6,694) and rental revenue associated
11 with an expired lease of $(29,306) as summarized in Attachment ES-REVREQ-1,
12 Schedule ES-REVREQ-5, page 5, lines 39 through 42.

13 **Q. Did the Company make any normalizing adjustments to Test Year Operating and**
14 **Maintenance Expenses?**

15 A. Yes. As shown on Attachment ES-REVREQ-1, Schedule ES-REVREQ-5, page 1, line
16 30, Column (E), the Company made adjustments to operations and maintenance
17 ("O&M") expenses totaling $8,269,763 to reflect a number of increases and decreases to
18 operating expenses. Additional detail describing these adjustments is provided in
19 Attachment ES-REVREQ-1, Schedule ES-REVREQ-5, page 5, lines 44 through 94.

1 **Q. Did the Company make any normalizing adjustments to Test Year Other Operating**
2 **Expenses?**

3 A. Yes. As shown on Attachment ES-REVREQ-1, Schedule ES-REVREQ-5, page 1, line
4 32 and line 34, Column (E), the Company made adjustments to amortization and
5 depreciation expense totaling $(12,856,274) to reclass depreciation expense for
6 Enterprise IT projects from account 403 to account 930 for presentation purposes and
7 $33,929,279 associated with changes to the amortization of deferred assets as further
8 described in detail in Section III.E. to reflect certain increases and decreases to Other
9 Operating Expenses. Additional detail describing these adjustments is also provided in
10 Attachment ES-REVREQ-1, Schedule ES-REVREQ-5, page 5, lines 18 through 29.

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

13 A. Yes. As shown on Attachment ES-REVREQ-1, Schedule ES-REVREQ-5, page 1, line
14 39, Column (E), the Company made normalization adjustments totaling $(617,100) to
15 reflect increases and decreases to Taxes Other than Income. Additional detail describing
16 these adjustments is provided in Attachment ES-REVREQ-1, Schedule ES-REVREQ-5,
17 page 5, lines 31 through 37.

18 **Q. What is the Company's proposal with respect to post-Test Year changes associated**
19 **with capital additions placed into service after the end of the Test Year?**

20 A. As discussed further below, the Company is proposing to reflect in permanent rates
21 effective August 1, 2025 the following; (1) Company investment placed in service by
22 December 31, 2024; and (2) known and measurable expense changes associated with
23 enterprise IT project additions place in service by December 31, 2024.

1 **Q. How has the Company computed the rate base for purposes of the revenue**
2 **requirement analysis?**

3 A. As noted above, the proposed rate base for PSNH in this case incorporates plant in
4 service through December 31, 2023, plus an estimate of 2024 plant additions. The
5 Company plans to update capital additions through December 31, 2024, during the course
6 of the case and in early 2025, following the accounting close for calendar year 2024. In
7 this update, the Company will provide all pertinent documentation of actual plant
8 additions, allowing adequate time for discovery on the documentation provided. In this
9 way, although the Company is presenting an estimate of 2024 plant additions with this
10 initial filing, the Company is *not* requesting approval of an *estimated* rate base for rates
11 effective August 1, 2025. The Company will submit project documentation associated
12 with actual plant additions that are completed and placed in service to customers in 2024,
13 such that the rates the Company is requesting approval of for effect August 1, 2025, will
14 be based either on actuals, or known and measurable adjustments to actuals.

15 As discussed in the joint testimony of Leanne M. Landry, James J. Devereaux, and Brian
16 Dickie ("Capital Planning and Additions Testimony"), the Company will file no later
17 than April 15, 2025, all relevant project documentation and supporting testimony to
18 demonstrate that the costs associated with the 2024 investments were reasonably incurred
19 and that the plant is used and useful in service to customers. The Company will adjust
20 the base distribution rates for depreciation expense, return on rate base, associated federal
21 and state income taxes, and property taxes for all existing assets ending December 31,

1 2024. The rate-base computation is summarized in Attachment ES-REVREQ -1,
2 Schedule ES-REVREQ-36.

3 **Q. How has the Company calculated the Test Year Pro Forma rate base balance as of**
4 **December 31, 2024?**

5 A. The Company has computed the Test Year Pro Forma rate base balance at December 31,
6 2024, using:

7 • Projected capital additions, retirements, and accumulated depreciation through
8 December 31, 2024; and
9 • Projected accumulated deferred income tax balances as of December 31, 2024
10 based on the expected book and tax amounts.

11 The Company has also incorporated associated depreciation and amortization expense
12 calculations based on the estimated December 31, 2024 balances into the calculations
13 presented herein and will incorporate an update for associated property-tax expense
14 during the proceeding.

15 **Q. Does PSNH's cost of service include costs incurred by a centralized service company**
16 **on behalf of PSNH?**

17 A. Yes. In the Test Year, service company charges were billed to PSNH by Eversource
18 Energy Service Company.

19 **Q. Please explain the service company structure during the Test Year.**

20 A. Beginning with the effective date of the merger of Northeast Utilities and NSTAR,
21 April 10, 2012, Northeast Utilities Service Company ("NUSCO") and NSTAR Electric &
22 Gas Service Company ("NE&G") operated as a single service company organization
23 despite being separate legal entities. Effective January 1, 2014, NE&G was legally

1 merged into NUSCO, with NUSCO as the surviving entity. Effective February 2, 2015,
2 Northeast Utilities and all of its subsidiaries began doing business as Eversource Energy,
3 and NUSCO was renamed as Eversource Energy Service Company ("ESC").

4 ESC provides administrative, corporate, and management services to PSNH and other
5 operating subsidiaries of Eversource Energy. The cost of service for PSNH reflects
6 charges from ESC in the Test Year.

7 **Q. How are ESC costs incorporated into the PSNH revenue requirement calculations?**

8 A. ESC charges to PSNH are recorded on the PSNH books and then incorporated into the
9 appropriate expense categories in the cost of service. Service-company charges fall into
10 two categories: (1) "direct charges" billed for costs incurred and work performed by
11 service-company personnel directly related to PSNH; and (2) "common costs" that are
12 allocated among the respective subsidiaries receiving service based on the appropriate
13 allocation factors.

14 **Q. Are charges billed to PSNH in conformance with a service agreement?**

15 A. Yes. During the Test Year, there were operating agreements in effect between
16 Eversource Energy Service Company and PSNH. These agreements identify the services
17 that are provided to PSNH and reference the billing methods that are applied to calculate
18 the charges presented each month to PSNH.

1 **Q. Is there any other analysis that you have relied upon to prepare the PSNH revenue**
2 **requirement?**

3 A. Yes. We have used the recommended cost of capital presented by Company Witness
4 Vincent Rea to compute the PNSH revenue requirement. The PSNH revenue
5 requirement also includes depreciation expense derived from the depreciation studies
6 prepared by Company Witness John J. Spanos of Gannett Fleming Valuation and Rate
7 Consultants, LLC. Lastly, the revenue requirement also relies on the results of the
8 working capital Lead Lag study performed by the Company in support of this proceeding
9 and described later in this testimony.

10 **Q. The Company's filing encompasses other rate-related proposals. Do these proposals**
11 **affect the computation of the revenue requirement?**

12 A. The Company is proposing to implement a PBR Plan that would set rates annually in
13 accordance with a revenue-cap formula to be approved by the Commission in this case.
14 The Company is proposing the PBR Plan with a goal of improving cost-control
15 incentives, achieving administrative efficiency, and enhancing effectiveness for
16 customers, which is discussed in more detail through the in the Case Overview
17 Testimony. As part of the Company's PBR proposal, the Company has proposed to
18 simplify and eliminate certain cost-recovery mechanisms, as discussed above and in
19 Section IX.

1 **III. REVENUE REQUIREMENTS ANALYSIS**

2 **Q. What adjustments have you made to PSNH's revenue requirements calculation?**

3 A. The PSNH revenue requirement includes adjustments to Operating Revenues, O&M
4 Expense, Depreciation, Amortization, and Taxes. The Company describes these
5 adjustments in detail below.

6 **Q. How is Attachment ES-REVREQ-1, Schedule ES-REVREQ-5, which illustrates the**
7 **Test Year and post-Test Year adjustments to the cost of service, organized?**

8 A. Attachment ES-REVREQ-1, Schedule ES-REVREQ-5, page 1 provides a high-level
9 summary of the adjusted Test Year operating income calculation. Attachment ES-
10 REVREQ-1, Schedule ES-REVREQ-5, page 2 summarizes the proposed normalizing and
11 post-Test Year adjustments to O&M expense and other operating expenses such as
12 depreciation, amortization, and taxes other than income taxes. Column (D) of Schedule
13 ES-REVREQ-5, page 2 shows the Adjusted Test Year figures for O&M expense and
14 other operating expenses with normalizing adjustments, and reconciles to Schedule ES-
15 REVREQ-5, page 1. Column (E) itemizes the Company's proposed post-Test Year
16 adjustments to the Adjusted Test Year. Column (F) shows the Test Year Pro Forma
17 amount included in the revenue requirement. Supporting schedules and workpapers are
18 referenced in the last column.

19 Attachment ES-REVREQ-1, Schedule ES-REVREQ-5, page 3 provides a similar
20 schedule of expenses as Schedule ES-REVREQ-5, page 2, further breaking out these
21 expenses by FERC account. Schedule ES-REVREQ-5, page 3, Column (C) starts with
22 the balances as reported on the Company's FERC Form 1 as of December 31, 2023.

1 Column (D) presents adjustments to remove expenses related to costs recovered through
2 various reconciliation mechanisms further itemized on Schedule ES-REVREQ-5, page 4.
3 Column (E) presents vegetation management and property tax expenses associated with
4 the CCI pole acquisition that occurred during the Test Year and has been reflected in base
5 rates as part of this rate proposal. Column (F) sums columns (C) through (E), which
6 equals the unadjusted Test Year expense. Column (G) reflects the reclassification of
7 indirect costs for purposes of presenting the revenue requirement in this proceeding. This
8 reclassification is intended for ease of presentation of certain cost categories, as described
9 in more detail later in this testimony, and has no net effect on the revenue requirement
10 presented in this proceeding. Column (H) presents the normalizing adjustments to the
11 Test Year expenses. Column (I) presents the Adjusted Test Year expense by calculating
12 the sum of Columns (F) through (H). Columns (J) through (AJ) show the pro forma
13 adjustments, and Column (AK) shows the rate year distribution expense, also referred to
14 as the Test Year Pro Forma.

15 Attachment ES-REVREQ-1, Schedule ES-REVREQ-5, page 4 provides details
16 supporting the amounts listed on Schedule ES-REVREQ-5, page 3, Column (D), and
17 reflect the removal of expenses recovered outside of base distribution rates as part of an
18 established reconciling mechanism. These amounts are recovered through other
19 mechanisms and have therefore been removed from the distribution revenue requirement
20 in this proceeding.

1 Attachment ES-REVREQ-1, Schedule ES-REVREQ-5, page 5 provides a detailed listing
2 of the normalizing adjustment proposed in this case, and Schedule ES-REVREQ-5, page
3 6 provides the calculation of the capitalization rates used throughout the revenue
4 requirement calculation.

5 **Q. What is the purpose of the indirect cost reallocation included in Attachment ES-**
6 **REVREQ-1, Schedule ES-REVREQ-5, page 1, Column (C) and Attachment ES-**
7 **REVREQ-1, Schedule ES-REVREQ-5, page 3, Column (G)?**

8 A. The indirect cost reclassification is for presentation purposes to allow the Company to
9 reflect the ESC costs charged to various O&M accounts through indirect rates in the
10 expense account in which the indirect charges are related to, net of any amounts charged
11 to capital. For instance, following the reclassification, ESC employee benefits costs
12 attributed to PSNH will reside in Account 926, as opposed to the various O&M
13 activities/accounts the ESC employee supported, and the amounts in Account 926 would
14 be net of any ESC indirect costs charged to capital. The reclassification ultimately allows
15 the expense portion of employee benefits, both PSNH and ESC amounts assigned to
16 PSNH, to all be reported in one account, Account 926.

17 **Q. How are indirect rates utilized to assign employee benefits, payroll taxes and other**
18 **service company charges to PSNH?**

19 A. Employees charge their labor costs in accordance with the Company's cost charging
20 policies, which are designed to assign or allocate costs in accordance with cost-causation
21 principles. Employee benefit costs and other service company charges "follow" labor to
22 the operating company via "indirect" cost rates. Generally speaking, indirect rates are

1 designed to assign the specific costs associated with an employee to the O&M or capital
2 activity that the employee supports.

3 More specifically, when employees provide services to support an activity, their labor is
4 charged to that operating company, along with associated costs included in the Payroll
5 Benefits rate ("ZPB"), for PSNH employees and the General Service Company Overhead
6 rate ("ZGS"), for service company employees. These costs include employee benefits,
7 payroll taxes, corporate insurance, leases, and ESC capital costs, such as enterprise IT
8 projects, which follow the associated labor to the O&M or capital activity.

9 Service company employees charge the appropriate activity for their labor costs and each
10 respective cost included in the indirect rate is credited to Account 403, 408, 925, 926, 930
11 and 931. A similar process occurs for PSNH employees, except that the indirect costs
12 follow labor only to capital or other balance sheet accounts.

13 For Operating Company employees, indirect costs generally do not follow the labor costs
14 charged by employees to expense accounts because the costs are incurred and recorded
15 directly to expense accounts rather than coming "indirectly" from ESC. Therefore, for
16 Operating Company employees, the expense portion of indirect costs (for example,
17 benefits) reside in Account 926. In this way, the amounts residing in Account 926 for
18 Operating Company employees are presented net of a credit for amounts charged to
19 capital and other balance sheet accounts.

1 **Q. Please describe the indirect cost reallocation included in Attachment ES-REVREQ-**
2 **1, Schedule ES-REVREQ-5, page 1, Column (C) and Attachment ES-REVREQ-1,**
3 **Schedule ES-REVREQ-5, page 3, Column (G).**

4 A. The indirect cost reallocation in Attachment ES-REVREQ-1, Schedule ES-REVREQ-5,
5 page 1, Column (C) and Schedule ES-REVREQ-5, page 3, Column (G) is a two-step
6 process.

7 The first step is to reverse in total the Test Year activity recorded using cost elements
8 utilized to track the application of the ZPB and ZGS rates. As shown on Attachment ES-
9 REVREQ-1, Schedule ES-REVREQ-5, page 1, line 50, Column (C), and Schedule ES-
10 REVREQ-5, page 3, Column (G), line 95, there is no net impact to the cost of service of
11 making the reclassification described above, as it is merely a geography change from
12 various expense accounts to Account 403, 408, 925, 926, 930 and 931.

13 The second step is to develop composite Test Year capitalization percentages for PSNH
14 and ESC as shown on Attachment ES-REVREQ-1, Schedule ES-REVREQ-5, page 6,
15 line 78, so that the Company can reflect the actual capitalization adjustment in the Test
16 Year to the Test Year Pro Forma in the relevant O&M schedules for employee benefits,
17 payroll taxes, corporate insurance, leases and ESC capital costs, such as enterprise IT
18 expense.

19 **A. Operating Revenues**

20 **Q. Which schedules show the adjustment to Operating Revenues?**

21 A. Attachment ES-REVREQ-1, Schedule ES-REVREQ-4, page 1 shows the Test Year
22 revenue per books in Column (B). Revenues associated with other reconciling

1 mechanisms totaling ($1,215,928,553) have been removed from Test Year revenues as
2 shown in Column (C). More specifically, as shown in lines 26 through 32, Column (C),
3 the non-distribution revenues of ($806,277,772) that have been removed from the Test
4 Year are recovered through other reconciling rate mechanisms established by the
5 Commission, including transmission, Energy Efficiency, Stranded Cost Recovery,
6 Energy Service, the RRA, and the PPAM. Other Revenues shown in lines 38 through 44,
7 Column (C) totaling ($409,650,781) were also removed from Test Year revenues.
8 Adjustments to account for other revenues are shown in Column (E). Lastly, adjusted
9 Test Year revenues are shown in Column (F).

10 **Q. Please describe in more detail how the pro forma adjustments on Attachment**
11 **REVREQ-1, Schedule REVREQ-4, page 1, Column (G) are derived.**

12 A. The Company has included a pro forma adjustment in distribution billed revenues of
13 $(1,981,528). This decrease reflects a restatement of total billed revenues based on the
14 distribution rates that were in effect during each month of the Test Year.

15 Further, the Company has included in other revenues a pro forma adjustment of $7,810.
16 This adjustment represents known and measurable increases to rental agreements
17 between the Company and the tenants at those locations listed in Attachment ES-
18 REVREQ-1, Schedule ES-REVREQ-4, page 3.

1 **B. Adjustments to Test Year O&M Expense**

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

3 A. In the Test Year, PSNH incurred $903,871,138 in O&M expense as shown on
4 Attachment ES-REVREQ-1, Schedule ES-REVREQ-5, page 3, line 84, Column (C).

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

7 A. Yes. The Company conducted a rigorous process to identify and remove non-base
8 distribution expenses. First, the Company reflects total Test Year expenses per books to
9 the equivalent expenses by account reflected on pages 320-323 in the FERC Form 1
10 Report. Those audited expense balances, totaling $903,871,138, are the starting point for
11 the adjustment calculation and are shown on Schedule ES-REVREQ-5, page 4,
12 Column (C). Next, as shown on Schedule ES-REVREQ-5, page 3, line 84, Column (D)
13 and page 4, line 84, Columns (D) through (K), the Company identified $708,601,418
14 related to non-base distribution expenses recovered through other rate mechanisms in the
15 test year and established by the Commission including default energy service, pole plant
16 adjustment mechanism, regulatory reconciliation adjustment, systems benefit charge
17 (energy efficiency), transmission, and the stranded cost recovery charge (generation).
18 Then, the Company adjusted the Test Year by removing the non-base distribution
19 expenses of $708,601,418 as shown on Attachment ES-REVREQ-1, Schedule
20 ES-REVREQ-5, page 3, Column (D) as to remove the impact of these expenses from the
21 revenue requirement proposal in this case. For any costs recovered through reconciling
22 mechanisms that are proposed to be transferred to base distribution rates as part of this

1 proceeding, the Company has reflected the adjustments in Attachment ES-REVREQ-1,
2 Schedule ES-REVREQ-5, page 3, Column (E). The process discussed above was also
3 performed for other operating expenses and taxes other than income in the same
4 referenced schedules.

5 **Q. Did the Company make any other adjustments to the Test Year level of expenses?**

6 A. Yes. In order to account for out-of-period or non-recurring items from the Test Year
7 level of expense, the Company undertook a detailed review of account activity to
8 normalize out-of-period or non-recurring activity. The normalizing adjustments reflected
9 in the permanent rate filing and described below are the same as those included in the
10 Company's temporary rate filing submitted for effect August 1, 2024.

11 **Q. Please describe the normalizing adjustments to O&M Expense presented on**
12 **Schedule ES-REVREQ-5, page 5.**

13 A. The normalizing adjustments presented on Attachment ES-REVREQ-1, Schedule ES-
14 REVREQ-5, page 5, line 94, result in a net increase to Test Year O&M Expense of
15 $8,269,763.

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

18 A. The Company has made additional normalizing adjustment to O&M Expense as itemized
19 on Attachment ES-REVREQ-1 (Temp), Schedule ES-REVREQ-5, page 5. The
20 Company has discussed the most material adjustments elsewhere in this testimony,
21 including the amortization of unrecovered storm costs and the impact of accounting

1 entries related to the CCI pole acquisition. The most significant of the remaining
2 normalizing adjustments are summarized as follows:

3 • A decrease to Account 593 of $(2,567,308) to exclude affiliate labor allocated to
4 PSNH in the Test Year. Please refer to Attachment ES-REVREQ-1, Schedule
5 ES-REVREQ-1, page 5, line 46.

6 • A decrease to Account 593 of $(902,206) to normalize the Test Year level of
7 vegetation management expense related to facilities around the CCI pole assets.
8 Please refer to Attachment ES-REVREQ-1, Schedule ES-REVREQ-5, page 5,
9 line 47.

10 • An increase to Account 920 of $1,256,146 to normalize the Test Year level of
11 variable compensation expense to exclude the impact of accounting entries
12 recorded in the Test Year. These entries occurred during the Test Year but are
13 related to the prior calendar year. Therefore, an adjustment is required so that
14 only the amounts related to the Test Year activity remain. Please refer to
15 Attachment ES-REVREQ-1, Schedule ES-REVREQ-5, page 5, line 60.

16 • A decrease to Account 923 of $(500,000) to reclass the amortization of merger
17 costs to Account 407 for presentation purposes, resulting in no impact to the
18 overall cost of service.

19 • A decrease to Account 926 of $(682,396) to exclude non-recurring non-qualified
20 pension settlements paid in the Test Year.

1 • A decrease to Account 928 of $(901,416) to reduce expenses to reflect actual
2 amounts invoiced by the Commission for Fiscal Year ("FY") 2024 regulatory
3 assessments. More specifically the reduction of ($901,416) reflects the difference
4 between the amount booked for regulatory assessments in the Test Year of
5 $5,598,158 and the actual invoiced amount in FY 2024 of $4,696,742[2]. During
6 the course of this proceeding, the Company expects to receive updated regulatory
7 assessments from the Commission and will update its revenue requirement
8 accordingly to reflect this known and measurable change. Please refer to
9 Attachment ES-REVREQ-1, Schedule ES-REVREQ-5, page 5, line 81.

10 • An increase to Account 930 of $12,856,274 to reclass depreciation expense for
11 enterprise IT projects from Account 403 to Account 930 for presentation purposes
12 to include in the enterprise IT expense schedule reflected in O&M.

13 • The remaining normalizing adjustments total a net decrease of $(289,330) across
14 various accounts as itemized in Attachment ES-REVREQ-1, Schedule ES-
15 REVREQ-5, page 5.

[2] The FY 2024 assessment totals $4,706,742 less an allocation of $10,000 assigned to Energy Service per RSA 363-A.

1 **Q. Are there any other normalizing adjustments to the Company's O&M expenses?**

2 A. Yes. This testimony describes the more significant adjustments to O&M; however, all of
3 the O&M adjustments are shown on Attachment ES-REVREQ-1, Schedule
4 ES-REVREQ-5, pages 1 through 5.

5 **C. Post-Test Year Expense Adjustments**

6 1. <u>Postage Expense</u>

7 **Q. Did you adjust the Test Year Postage Expense for ratemaking purposes?**

8 A. Yes. As shown on Attachment ES-REVREQ-1, Schedule ES-REVREQ-6, page 2, line
9 19, the Test Year amount for postage expense is $2,116,483. An increase in the cost of
10 first-class postage of 3.52 percent took effect on January 22, 2023. The Company has
11 included a normalizing adjustment to reflect this increase. The result of this adjustment
12 is an increase of $4,282 to the Test Year postage expense, as shown on Attachment ES-
13 REVREQ-1, Schedule ES-REVREQ-6, page 2, line 23.

14 Another increase in the cost of first-class postage of 5.73 percent took effect on July 9,
15 2023. The Company has included a normalizing adjustment to reflect this increase. The
16 result of this adjustment is an additional increase of $55,957 as shown on Attachment ES-
17 REVREQ-1, Schedule ES-REVREQ-6, page 2, line 27. Based on the Test Year
18 adjustments described above, the adjusted Test Year amount for postage expense is
19 $2,176,722, as shown on Attachment ES-REVREQ-1, Schedule ES-REVREQ-6, page 2.

20 A pro forma adjustment in the amount of $39,338 was made to reflect a 1.81% increase
21 to the cost of first-class postage from rate established on July 9, 2023 to the rate

1 established on January 21, 2024. This adjustment results in a pro forma adjustment of
2 $39,338 and a Test Year Pro Forma amount of $2,216,000, as shown on Attachment ES-
3 REVREQ-1, Schedule ES-REVREQ-6, page 1.

4 It is important to note that there is potential for an additional increase to the first-class
5 postage rate in July 2024. If an increase does occur, the Company will seek to update its
6 Test Year Pro Forma expense amount for postage expense.

7 2. Information Services Expense

8 **Q. Please describe the Information Services expense adjustment.**

9 A. The $559,519 adjustment shown on Attachment ES-REVREQ-1, Schedule ES-
10 REVREQ-7, page 1, is required to account for increased post-Test Year expenses for IT
11 administration and support, as well as telecommunications services provided to the
12 Company by outside vendors. The $559,519 pro forma adjustment reflects higher vendor
13 costs mirroring inflation and is calculated by multiplying total Adjusted Test Year
14 Information Services expense by the 5.348 percent inflation rate on Attachment ES-
15 REVREQ-1, Schedule 28, Page 2, Line 65. A more detailed breakdown of the
16 Information Services Expense Adjustment is provided on Attachment ES-REVREQ-1,
17 Schedule ES-REVREQ-7, page 2.

18 3. Uncollectible Accounts

19 **Q. Did you adjust the Test Year Uncollectible Expense?**

20 A. Yes. The Company made a $(1,859,731) adjustment related to bad-debt expense as
21 shown on Attachment ES-REVREQ-1, Schedule ES-REVREQ-8. Specifically, to

1 calculate this adjustment we calculated the average retail revenues and net write-offs for
2 each of the past three years, including the Test Year, i.e., 2021 through 2023, as shown in
3 Attachment ES-REVREQ-1, Workpaper ES-REVREQ-8. Net write-offs comprise the
4 actual customer accounts written off for non-payment minus recoveries related to
5 previously written off account balances. The resulting ratio of actual customer account
6 write-offs to retail revenues is 0.6548 percent as shown on Attachment ES-REVREQ-1,
7 Schedule ES-REVREQ-8, page 2, line 26, Column (D). This net write-off ratio is
8 intended to represent the portion of the Company's billed revenues that it will ultimately
9 be unable to collect from its customers. The total Test Year retail revenue of
10 $1,226,982,308 is then multiplied by the net write-off ratio to arrive at a restated total
11 company Test Year uncollectibles amount of $8,034,280 as shown on Attachment
12 ES-REVREQ-1, Schedule ES-REVREQ-8, page 2, line 27, Column (B).

13 Using the allocation methodology approved in Docket No. DE 09-035, this restated Test
14 Year total is then allocated 51.4 percent to distribution (or $4,131,629), and 48.6 percent
15 to energy service (or $3,902,652), based on the average ratio of historical distribution
16 revenues to the sum of historical distribution revenues and energy service revenues.[3]
17 The difference between the recomputed Test Year Pro Forma level of bad debt expense
18 of $4,131,629 and the Test Year balance in Account 904 (Uncollectible Accounts) of
19 $5,991,360 results in a pro forma decrease of $(1,859,731) in bad-debt expense, as shown
20 on Attachment ES-REVREQ-1, Schedule ES-REVREQ-8, page 1, line 23, Column (C).

[3] Attachment ES-REVREQ-1, Schedule ES-REVREQ-8, page 2, lines 35 through 37.

1 In brief, this decrease is driven by the application of the historical allocation methodology
2 described above.

3 4. Fee Free Payment Processing

4 **Q. Under the DE-19-057 Settlement Agreement, what can the Company recover for Fee**
5 **Free Credit and Debit Card payments?**

6 A. Pursuant to Section 12.3, the Company may recover $375,000 of program-related costs in
7 base rates annually beginning January 1, 2021, subject to reconciliation at the time of the
8 Company's next rate case, with carrying charges on the over- or under-recovered balance
9 calculated using the prime rate. If the actual costs resulting from customers' adoption of
10 the fee free option exceed the $375,000 allowed in rates in the first year, the Company
11 shall increase the amount in rates to an amount reflecting the estimated costs, but not
12 more than $520,500 effective February 1, 2022. In this proceeding, the Company has
13 reflected an adjustment to reconcile the historical amounts for the Fee Free Credit and
14 Debit Card payments in Amortization of Deferred Assets in accordance with the DE-19-
15 057 Settlement Agreement and as discussed in Section III.E below. The Company has
16 also reflected pro-forma adjustments for the known and measurable changes for the Fee
17 Free program on a going forward basis as described below. Similar to the DE-19-057
18 Settlement Agreement, the Company proposes an annual amount to be recovered in base
19 distribution rates, beginning on August 1, 2024, subject to reconciliation at the time of
20 the Company's next rate case, with carrying charges on the over- or under-recovered
21 balance calculated using the prime rate. The Fee Free program is discussed in more

1 detail in the joint testimony of Daniel M. Traynor and Christopher G. Kishimoto
2 ("Customer Operations and Digital Strategy Testimony").

3 **Q. What adjustments did the Company make to the Test Year Fee Free Payment**
4 **Processing costs?**

5 A. As shown on Attachment ES-REVREQ-1, Schedule ES-REVREQ-9, Page 2, Line 22,
6 Column (C), the Company made a $19,585 adjustment to the test year Fee Free Payment
7 Processing costs resulting in an Adjusted Test Year amount of $656,865. This
8 adjustment is due to the Test Year actual expense including out-of-period activities from
9 December 2022 and omitting bills pertaining to December 2023 expenses. As a result,
10 December 2022 expenses of $43,757 were removed from the Adjusted Test Year amount
11 and December 2023 expenses of $41,803 were added to the Adjusted Test Year amount,
12 totaling a decrease of ($1,954). Further, due to the New Hampshire portion of each bill
13 being a small portion of the total bill amount, the Test Year actual expense did not
14 include allocations for taxes. Each month's bill for 2023 was multiplied by the sales tax
15 rate of 3.39%, resulting in an increase of $21,538 offset by the decrease of $(1,954) to
16 arrive at the normalizing adjustment of $19,585.

17 As shown on Attachment ES-REVREQ-1, Schedule ES-REVREQ-9, Page 2, Line 23,
18 Column (C), the Company made a $135,235 pro forma adjustment to the Fee Free
19 Payment Processing costs, resulting in a Test Year Pro Forma amount of $792,100. To
20 calculate this adjustment, the Company projected the volume of PSNH Fee Free
21 Transactions for 2024 of 550,127 and multiplied it by the cost per transaction of $1.48,

1 resulting in a total expense of $814,187. Further, the Company calculated a savings
2 offset of $22,087 in projected savings arising from customers switching to Fee Free
3 transactions, reducing the test year pro forma amount to $792,100.

4 5. Dues and Memberships

5 **Q. What adjustment has the company made for dues and memberships?**

6 A. Attachment ES-REVREQ-1, Schedule ES-REVREQ-11, page 2, column E, Line 50
7 reflects an Adjusted Test Year expense of $184,981 after a normalizing adjustment of
8 $19,602 to dues and membership costs. In this way, the Company has only included dues
9 and memberships related to organizations that provide insight, expertise, industry data,
10 publications and best practices that PSNH uses to provide service to its customers.

11 6. Employee Benefit Costs

12 **Q. What adjustment has the Company made for employee benefit expense?**

13 A. The post-Test Year adjustment made on Attachment ES-REVREQ-1, Schedule ES-
14 REVREQ-12, page 1 is an increase of $2,684,639. Attachment REVREQ-1, Schedule
15 ES-REVREQ-12, page 2, summarizes the pro-forma adjustments related to employee-
16 benefit expense.

17 **Q. Please describe how you determined the adjustment for employee-benefit expense.**

18 A. There are four categories of adjustments associated with employee benefits:
19 (1) medical/prescription, vision, and dental expense; (2) the 401K Savings Plan;
20 (3) Pension and (4) Other benefits These categories are discussed with additional detail
21 as follows:

1 **Medical, Dental, and Vision** – Eversource Energy is self-insured for its healthcare
2 benefits for active employees. Therefore, to determine the amount of the healthcare
3 benefit expense to include in the revenue requirement for the Rate Year, it was necessary
4 to apply an appropriate benefit-expense rate per employee to a representative number of
5 employees for PSNH, as well as to Eversource Energy Service Company employees that
6 provide services to PSNH. To complete that analysis, we obtained the 2024 medical,
7 dental, and vision "working rates" from the Eversource Human Resources Department.
8 The working rates are provided to the Company by its external benefits consultants and
9 represent, for PSNH, the per employee expected claims levels for the following year.
10 The working rates are utilized to determine the amount of contributions required by
11 employees. The Company applied the per employee rates to the actual staffing levels and
12 benefits plan participation at PSNH as of December 31, 2023. As shown on Attachment
13 ES-REVREQ-1, Schedule ES-REVREQ-12, page 2, the Company then computed a pro
14 forma adjustment, based on the benefit cost per employee using current full-time
15 equivalent ("FTEs") levels and applied the updated 2024 working rates. The 2025
16 working rates will become known and measurable during the course of the proceeding
17 and the Company will seek to reflect this change in the revenue requirement.

18 The analysis presented on Attachment ES-REVREQ-1, Workpaper ES-REVREQ-12,
19 page 1 through 4 supports the Test Year pro forma level of medical expense of
20 $11,343,047; dental expense of $363,593; and vision expense of $35,355.

1 **401K Savings Plan** – The Company's 401K Savings Plan expense represents the
2 company-match contributions to a defined contribution retirement plan. To determine the
3 expense amount for the Rate Year, we multiplied the adjusted Test Year expense amount
4 of $4,188,323 shown in Attachment ES-REVREQ -1, Schedule ES-REVREQ-12, page 2,
5 at line 24, Column (G) by the Payroll Percentage Adjustment of 6.09 percent, resulting in
6 a $255,069 pro forma adjustment.

7 **Pension** – The Company's pension expense is calculated in accordance with accounting
8 standards that are designed to require consistent measurement and recognition of pension
9 obligations and assets among reporting companies. The expense is based on an actuarial
10 valuation that determines the Company's liability to each pension plan participant, and
11 includes assumptions on salary increases, discount rate, and expected long-term rate of
12 return on assets.

13 ESC employs the actuarial services of Aon plc ("Aon") in determining projected pension
14 expense. Based on projections provided Aon, the Test Year Pro Forma pension expense
15 adjustment is an increase of $2,075,071 as shown on Attachment ES-REVREQ-1,
16 Schedule ES-REVREQ-12, page 2, line 27, Column (H). The change in pension expense
17 is driven by three factors: (1) normal operation of the plan; (2) lower actual 2023 asset

1 returns of 6.5 percent versus the long-term expected return on assets of 8.25 percent; and
2 (3) a decrease of 21 basis points in the discount rate from 5.20 percent to 4.99 percent.[4]

3 Other Benefits – The Company has reflected adjustments for other actuarially determined
4 benefits expenses, such as Medvantage, non-qualified pension and retirement plans.

5 The Company further discusses employee benefits plans in Section V below:

6 7. Insurance Expense and Injuries & Damages

7 **Q. What adjustment have you made for Insurance Expense and Injuries & Damages**
8 **deductibles?**

9 A. The post-Test Year adjustment made on Attachment ES-REVREQ-1, Schedule ES-
10 REVREQ-13, page 1, shows an increase of $73,633 for Insurance Expense and Injuries &
11 Damages. The net increase is detailed in Attachment ES-REVREQ-1, Schedule ES-
12 REVREQ-13, page 2 and is driven primarily by an increase in premiums for Property
13 Insurance and Excess Liability insurance.

14 **Q. Please describe the PSNH corporate insurance for property and liability coverage.**

15 A. Property and liability coverage includes several categories of insurance that provide
16 protection from property loss, general liability and other damages that PSNH may incur
17 in the conduct of its business. ESC manages the corporate insurance program through
18 which PSNH secures insurance coverage. The corporate insurance program includes

[4] The discount rate assumption is impacted by interest rate changes from year to year. For 2024, the yield curve approach utilized by Aon resulted in a weighted average discount rate of 4.99 percent.

1 both premium-based and self-insured coverage in order to obtain the most cost-effective
2 loss protection.

3 **Q. How does ESC manage its liability insurance costs?**

4 A. All insurance programs and policies are evaluated annually with the aid of insurance
5 brokers in order to secure the best available coverage at the best available rate. To
6 balance the risk mitigation that insurance provides and the level of premium costs, an
7 appropriate level of self-insurance deductible is negotiated with insurance carriers.
8 Higher deductible levels result in lower insurance premiums while also resulting in a
9 higher retention of risk of loss. It is the balance between the two that ESC must manage
10 on behalf of PSNH and the other operating companies that it serves.

11 ESC utilizes a well-accepted process when procuring insurance programs. To achieve
12 optimal coverage at the best cost ESC utilizes its brokers to facilitate this process. The
13 broker compiles the market submission and works with various insurance markets to
14 solicit quotes for insuring the ESC program.

15 Approximately three to four months prior to the renewal date of the program, ESC's
16 Insurance team holds a strategy meeting with the broker to discuss the current coverage
17 in place, opportunities for improvement in coverage and upcoming renewal requirements,
18 and strategies for presenting risk mitigation requirements to the market to optimize the
19 coverage ESC has in place for the utility subsidiaries it serves, including PSNH.

1 ESC participates in various industry groups to stay abreast of insurance issues and trends
2 including working groups within Edison Electric Institute and American Gas Association.
3 ESC's insurance group also maintains knowledge of key company initiatives that lower
4 the Company's risk profile, helping to ensure the underwriting process goes smoothly. In
5 addition to this information, and to the industry trend information provided by the broker,
6 ESC also utilizes independent sources such as Edison Electric Institute and other
7 insurance surveys to evaluate market trends.

8 ESC utilizes an actuary each year to perform a study of the loss experience from the self-
9 insurance layer of general liability to determine what should be maintained in a balance
10 sheet reserve to cover those claims within the self-insurance layer by operating company,
11 including PSNH.

12 On a combined basis, these processes assist in assuring that the Company's corporate
13 liability costs are as reasonable as possible.

14 **Q. How are the pro forma adjustments related to insurance coverage calculated?**
15 A. To determine the appropriate level of insurance expense to be included in the revenue
16 requirement, we obtained the most recent insurance policies entered into by ESC. We
17 were then provided with the portions of the premium of each policy that applied to
18 PSNH. The resulting premiums form the basis of the insurance expense included in the
19 revenue requirement. The prepayment of these costs is recorded and amortized over the
20 appropriate fiscal period.

1 Attachment ES-REVREQ-1, Schedule ES-REVREQ-13 and Workpaper ES-REVREQ-
2 13 provide the cost detail on these expenses for each of the underlying policies. This
3 analysis resulted in a total pro forma adjustment after capitalization of $73,633. The
4 level of insurance expense will change based on updated premiums during the pendency
5 of this proceeding, so the Company plans to file an updated revenue requirement to
6 reflect these known and measurable changes based on the expiration of current polices.

7 **Q. Please describe the Loyalty Credits included in Attachment ES-REVREQ-1,**
8 **Schedule ES-REVREQ-13, Line 31.**

9 A. The Loyalty Credits presented on Attachment ES-REVREQ-1, Schedule ES-REVREQ-
10 13, Line 31 represent credits granted by AEGIS to its policyholders who purchase
11 coverages from a specified number of eligible lines of business which are renewed over
12 the next year.

13 8. Payroll Expense

14 **Q. Have you made post-Test Year adjustments for payroll expense?**

15 A. Yes. As shown on Attachment ES-REVREQ-1, Schedule ES-REVREQ-14, page 1, line
16 23, Column (C), the post-Test Year adjustment increases O&M payroll by $18,287,663.
17 These adjustments account for known and measurable compensation increases for union
18 and non-union employees through the rate year for PSNH employees. The details of this
19 adjustment are shown on Attachment ES-REVREQ-1, Schedule ES-REVREQ-14, page 2
20 and the accompanying workpapers.

1 **Q. How was the payroll O&M expense determined for the Company's revenue**
2 **requirement?**

3 A. To determine the appropriate payroll expense, the Company first examined the test year
4 payroll amounts to determine whether those amounts would continue to be the same in
5 the Rate Year, or whether any known and measurable changes would occur. First, the
6 Company includes an annualization adjustment to the Adjusted Test Year payroll
7 expense to reflect actual employee salaries for active and filled positions as of December
8 31, 2023, as shown on Schedule ES-REVREQ-14 page 5. This adjustment captures the
9 payroll expense change that occurred during the Test Year and "annualizes" the expense-
10 level as if the payroll increases were in effect for the full Test Year. Next, the Company
11 determines the changes that will occur for both union and non-union payroll expense for
12 PSNH prior to the midpoint of the Rate Year, February 1, 2026. Therefore, the Company
13 made the necessary adjustments to account for these known and measurable changes.

14 **Q. Why are these adjustments necessary?**

15 A. The adjustments are necessary to determine the level of O&M Payroll that PSNH will
16 experience during the Rate Year. The adjustments apply the actual percentage increases
17 for payroll expenses associated with union and non-union employees in 2024 and
18 expected increases for 2025 to a normalized level of actual payroll amounts charged to
19 O&M during the Test Year. The 2024 payroll merit increase was granted to non-union
20 employees March 17, 2024. The Company has included a merit increase of 3 percent for
21 non-union employees to be effective in March, 2025 and will supplement the record with
22 a written management commitment/confirmation letter later in the proceeding to confirm

1 the change is known and measurable. Union increases are determined based on the
2 schedules contained in the respective bargaining agreement.

3 **Q. What process did you use to develop the union payroll adjustment for PSNH?**

4 A. The Company included annualized base salaries of active positions as of December 31,
5 2023. Active positions are filled positions as of December 31, 2023 for union employees
6 plus annualized overtime wages in the Test Year. These calculations were completed for
7 each union at PSNH based on the respective contract increases and effective dates. The
8 majority of PSNH union employees are covered by a single collective bargaining
9 agreement between the Company and the International Brotherhood of Electrical
10 Workers ("IBEW") Local 1837. A 3 percent union wage increase will take effect on June
11 1, 2025 during this case. This known and measurable change has been included in the
12 Test Year Pro Forma to compute the payroll-union adjustment as shown in Attachment
13 ES-REVREQ-1, Schedule ES-REVREQ-14, pages 2 through 5.

14 **Q. What adjustment was made for non-union payroll?**

15 A. The Company included annualized base salaries of active positions as of December 31,
16 2023. Active positions are filled positions for non-union employees, plus annualized
17 overtime wages in the Test Year. ESC employees are predominantly non-union
18 employees and are included in the adjustment. These adjustments represent actual wage
19 increases in 2024 and planned increases in 2025. A three percent merit increase is
20 reflected for March 17, 2025. Details on the calculations undertaken to produce these
21 adjustments are provided on Attachment ES-REVREQ-1, Schedule ES-REVREQ-14,

1 pages 2 through 5. These wage adjustments reflect all the known and measurable payroll
2 adjustments that will be occurring prior to the midpoint of the Rate Year, or before
3 February 1, 2026.

4 **Q. Does the Company exclude payroll expenses associated with responding to storm**
5 **events?**

6 A. Yes. The Adjusted Test Year for payroll expense excludes the impact of qualifying
7 storm events as shown in Attachment ES-REVREQ-1, Schedule ES-REVREQ-14, page
8 2, Column (C). The Company also reduces the pro-forma adjustment to exclude internal
9 labor costs associated with responding to qualifying storm events (for individual events
10 less than $25 million) as shown in Attachment ES-REVREQ-1, Schedule ES-REVREQ-
11 14, page 2, Column (G) and (H) as shown on pages 3 and 4 on line 20 and 34.

12 9. <u>Variable Compensation</u>

13 **Q. Have you adjusted the level of expense for variable compensation?**

14 A. Yes. As shown on Attachment ES-REVREQ-1, Schedule ES-REVREQ-15, page 1, the
15 Company has adjusted the revenue requirement by $417,463 to ensure that a
16 representative amount of variable compensation is reflected in rates.

17 **Q. Please explain the adjustments you have made to variable compensation.**

18 A. The Company's variable compensation plan represents the variable portion of the wages
19 and salaries paid to non-union employees serving PSNH. Variable compensation is paid
20 to employees in the first quarter for performance in the prior year ending December 31st
21 based on corporate and individual performance criteria. First, the Test Year level of

1 expense was normalized to remove out-of-period accounting entries that relate to the
2 2022 performance year, as shown on Attachment ES-REVREQ-1, Schedule ES-
3 REVREQ-15, page 2, Column C. In addition, the executive incentive compensation was
4 reduced ($255,578) by removing the cash incentive expense for both the Chief Executive
5 Officer ("CEO") and Chief Financial Officer ("CFO"). Finally, an adjustment of
6 $673,041 was made to increase the Rate Year variable compensation expense for
7 expected increases in overall payroll expenses that rise commensurate with the salary
8 increases each year. The combination of these adjustments is shown on Attachment ES-
9 REVREQ-1, Schedule ES-REVREQ-15, page 2, Column F. To create a more precise
10 Test Year that reflects the variable compensation paid for the 2023 performance year, the
11 Company will adjust the variable amount of proposed Rate Year variable expense as
12 compared to the amount of expense accrued in the Test Year. The payout and associated
13 accounting true-ups for variable compensation occurred following the finalization of the
14 revenue requirement schedules in this proceeding and the Company was not able to
15 reflect this update in its initial filing.

16 10. Enterprise IT Expense

17 **Q. Please describe the enterprise IT projects expense adjustment.**

18 A. The enterprise IT projects expense adjustment is required to reflect the additional costs
19 associated with the IT systems needed to further enhance the Company's ability to
20 provide safe, reliable, and quality service to customers. Enterprise IT projects that
21 support more than one operating company are accounted for at the ESC level as a way to:

1 (a) efficiently implement new solution as one integrated solution to be used on a shared
2 basis, rather than having to deploy several distinct and different instances of the same
3 application, or different applications, serving the same business need at each separate
4 operating company; and (b) to charge the costs of shared infrastructure across multiple
5 entities on an efficient basis.

6 PSNH is allocated a portion of the costs associated with enterprise-wide IT projects
7 implemented by ESC. The assets making up the enterprise IT projects include certain
8 common use equipment, primarily computer equipment and enterprise computer
9 applications that are reflected in plant in service at ESC rather than at PSNH, or other
10 Eversource Energy operating companies. The carrying costs and depreciation expense
11 incurred by the service company in support of these projects are billed to PSNH as
12 components of O&M expense.

13 Specifically, the gross amount of Enterprise IT Projects Expense billed to PSNH during
14 the Test Year was $24,818,669 as shown on Attachment ES-REVREQ-1, Schedule ES-
15 REVREQ-16, page 2, line 23, Column (B). This total was adjusted by the Eversource
16 Energy Service Company Test Year capitalization rate of 9.72 percent to calculate a
17 capitalized portion of $2,413,378 which was subtracted from the Test Year total to arrive
18 at the net Test Year expense amount of $22,405,291.[5] A Test Year pro forma adjustment
19 was calculated by taking a 2024 projection of total gross Enterprise IT Expense billed to

[5] *See* Attachment ES-REVREQ-1, Schedule ES-REVREQ-16, page 2, lines 23 through 27.

1 PSNH of $24,440,000 and multiplying it by the 9.72 percent capitalization rate to arrive
2 at the net Test Year pro forma amount of $22,063,443.[6] The pro forma adjustment of
3 $(341,847) is the difference between the net Test Year total of $22,405,291 and the net
4 Test Year pro forma of $22,063,443 as shown on Attachment ES-REVREQ-1, Schedule
5 ES-REVREQ-16, page 1. As it becomes available, the Company will provide actual
6 enterprise IT projects expense through December 31, 2024 at the appropriate revenue
7 requirement update.

8 11. Vegetation Management

9 **Q. What is included in the Company's Vegetation Management expense?**

10 A. As shown in Attachment ES-REVREQ-1, Schedule ES-REVREQ-20, Page 2, the test
11 year actual vegetation management expense is $42,330,748, which includes; (1)
12 $33,133,354 associated with the Company's base vegetation management program, and
13 (2) $9,197,394 associated with vegetation management costs for areas around CCI
14 facilities, which have been recorded in the PPAM tracking mechanism and transferred to
15 base rates as part of the proposed revenue requirement in the instant proceeding.[7]
16 Following the execution of the PPA between PSNH and CCI to acquire CCI's pole
17 assets, the Company will assume all vegetation management costs for areas surrounding
18 these assets. Since the Company fully expects this vegetation management work to
19 continue, it has included the costs in its overall vegetation management program costs.

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[6] *See* Attachment ES-REVREQ-1, Schedule ES-REVREQ-16, page 2, lines 23 through 27.

[7] The acquisition of CCI pole assets and the PPAM tracking mechanism is explained in more detail below in Section IX.

1 **Q. Have you adjusted the test year level of expense for Vegetation Management?**

2 A. Yes. The level of vegetation management activities around previously joint-owned CCI
3 pole assets in the test year reflect the actual expenses following the execution of the PPA
4 on May 1, 2023. To normalize this amount to establish a more representative annual
5 expense, the Company has calculated an adjustment reflecting a monthly average of CCI
6 vegetation management billings from November 2017 through December 2023
7 annualized to reflect a twelve-month period. This resulted in a decrease to test year
8 vegetation management expense of $902,206.

9 **Q. Have you made a pro-forma adjustment to Vegetation Management expense?**

10 A. Yes. The Test Year Pro Forma vegetation management expense was increased to
11 $43,210,000 to reflect expected increases in overall program costs through the Rate Year.
12 The Company is currently under a 4-year contract for SMT and METT from 2021
13 through 2024. The first two years of that contract (2021 and 2022) the prices were fixed
14 prices or "locked in", and the contract was designed to include negotiated prices in 2023
15 and 2024. The next contract will be released to competitive bid in June 2024. It will
16 include a request for fixed pricing on SMT for 2025 and 2026. The Company will
17 provide an update to the vegetation management expense in this proceeding as the
18 contract is finalized and costs are known and measurable. Please refer to the direct
19 testimony of Robert D. Allen ("Vegetation Management Testimony") for further detail
20 discussing the Company's Vegetation Management Program.

1 12. Lease Expense

2 **Q. What adjustments have you made to increase Test Year lease expenses?**

3 A. As shown on Attachment ES-REVREQ-1, Schedule ES-REVREQ-21, page 1, the post-
4 Test Year adjustment associated with lease expense is an increase of $59,127. The
5 primary driver of the post-Test Year adjustment is due to contractual increases in
6 communication leases with outside vendors generally varying from 3 percent to 5
7 percent, which total $50,131. The Company used known communication lease levels at
8 the midpoint of the rate year or February 1, 2025. The Manchester – Elm Street and
9 Main Street, Concord facilities were increased to reflect updated contractual increases in
10 their respective leases, totaling $7,141 and $2,550, respectively. The detail of the Test
11 Year Pro Forma amounts are shown in Attachment ES-REVREQ-1, Schedule ES-
12 REVREQ-21, page 2.

13 13. Regulatory Assessments

14 **Q. Has the Company made normalizing adjustments to the test year regulatory**
15 **assessments expense?**

16 A. Yes. As shown on Attachment ES-REVREQ-1, Schedule ESREVREQ-22, page 2, a
17 normalizing adjustment for regulatory assessments expense was made resulting in a
18 decrease to the test year expense amount of $(901,416). The test year actual expense
19 consists of fiscal year 2023 quarter 3, fiscal year 2023 quarter 4, fiscal year 2024 quarter
20 1, and fiscal year 2024 quarter 2 New Hampshire Public Utilities Commission
21 ("NHPUC") Department of Energy ("DOE") Assessment payments. In order to
22 normalize the test year expense amount for the most recent NHPUC DOE Assessment

1 costs, the total amount shown on the September 15, 2023 NHPUC DOE invoice as
2 "Assessment for Fiscal Year 2024" of $4,706,742 was utilized to accurately reflect one
3 year of costs. The FY 2024 assessment totals $4,706,742 less an allocation of $10,000
4 assigned to Energy Service, totaling an Adjusted Test Year of $4,696,742. The
5 difference between the Adjusted Test Year amount of $4,696,742 and the test year actual
6 expense amount of $5,598,158 results in a normalizing adjustment of $(901,416).

7 **Q. Has the Company made pro forma adjustments to the test year regulatory**
8 **assessments expense?**

9 A. Yes. A pro forma adjustment of $111,062 was made to the Adjusted Test Year expense
10 amount. This pro forma adjustment was calculated by taking the 5-year average of
11 NHPUC DOE Assessment costs for each fiscal year from FY 2020 through FY 2024.
12 The amount shown on each invoice from the DOE as "Assessment for Fiscal Year" was
13 utilized in calculating the average. The 5-year calculated average per the invoices was
14 $4,818,704. $10,000 was reduced from this amount of $4.8M to account for the annual
15 allocation to be recovered through the default Energy Service rate per Docket No. DE
16 14-238 and RSA 363-A. This resulted in a pro forma NHPUC DOE Assessment cost
17 amount of $4,808,704. The pro forma amount of $4,808,704 less the normalized
18 NHPUC DOE Assessment cost of $4,696,742 results in a pro forma adjustment of
19 $111,962.

1 **Q. What is the relationship between the Regulatory Reconciliation Adjustment**
2 **("RRA") for annual regulatory assessments and the regulatory assessment costs**
3 **expense included in this rate filing?**

4 A. The RRA mechanism was established in a settlement agreement that the Commission
5 approved in Order No. 26,433 (December 15, 2020), issued in Docket No. DE 19-057
6 (Settlement Agreement). The RRA is a component of distribution rates that is adjusted
7 annually to account for over- or under-recoveries in prior calendar years with regard to
8 certain types of costs, including regulatory assessment costs.

9 The RRA mechanism for calendar year 2023 reconciled actual DOE assessment costs of
10 $5,598,155 to the Docket No. DE 19-057 DOE Assessment Base Rate Recovery amount
11 of $5,220,056, resulting in an under recovery of $378,099. The Test Year actual amount
12 in this filing of $5,598,158 for regulatory assessment costs reconciles to the actual DOE
13 assessment costs from the RRA for calendar year 2023. As noted above, the Test Year
14 expense amount was adjusted to reflect the most recent fiscal year's total assessment
15 costs in this filing. Similar to the proposals for the Fee Free and New Start program
16 expenses, the Company proposes an annual amount to be recovered in base distribution
17 rates, beginning on August 1, 2024, subject to reconciliation at the time of the
18 Company's next rate case, with carrying charges on the over- or under-recovered balance
19 calculated using the prime rate. The Company also proposes the same treatment for any
20 consultant expenses currently recovered through the RRA. The Company does not
21 currently reflect these amounts in its revenue requirement and plans to update this
22 schedule through the course of the proceeding. The Company discusses how/if these

1 expenses are incorporated into base rates and the timing of final reconciliations through
2 each mechanism for expenditures incurred through July 31, 2024 in Section IX below.

3 14. Vehicles

4 **Q. Have you adjusted the level of expense for vehicles?**

5 A. Yes. All of the costs associated with PSNH's transportation fleet are captured within a
6 specific clearing account. As shown on Attachment ES-REVREQ-1, Schedule
7 ES-REVREQ-24, page 1, the post-Test Year adjustment for vehicle expense is a decrease
8 of ($2,021,797). This decrease is primarily due to a significant reduction in depreciation
9 expense as shown on Attachment ES-REVREQ-1, Schedule ES-REVREQ-24, page 2.
10 The significant reduction to depreciation expense for vehicles is driven by the accrual
11 rate that was developed for this proceeding and discussed in the testimony of John J.
12 Spanos ("Depreciation Testimony").

13 15. New Start Program

14 **Q. Please describe the costs recovered for the New Start Program pursuant to the**
15 **Settlement Agreement in Docket No. DE 19-057.**

16 A. Pursuant to Section 13 of the Settlement Agreement, the Company is permitted to recover
17 $1,077,356 in base rates annually beginning February 1, 2022, subject to reconciliation at
18 the time of the Company's next rate case, with carrying charges on the over- or under-
19 recovered balance calculated using the Prime Rate. In this proceeding, the Company has
20 reflected an adjustment to reconcile the historical amounts for the New Start program in
21 Amortization of Deferred Assets in accordance with the DE-19-057 Settlement
22 Agreement and as discussed in Section III.E below. The Company has also reflected pro-

1 forma adjustments for the known and measurable changes for the New Start program on a
2 going forward basis as described below. Similar to the DE-19-057 Settlement
3 Agreement, the Company proposes an annual amount to be recovered in base distribution
4 rates, beginning on August 1, 2024, subject to reconciliation at the time of the
5 Company's next rate case, with carrying charges on the over- or under-recovered balance
6 calculated using the prime rate. The details of the New Start program are discussed in
7 more detail in the Customer Operations and Digital Strategy Testimony.

8 **Q. Has the Company made any adjustments to the Test Year for the New Start**
9 **Program Costs?**

10 A. As shown on Attachment ES-REVREQ-1, Schedule ES-REVREQ-25, Line 23, Column
11 (C), the Company made a $417,044 adjustment to the test year New Start Program costs.
12 To calculate this adjustment, the Company utilized actual expenses incurred through
13 February 2024 and forecasted expenses for this program through the 2024 calendar year
14 end to calculate a test year pro forma expense amount. The forecasted expense amount
15 through 2024 was calculated using the number of enrollments and average forgiveness
16 amounts from May 2023 through February 2024. In May 2023, there was a change in the
17 number of delinquent balances which would be eligible to enroll on the New Start
18 program in New Hampshire. This led to an increase in participation beginning in May
19 2023. As a result, the overall costs for the program in 2024 are expected to be higher
20 than in 2023 due to this change.

1 16. Storm Reserve Accrual

2 **Q. Have you made a post-Test Year adjustment for storm reserve accrual?**

3 A. Yes. As shown on Attachment ES-REVREQ-1, Schedule ES-REVREQ-26, page 1, the
4 post-Test Year adjustment associated with PSNH's Storm Reserve Accrual is $7,000,000.

5 **Q. Please describe the basis of the adjustment for the Storm Reserve Accrual.**

6 A. Pursuant to Order No. 25,534 (June 27, 2013), the Company's MSCR is currently funded
7 at $12 million annually. The Company is proposing to increase the storm reserve
8 contribution by $7 million annually, from $12 million to $19 million. The $19 million is
9 based on the average annual storm costs for the last ten years excluding events over $25
10 million. The Company's storm proposal is described in more detail in Section VIII
11 below.

12 17. Rate-Case Expense

13 **Q. Does the Company have unrecovered rate expenses from its previous rate case, DE-**
14 **19-057?**

15 A. Yes. The Commission approved a settlement agreement relating to the Company's
16 motion to recover rate case expenses. Pursuant to that agreement, the Company is
17 authorized to recover $1,762,807 through its RRA over five years, beginning on August
18 1, 2022. Order No. 26,634 (May 27, 2022) at 1. As part of the PBR proposal, the
19 Company proposes to simplify the RRA by eliminating the rate case expense element of
20 the reconciling mechanism. Instead, the Company proposes to amortize the remaining
21 balance of the DE-19-057 rate case expense in base rates through the Amortization of
22 Deferred Assets expense, as discussed in Section III.E below.

1 **Q. What is the Pro Forma adjustment for the rate case expense associated with the**
2 **current proceeding?**

3 A. The total rate case expense pro forma adjustment is $1,641,026 as shown in Attachment
4 ES-REVREQ-1, Schedule ES-REVREQ-27, page 2.

5 **Q. Was it necessary for the Company to retain outside consultants and legal services**
6 **for this case?**

7 A. Yes. The Company retained the services of four expert consulting firms and one law firm
8 to assist with the presentation of this case. All of these services were retained through a
9 competitive bid process.

10 **Q. Please list the consultants and outside counsel supporting this rate case?**

11 A. The outside consultants and legal counsel supporting this rate case is as follows:

12 • Return on Equity and Capital Structure: Vincent V. Rea, Managing Director of
13 Regulatory Finance Associates, LLC, an independent financial and regulatory
14 consulting firm presents evidence and provides a recommendation regarding the
15 Company's return on equity ("ROE") and to provide an assessment of the capital
16 structure to be used for ratemaking purposes;

17 • Performance Based Ratemaking: Mark Kolesar, Managing Principal at Kolesar
18 Buchanan & Associates Ltd. and Dr. Agustin J. Ros, Senior Managing Director at
19 Ankura and Adjunct Professor at Brandeis University, International School of
20 Business present testimony and benchmarking studies to support the proposed PBR
21 plan;

1 • Depreciation: John J. Spanos, President of Gannett Fleming Valuation and Rate
2 Consultants, LLC, presents the depreciation study performed for PSNH to calculate
3 annual depreciation accrual rates by account as of December 31, 2023 for all electric
4 plant;

5 • Allocated Cost of Service Study and Marginal Cost of Service Study: Amparo Nieto,
6 Principal at the Energy Practice of Charles River Associates, provides two pieces of
7 testimony, the first in support of the allocated cost of service study and the second in
8 support of the marginal cost of service study, which were used by PSNH in
9 developing its proposed distribution rates; and

10 • Legal Services are provided by the law firm of Keegan Werlin LLP in order to
11 provide regulatory and ratemaking expertise and to cover the increased work load
12 associated the filing of a rate case.

13 **Q. Please describe the process that was utilized to retain the Company's external**
14 **witnesses and service providers.**

15 A. The Company invited a set of skilled service providers to participate in each RFP and
16 established an electronic bidding process. The Company designated an internal review
17 committee for each RFP to evaluate submitted bids. The bid evaluation included a
18 review of the potential service providers' qualifications and relevant experience,
19 capabilities and personnel to support the Company's rate petition, proposed fee structure,
20 and other factors. In some cases, the committees conducted interviews with service
21 providers as part of the overall evaluation process. The Company's external witnesses

1 and service providers were ultimately selected based on this evaluation process and
2 determination of the service provider that could best provide the necessary service at a
3 reasonable price.

4 **Q. Is the Company proposing to recover its rate-case expense in this proceeding?**

5 A. Yes. PSNH is proposing to recover estimated rate-case expense totaling $1,641,026
6 based on a 5-year amortization period, or $328,205 per year, as shown on Attachment
7 ES-REVREQ-1, Schedule ES-REVREQ-27, page 1. The amounts reflected in this
8 schedule are preliminary and reflect the estimated pricing reflected in each respective
9 contract. PSNH will file the required updates reflecting actual rate case expenses to the
10 docket every 90 days as required by Puc 1905.01(a), and make all necessary rate case
11 expense filings consistent with the Puc 1900 rules to ensure that the Company recovers
12 the appropriate amount of revenue to align with final, actual rate case expenses in base
13 rates.

14 In support of this approach, the Company will file an updated revenue requirement to
15 incorporate actual rate case expenses incurred during the pendency of this proceeding
16 along with all supporting documentation prior to the hearings in this docket. Since the
17 Company is proposing to recover these expenses over a five-year period, the Company
18 would propose a one-time adjustment, if necessary, after the conclusion of the rate case
19 after review of the expense filing made by the Company within 30 days of the final order
20 on permanent rates by the Department of Energy to align actual expenses with the
21 amount included in the revenue requirement submitted at the time of hearings in this

1 docket. Incorporating rate case expenses in permanent base rates as a part of the
2 permanent rates proceeding is the most administratively efficient approach for
3 incorporating recovery of these expenses. The Company anticipates that sufficient actual
4 expenses will be known by the time of the hearings on permanent rates that, when
5 combined with Company estimates for the remaining expenses, the updated revenue
6 requirement will reflect an appropriate level of recovery for the Commission to approve
7 as just and reasonable.

8 **Q. How did PSNH develop the estimated rate-case expense for this proceeding?**

9 A. PSNH developed the estimates set forth in Attachment ES-REVREQ-1, Schedule ES-
10 REVREQ-27, page 2 based on discussions regarding the services needed with PSNH's
11 competitively-bid outside service providers and an evaluation of the costs incurred in
12 service of the Company's prior rate case and recent rate cases in Eversource's other
13 service territories to the extent those matters were comparable in scope and magnitude to
14 this proceeding.

15 PSNH will closely monitor the costs of its outside service providers. PSNH will review
16 each invoice for accuracy, completeness, and reasonableness to make sure all work being
17 billed to the Company is in service of the rate case, and that only work that is in service
18 of the rate case is being billed to the Company. The Company will also maintain a master
19 spreadsheet identifying when each invoice is approved for payment and charged to the
20 appropriate account on PSNH's general ledger.

1 18. Residual O&M Inflation Adjustment

2 **Q. Have you made a post-Test Year adjustment for Residual O&M Inflation?**

3 A. Yes. As shown on Attachment ES-REVREQ-1, Schedule ES-REVREQ-28, page 1, the
4 post-Test Year adjustment associated with Residual O&M Inflation is $99,129.

5 **Q. How did PSNH develop the post-Test Year adjustment for Residual O&M Inflation?**

6 A. The calculation begins with the Test Year O&M expense of $207,071,262 as shown on
7 Attachment REVREQ-1, Schedule ES-REVREQ-28, page 2, line 19, Column (C). Next,
8 we removed the Test Year amounts totaling $205,217,684 for all expenses that are
9 identified separately on Attachment ES-REVREQ-1, Schedule ES-REVREQ-28, page 2,
10 lines 22 through 42, to calculate a residual O&M figure of $1,853,578. Then, we applied
11 an inflation allowance based on the projected inflation factor of 5.348 percent from the
12 mid-point of the Test Year to the mid-point of the Rate Year. The resulting inflation
13 allowance of $99,129 was then added to the residual O&M figure resulting in the Test
14 Year pro forma amount of $1,952,707. The details of this calculation are shown on
15 Attachment ES-REVREQ-1, Schedule ES-REVREQ-28, page 2.

16 **Q. Are there any other pro forma adjustments mirroring inflation included in the**
17 **revenue requirement?**

18 A. Yes. The Company has used the inflation factor described above to calculate the pro
19 forma adjustments in the following schedules:

20 - Attachment ES-REVREQ-1, Schedule ES-REVREQ-7, Information Services
21 - Attachment ES-REVREQ-1, Schedule ES-REVREQ-10, Customer Service

1 - Attachment ES-REVREQ-1, Schedule ES-REVREQ-17, Environmental
2 - Attachment ES-REVREQ-1, Schedule ES-REVREQ-18, Field Operating
3 - Attachment ES-REVREQ-1, Schedule ES-REVREQ-19, Facilities Expense
4 - Attachment ES-REVREQ-1, Schedule ES-REVREQ-23, Materials & Supplies
5 - Attachment ES-REVREQ-1, Schedule ES-REVREQ-24, Vehicles

6 Absent an inflation adjustment, these expense schedule would remain unadjusted from
7 the Test Year per books level of expense. Given the nature of the expenses included in
8 these schedules, the Company finds it appropriate to include a pro forma adjustment
9 mirroring inflation through the midpoint of the Rate Year.

10 **D. Depreciation**

11 **Q. Did the Company prepare a depreciation study for this case?**
12 A. Yes. Company Witness John J. Spanos prepared a detailed depreciation study for this
13 case. PSNH has incorporated the results of that study into its proposed depreciation
14 expense. Please see the Depreciation Testimony for the detailed support of the updated
15 depreciation rates.

16 **Q. What level of depreciation is the Company proposing for its revenue requirement?**
17 A. PSNH has calculated a pro forma depreciation expense of $99,049,667 as shown in
18 Attachment ES-REVREQ-1, Schedule ES-REVREQ-29, page 1, at line 21, Column (B).
19 This is an increase of $14,473,132 from the Test Year amount of $84,576,535.

1 **Q. Please describe in more detail the calculation of depreciation expense.**

2 A. We have applied the depreciation rates resulting from the depreciation study performed
3 by Mr. Spanos as of the Test Year to account balances of depreciable plant. As described
4 in the Depreciation Testimony and his accompanying exhibits, the depreciation rates
5 represent a net increase versus current levels.

6 Attachment ES-REVREQ-1, Schedule ES-REVREQ-29 page 2 provides a listing of the
7 depreciable plant balances by account as of December 31, 2023. In this Workpaper, we
8 have applied the depreciation accrual rates presented in Schedule JJS-3 to the distribution
9 plant in service balance for PSNH. The calculated depreciation expense is the sum of the
10 depreciation expense for each utility plant account. Attachment ES-REVREQ-1,
11 Schedule ES-REVREQ-29, Page 3 then applies the same proposed depreciation rates in
12 Page 2 to the depreciable plant balances by account as of December 31, 2024.[8] This is the
13 total of $99,049,667 shown on Attachment ES-REVREQ-1, Schedule ES-REVREQ-28,
14 page 3.

15 **E. Amortization of Deferred Assets**

16 **Q. Has the Company made normalizing adjustments to the Test Year amortization**
17 **expense?**

18 A. Yes. Attachment ES-REVREQ-1, Schedule ES-REVREQ-30, page 2, line 30, Column

[8] As discussed in Section VI. Rate Base Computation and Rate of Return, the Company is proposing to reflect rate base through December 31, 2024. Accordingly, the Company has calculated a Test Year Pro Forma depreciation expense to reflect plant in service activity through this period. When calendar year 2024 plant in service becomes available, the Company will update this depreciation expense to reflect actual plant in service through December 31, 2024.

1 (C) shows an increase to amortization expense of $33,429,279. This net increase is
2 primarily driven by two items; (1) an increase of $16,896,040 associated with the reversal
3 of a previously established reserve for vegetation management expenses related to
4 billings to CCI that will be recovered through the PPAM (line 23) and (2) the
5 amortization of deferred storm costs, totaling $9,022,155 (line 20). The other
6 normalizing adjustments reflected in Amortization of Deferred Assets are summarized as
7 follows:

8 • Column (C), line 19 represents the amortization of allowed rate cases expenses as
9 authorized in Docket No. DE 19-057 in Order No. 26,634 (May, 27, 2022) at 1.
10 Eversource is authorized to collect $1,762,807 through its RRA mechanism over five
11 years, beginning August 1, 2022, totaling $352,561 per year. The Company's
12 proposal in this case is to recover these amounts in base rates and reflect the
13 outstanding balance as of July 31, 2024, estimated at $1,057,684, to be amortized
14 over five years, totaling $211,537. This results in a reduction to the Test Year of
15 $141,025.

16 • Column (C), line 21 reflects the recovery of the Fee Free program expenses since the
17 approval in Docket No. DE 19-057. As described above, pursuant to Section 12.3,
18 the Company may recover $375,000 of program-related costs in base rates annually
19 beginning January 1, 2021, subject to reconciliation at the time of the Company's
20 next rate case, with carrying charges on the over- or under-recovered balance
21 calculated using the prime rate. If the actual costs resulting from customers' adoption

1 of the fee free option exceed the $375,000 allowed in rates in the first year, the
2 Company can increase the amount in rates to an amount reflecting the estimated
3 costs, but not more than $520,500 effective February 1, 2022. In this proceeding, the
4 Company has reflected an adjustment to reconcile the historical amounts for the Fee
5 Free Credit and Debit Card payments in accordance with the Docket No. DE 19-057
6 Settlement Agreement. The Company proposes to recover the outstanding balance as
7 of July 31, 2024, estimated at $528,009, over five years, resulting in an annual
8 recovery of $105,602, which will be updated for actual expenses through July 31,
9 2024 in this proceeding.

10 • Column (C), line 22 reflects the recovery of the New Start program expenses since
11 the approval in Docket No. DE 19-057. Pursuant to Section 13 of the Settlement
12 Agreement, the Company is permitted to recover $1,077,356 in base rates annually
13 beginning February 1, 2022, subject to reconciliation at the time of the Company's
14 next rate case, with carrying charges on the over- or under-recovered balance
15 calculated using the Prime Rate. In this proceeding, the Company has reflected an
16 adjustment to reconcile the historical amounts for the New Start program in
17 Amortization of Deferred Assets in accordance with the DE-19-057 Settlement
18 Agreement. In this proceeding, the Company has reflected an adjustment to reconcile
19 the historical amounts for the New Start program in accordance with the Docket No.
20 DE 19-057 Settlement Agreement. The Company proposes to recover the
21 outstanding balance as of July 31, 2024, estimated at $4,900,068, over five years,

1 resulting in an annual recovery of $980,013, which will be updated for actual
2 expenses through July 31, 2024 in this proceeding.

3 • Column (B), line 24 reflects the reversal of the bad debt reserve entry following the
4 PPA with CCI on May 1, 2023. The purchase accounting for the transaction required
5 to the Company to account for the poles based on the total consideration paid, which
6 was $5.9 million in cash and $17.4 million in accounts receivable forgiveness. PSNH
7 wrote-off the entire $17.4 million accounts receivable forgiveness and reversed $4.7
8 million of the existing bad debt reserve associated with bad debt assigned to CCI
9 receivables. As this is a one-time non-recurring change in the test year, the Company
10 included a normalizing adjustment to offset this purchase accounting entry and
11 increased the Test Year by $4,738,341 in Column (C).

12 • Column (B), line 25 is associated with the reversal of a previously established reserve
13 of $911,000 resulting from a June 30, 2023 settlement agreement between the
14 Company and DOE. The settlement reduced the disallowance of the Pemigewasset
15 Substation Project from $911,000 to $615,000, which allowed for recovery of
16 $296,000 to be recovered in the next rate case. Given the order approving the
17 settlement as proposed on September 11, 2023, the Company updated its books and
18 records by removing the previous reserve and wrote-off the $615,000 in capital
19 additions. As this is a one-time non-recurring change in the test year, the Company
20 included a normalizing adjustment to offset this accounting entry and increased the
21 Test Year by $937,000 in Column (C).

1 • Column (B), line 27 is related to the Company's Step 3 adjustment approved in
2 Docket No. DE 19-057. The Step 3 adjustment implementation was delayed and
3 deferral was ultimately approved by the Commission to be recovered in base rates on
4 November 1, 2022 to continue until July 31, 2023. Thus, seven months of
5 amortization, totaling $1,730,556 was included in the Test Year. The Company
6 reduced the Test Year by this amount as it has been fully amortized as of this filing.

7 **Q. Please further explain the normalizing adjustment for the PPAM Pole Purchase**
8 **Reserve.**

9 A. The PPA executed on May 1, 2023 between the Company and CCI occurred following
10 the Commission's approval on November 18, 2022 in order 26,729, which (1) approved
11 the PPA and transfer of pole ownership, (2) directed the Company to use the method
12 suggested by New England Cable and Telecommunications Association (NECTA) to
13 calculate the original net book value to be used for ratemaking purposes of $15.9 million
14 and (3) approved the Company to recover all pole inspection and vegetation management
15 costs incurred beginning February 10, 2021 through the PPAM. Resulting from this
16 order and the execution of the PPA, the Company removed a previously established
17 reserve for vegetation management expenses attributed to CCI related to previously joint-
18 owned poles, totaling $16,896,040. The Company is eligible to include the vegetation
19 management expenses incurred from February 10, 2021 through the PPAM. As part of
20 the proposed PBR mechanism, the Company proposes to eliminate the PPAM and
21 discusses the final reconciliations to be included in the PPAM in more detail in Section
22 IX, below.

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

2 A. Due primarily to significant storm activity in 2022 and 2023, as of January 31, 2024, the
3 net deficit for the Company's storm reserve totaled approximately $272 million. The
4 annual storm funding previously collected in distribution rates is $12 million annually.
5 The funding is offset against deferred storm costs, resulting in a net funding or a net
6 deficit position for storms. The Company discusses its storm fund proposal in more
7 detail in Section VIII below.

8 **Q. What is the normalizing adjustment associated with the amortization of**
9 **unrecovered storm costs?**

10 A. Resulting from the Docket No. DE 19-057 Settlement Agreement, the Company was
11 recovering $68.5 million over five years associated with unrecovered storm costs as of
12 December 31, 2018 beginning on August 1, 2019. The Company is projected to be fully
13 recovered on these storms by August 1, 2024, the date temporary rates take effect in this
14 proceeding. As part of its temporary rate proposal, the Company is requesting to
15 maintain the level of storm funding in current rates, which includes (1) the amortization
16 of $15,216,947 and (2) the annual storm reserve funding of $12 million to be applied
17 against the approved storm costs from DE 22-031 and DE 23-051 proceedings. Thus, the
18 Company reflected $24,239,102 in the Adjusted Test Year for unrecovered storm costs
19 that will be reflected in temporary rates on August 1, 2024, which includes (1)
20 $23,708,013 associated with the projected unrecovered balance as of July 31, 2024 plus
21 (2) $531,089 in carrying charges as shown Attachment ES-REVREQ-1, Workpaper ES-

1 REVREQ-30, page 3 and page 4. The Company is projected to be fully recovered on
2 approved storms from DE 22-031 and DE-051 with the proposal.

3 **Q. Has the Company made pro forma adjustments to the Test Year amortization of**
4 **unrecovered storm costs?**

5 A. Yes. Attachment ES-REVREQ-1, Schedule ES-REVREQ-30, page 2, line 20, Column
6 (E) shows an increase to amortization expense of $31,478,315, resulting in a Test Year
7 Pro Forma of $55,717,417, which is further supported in Workpaper ES-REVREQ-30
8 page 1 and page 2. This increase is driven by a significant unrecovered storm costs that
9 are under review in DE 24-041 that are further discussed in Section VIII.

10 **F. Taxes Other than Income Taxes**

11 **Q. Please summarize your adjustments to Taxes Other Than Income Taxes?**

12 A. As shown on Attachment ES-REVREQ-1, Schedule ES-REVREQ-5, page 1, line 38,
13 Column (E), PSNH proposes to decrease Taxes Other Than Income Tax by $(617,100),
14 which is primarily driven by a normalizing adjustment to property taxes of $(563,088) as
15 shown in Attachment ES-REVREQ-1, Schedule ES-REVREQ-5, page 5, lines 32
16 through 35 and further described below.

17 1. <u>Property Taxes</u>

18 **Q. Has the Company adjusted the test year expense for property taxes?**

19 A. Yes. The Company has made a normalizing adjustment for Test Year property taxes as
20 shown on Attachment ES-REVREQ-1, Schedule ES-REVREQ-31, page 1, line 21 by
21 $(563,088).

1 **Q. How did the Company determine this normalizing adjustment?**

2 A. The Company made a normalizing adjustment for test year property taxes of $(563,088).
3 This normalizing adjustment consists of the following:

4 - A reduction of $1,053,565 related to poles purchased from Consolidated
5 Communications ("CCI") in May 2023. The Test Year actual expense included
6 prepayments of property taxes on the CCI poles from May through December,
7 2023. This was removed as a normalizing adjustment, as the actual prepayments
8 were not indicative of the Rate Year costs.

9 - An increase of $96,406 due to the removal of a credit related to pre-2019
10 adjustments. Pursuant to the Settlement Agreement in Docket No. DE 19-057,
11 annual actual property tax expense shall be normalized to adjust for any credits
12 received due to abatement settlement proceeds received for tax years preceding
13 the test year in Docket No. DE 19-057.

14 - An increase of $104,849 due to the removal of a credit related to pre-2019
15 abatements/refunds. As noted above, annual actual property tax expense shall be
16 normalized to adjust for any credits received due to abatement settlement
17 proceeds received for tax years preceding the test year in Docket No. DE-19-057.

18 - An increase of $289,222 related to normalized, estimated property taxes for the
19 CCI Poles purchased in May 2023. The estimated net book value of the CCI Pole
20 additions as of December 31, 2023 was calculated based off of the net book value

1 for the CCI Pole additions as of the date of purchase and 8 months of depreciation
2 (May 2023 through December 2023) utilizing the current pole depreciation rate
3 set in Docket No. DE 19-057 of 3.59 percent. The 2023 Mill Rates were then used
4 to calculate the normalized property tax expense for 2023 associated with the
5 purchased pole assets from CCI.

6 **Q. Has the Company made a pro forma adjustment for property taxes?**
7 A. No. The Company intends to make a pro forma adjustment to reflect 2024 property taxes
8 when bills are finalized around the first quarter of 2025. The Company will provide this
9 update in the next appropriate revenue requirements update.

10 2. Payroll Taxes and Other Taxes

11 **Q. Please describe the pro forma adjustment for payroll and other taxes.**
12 A. The pro forma adjustment for payroll and other taxes is an increase of $525,904 as shown
13 on Attachment ES-REVREQ-1, Schedule ES-REVREQ-32, page 2, line 29. The
14 adjustment was necessary to reflect the change in the Federal Insurance Contribution Act
15 ("FICA") and Medicare payroll tax expense for changes in overall payroll expenses based
16 on known and measurable increases to union and non-union payroll. The Test Year Pro
17 Forma payroll tax expense was calculated by multiplying the test year FICA and
18 Medicare payroll tax expense by 6.09 percent, which is the percent increase in overall
19 payroll expense. The calculation of the 6.09 percent is shown on Attachment ES-
20 REVREQ-1, Schedule ES-REVREQ-32, Page 2, Lines 48 through 53. After the gross
21 Test Year Pro Forma payroll tax expense is calculated, a capitalized portion is removed

for a net Test Year Pro Forma payroll and other taxes expense of $374,061 as shown on Attachment ES-REVREQ-1, Schedule ES-REVREQ-32, Page 1, Line 23.

G. Federal and State Income Taxes

Q. Did the Company make any Test Year adjustments to Current Income Tax Expense?

A. Yes. As shown on Attachment ES-REVREQ-1, WP ES-REVREQ-33, page 2, line 69, Column (A), the Test Year per books current income tax expense was $(56,663,682). The Adjusted Test Year current income tax expense of $(62,856,445) on WP-ES-REVREQ-33, page 2, line 69, Column (C) reflects a downward adjustment to the Test Year per books current income tax expense for the impact of the various normalizing adjustments. The reduction in income tax expense for the impact of normalizing adjustments was partially offset by a normalizing adjustment to exclude the normalized temporary difference associated with a regulatory deferral, as shown on WP ES-REVREQ-33, page 2, line 29, Column (B). The regulatory deferral adjusted for was related to the CCI pole reserve reversal, which is discussed in further detail in Section III.E. Amortization of Deferred Assets.

Similarly, the Test Year Pro Forma current income tax expense of $(83,573,101), as shown on WP ES-REVREQ-33, page 2, line 69, Column (E), reflects a reduction to Adjusted Test Year current income tax expense for the impact of various test year pro forma adjustments.

1 **Q. Did the Company make any adjustments to the taxable income base for Excess**
2 **Deferred Income Taxes, or EDIT?**

3 A. No. As shown in Attachment ES-REVREQ-1, WP ES-REVREQ-34, Page 1, Line 71,
4 the test year per book deferred income tax expense includes an amount related to the
5 EDIT amortization, which was previously settled in the Company's last rate case, Docket
6 No. DE 19-057 and remains unchanged in the Company's current rate case proposal.

7 **IV. OVERVIEW OF EVERSOURCE EMPLOYEE COMPENSATION PROGRAM**

8 **Q. Please describe the Company's compensation philosophy.**

9 A. The philosophy embedded in the compensation program for PSNH employees is a "total
10 rewards" approach designed to compensate employees competitively in comparison to
11 the energy/utility and general industry sectors. Competitive compensation levels are
12 required to attract, retain and motivate employees qualified to perform the functions
13 needed by the Company. For this reason, a "total rewards" philosophy is critical in
14 allowing the Company to meet its obligations to provide safe and reliable service at a
15 reasonable cost to its customers. This philosophy is consistent across all Eversource
16 Energy affiliates.

17 **Q. What are the components of the Company's total compensation structure?**

18 A. There are three key components of employee compensation at PSNH:

19 <u>Market Driven Base Pay</u> – Base pay is set within a range around the competitive market
20 rate of the individual's job. The Company targets compensation levels to be at the
21 median or 50th percentile of the market. To ensure that each job is valued correctly, the

1 Company evaluates the base compensation paid to individuals in positions of similar
2 scope within the energy/utility and general industry sectors. The Company establishes a
3 base pay range for each job based on 90 percent to 110 percent of the median market rate
4 derived during this process. The objective is to set base pay within this range for each
5 job. This range is consistent with standard compensation practices.

6 Market Based and Performance Driven Variable Compensation – Each job is assigned a
7 "job-scope" level that is based on the specific requirements of the job. The job-scope
8 level structure provides an overall framework for compensation and career development
9 through broad roles and levels of work within the enterprise. Each job-scope level has a
10 variable pay component that provides additional individual earnings potential as a
11 percentage of base pay if certain corporate, business unit and individual goals are met, as
12 set each year. The individual goals include items such as customer service, safety and
13 reliability, productivity, and cost containment. The combination of base salary and
14 variable compensation comprises the total cash compensation for each job, which is also
15 compared to the market.

16 Employee Benefits Program – Employee benefits, such as retirement savings, health and
17 welfare plan coverage, while not part of cash compensation, are a significant part of each
18 employee's total compensation.

1 **Q. What are your conclusions about the competitiveness of the Company's**
2 **compensation and benefits package?**

3 A. The Company's compensation levels are competitive when compared to compensation
4 levels in the marketplace, which encompasses employers both in the energy/utility and
5 general industry sectors.

6 **A. Reasonableness of Compensation Expense**

7 1. <u>Union Compensation</u>

8 **Q. How many unions represent employees at PSNH?**

9 A. The majority of PSNH union employees are covered by a single collective bargaining
10 agreement between the Company and the International Brotherhood of Electrical
11 Workers ("IBEW") Local 1837. A 3 percent union wage increase will take effect on June
12 1, 2025 during this case. This known and measurable change has been included in the
13 projection to compute the payroll-union adjustment. With respect to non-union
14 employees, 3 percent wage increases are reflected for March 17, 2024 and March 16,
15 2025 to compute the non-union payroll adjustment. These wage adjustments reflect all
16 the known and measurable payroll adjustments that will be occurring prior to the
17 midpoint of the Rate Year, or before February 1, 2026 and calculations are described in
18 Section III above.

19 **Q. How are the Company's union wage rates set?**

20 A. Union wage rates are established through the collective bargaining process. Collective
21 bargaining consists of arms-length negotiations between an employer and a union in
22 order to establish wages, benefits and conditions of employment. The result of the

1 collective bargaining process is a collective-bargaining agreement that establishes the
2 terms for increases in wages and benefits for affected employees.

3 **Q. How are total compensation and benefits determined for the Company's union**
4 **employees?**

5 A. Total compensation for union employees is determined through collective bargaining.
6 During the collective-bargaining process, PSNH assesses changes in the overall
7 compensation packages offered to union employees to ensure that the total compensation,
8 including cash compensation and benefits, remains reasonable and commensurate to
9 other union and non-union employees at similar levels within the Company. Wherever
10 possible, PSNH encourages their union employees to join in the benefit programs offered
11 to non-union employees in order to streamline the administration of the benefit programs
12 and provide the most value to the employees and their families at the least cost.

13 **Q. When do increases under the collective-bargaining contracts take effect?**

14 A. Attachment ES-REVREQ-1, Schedule ES-REVREQ-14 summarizes the timing and level
15 of union payroll increases over the 5-year period 2023 through 2025.

16 2. <u>Non-Union Compensation</u>

17 **Q. How is base pay for non-union employees determined?**

18 A. Base pay for the Company's non-union employees is determined based on the
19 competitive market, measured against base pay for employees in similar positions at
20 other employers. More specifically, each internal position has been matched to an
21 external market position by comparing the positions at PSNH and ESC to marketplace

positions. In order to establish parity with other employers vying for qualified workers in Eversource Energy's employment markets, base pay is set within a range that is established around the median market rate for individual jobs.

Q. How does the Company establish the range within which non-union base pay can fluctuate around the market median?

A. The established salary range is set at 90 percent to 110 percent of the median market rate. This range allows individual managers to differentiate base pay compensation among employees in similar jobs with varied skills, experiences, and level of responsibility.

Q. How does the job-scope level help determine the appropriate level of total cash compensation for each employee?

A. The Company's job-scope level structure provides a framework for total cash compensation, career advancement and consistency across the enterprise. The job-scope level variable pay is one component of an employee's total cash compensation that, along with base pay, affects the potential value of the overall compensation package for the employee. A variable pay range is associated with each job level, which defines the minimum and maximum variable compensation payout as a percentage of base pay for exempt employees and as a percentage of base pay plus overtime for non-exempt employees. Increases to base pay for an individual job may occur through merit increases, promotions from one job-scope level to the next, progressions within a job-scope level, and market adjustments if deemed necessary. The sum of base pay and variable pay represents the total cash compensation opportunity available to employees within the job-scope level.

1 **B. Variable Pay Component**

2 **Q. Are goals for the variable pay program analyzed each year?**

3 A. Yes. The target goals set by Eversource for use in overall Company performance and for
4 its annual variable pay program are reviewed each year. Each goal is analyzed to ensure
5 that, where appropriate, the goal is set to improve operational performance and customer
6 satisfaction and to meet all financial objectives.

7 **Q. Is individual employee performance a factor in total cash compensation?**

8 A. Yes. A portion of each employee's annual total cash compensation is tied to the
9 performance of the employee's business unit and individual performance through the
10 Eversource Energy Corporate Incentive Plan. Under the terms of the plan, a
11 discretionary amount is available to exempt employees based on individual performance
12 as determined by an employee's manager or supervisor. We describe the employee
13 performance evaluation process below.

14 **Q. In general, how is variable compensation awarded?**

15 A. If corporate and business unit objectives are reached, a funding pool is established for the
16 purpose of fulfilling variable pay compensation payments. The percentage of an
17 individual employee's compensation tied to the variable pay component is dependent
18 upon their job-scope level, which provides a potential range of payout for each employee
19 at that job scope level. For exempt employees, the employee's individual performance
20 and achievement of predetermined goals as determined by his or her supervisor is also
21 factored into the amount of the variable compensation granted.

1 Variable compensation payments are made in March or April of the year following the
2 year for which performance is measured (e.g., 2024 plan year variable compensation was
3 paid in 2025). The payment made to the employee is based 100 percent on the
4 employee's individual performance against pre-designated goals and objectives
5 specifically related to the employee's job position.

6 **Q. How are the variable pay levels determined?**

7 A. Each employee is placed in a job-scope level, which is based generally on their level of
8 responsibility within the organization. Each job-scope level has an associated variable
9 compensation opportunity range, beginning at a threshold or "trigger" level and the
10 variable compensation opportunity ranges from 0-200 percent of target based upon
11 individual performance.

12 **Q. How does the Company ensure that employees are committed to meeting the needs**
13 **of customers, such as service quality and service reliability?**

14 A. An employee's variable pay component is granted based on the performance of the
15 individual as compared to pre-designated goals including customer, employee,
16 process/capability, and other functional activities necessary for PSNH to provide safe,
17 reliable and reasonable cost service to customers. Performance management is executed
18 through an annual evaluative process by which an individual's specific achievements are
19 reviewed and evaluated.

20 Each employee is actively involved in the development of his or her performance goals,
21 with input from his or her supervisor, and the employee's progress is reviewed and

1 discussed with the employee periodically throughout the year. The performance-review
2 process is also used as an aid in determining the amount of an annual payroll increase for
3 an employee.

4 The use of the performance-review process to establish goals to measure employees'
5 performance against these goals is important in reinforcing the proper focus on key
6 initiatives and goals designed to improve customer service and reinforce cost
7 containment. The variable pay component of employee compensation is designed to
8 drive and reinforce the performance goals set for each employee each year. These goals
9 generally fall into four key categories, including: customer, employee, financial and
10 process. These goals and the performance-review process are critical in reinforcing key
11 Eversource initiatives, including safety, customer service, and operational efficiency.

12 **Q. Why is it necessary for the Company to use a variable pay component in paying**
13 **employees their compensation for work performed?**

14 A. Use of a variable pay component as part of total employee compensation is now standard
15 labor market practice, both within the utility industry and within the broader employer
16 base. Variable pay plans remain an increasingly critical and prevalent component of
17 most companies' Total Compensation philosophies.

18 In 2020, the majority (86.5 percent) of the participants in Towers Watson's Salary
19 Budget Survey Report reported that they have an annual performance bonus/short-term
20 variable compensation award program in place. For the energy/utility sector, 88.6

1 percent of the participants reported an annual short-term variable compensation award
2 program.

3 In 2020, a median of 100 percent of total US employees who were eligible for a variable
4 pay award actually received an award. Also in 2020, a median of 100 percent of total
5 energy/utility sector employees who were eligible similarly received an award.

6 **V. OVERVIEW OF THE EVERSOURCE BENEFIT PROGRAM**

7 **Q. How are benefits determined for employees?**

8 A. The Company's core mission is to provide safe, reliable and cost-effective service to its
9 customers. To achieve this goal, the Company must attract and retain qualified,
10 knowledgeable and engaged employees. Competitive and comprehensive employee
11 benefits are an essential part of the total compensation program that rewards the
12 Company's employees for fulfilling this mission and providing service to customers.

13 The Company's benefit program has several key elements that are typical of those
14 offered by most major employers. This program includes comprehensive medical, dental,
15 vision and prescription drug benefits that are designed to maintain the health of
16 employees and their eligible dependents. In conjunction with health benefits, the
17 Company also offers wellness programs to help manage and improve employee health,
18 which in turn helps to moderate health benefit costs over time. The Company provides
19 survivor benefits to help provide financial security for employees and their families in the
20 event of accidental injury or premature death. These benefits are available in the form of
21 life insurance and accident insurance. The Company provides illness and disability plans

1 to provide income replacement for employees, and their families, who are unable to work
2 due to illness or injury.

3 The Company also sponsors retirement income and health programs to contribute to
4 employees' future financial security. These benefits are provided in the form of a defined
5 contribution plan and, for a closed group of employees, a defined benefit pension plan.
6 Upon retirement, employees who meet certain age and service milestones are also
7 eligible to participate in post-retirement medical plans. The Company has worked hard to
8 manage and mitigate the cost of these benefits through design initiatives, carrier
9 negotiation and administrative efficiency.

10 **Q. How does Eversource obtain healthcare coverage and other benefits for its**
11 **employees and retirees?**

12 A. Eversource Energy contracts for healthcare coverage and other benefits for its operating
13 subsidiaries, including PSNH. The Company's customers have benefited greatly from
14 the increased scale of the overall Eversource Energy enterprise in relation to the
15 procurement of employee-benefit coverage for employees and retirees.

16 **Q. How does the Company assure the reasonableness of its benefits offerings?**

17 A. The Company assures the reasonableness of its employee-benefit programs by
18 periodically benchmarking those offerings against the benefit programs of other
19 employers. As part of this process, the benefits offered by PSNH as subsidiaries of
20 Eversource Energy are compared to the benefits offered by other Eversource peer group
21 companies in the energy industry.

1 **A. Healthcare Benefits**

2 **Q. Would you please provide an overview description of the types of healthcare benefits**
3 **provided to the Company's employees?**

4 A. Eversource Service Company offers three distinct health plan choices for PSNH
5 employees – and the entire Eversource Energy system – to address various employee
6 needs and risk tolerances:

7 • Preferred Provider Organization PPO-100 with no deductibles and fixed copays
8 for all out-of pocket costs, but higher payroll contributions;

9 • Preferred Provider Organization PPO-90 with moderate deductibles, out-of-
10 pocket costs and lower payroll contributions than the PPO-100; and

11 • The Saver Plan, a "High Deductible Health Plan" with a health savings account
12 and the lowest payroll contributions.

13 Each of these plans complies with the Patient Protection and Affordable Care Act (the
14 "ACA") and includes important preventive benefits to promote the wellness of
15 employees and their families. The three medical-plan offerings are Preferred Provider
16 Organizations ("PPO"), which include in-network benefits with lower employee cost and
17 out-of-network benefits at a higher employee cost. Due to the extensive network
18 maintained by health insurers in our area, over 98 percent of employee claims are
19 incurred on an in-network basis, which is more cost effective for both employees and the
20 Company. Each plan includes employee cost sharing for in-patient treatment, medical
21 imaging, emergency room visits and other high-cost procedures. The health-plan options

1 are coupled with a prescription drug program that includes utilization management,[9] step
2 therapy programs[10] and other cost savings features, including mail order requirements for
3 maintenance medications or a Smart 90 program that allows for a retail refill option for
4 all three medical plan options.

5 Additionally, opt-out credits of $500 per plan year are paid to those employees who have
6 alternative healthcare coverage and elect not to participate in any of the Company's
7 plans. These credits are offered at a fraction of the cost that would otherwise be required
8 to provide coverage for the employees who opt-out.

9 In addition, Eversource offers two standardized dental plan offerings with payroll
10 contributions reflective of the cost of the plan, and one standard vision plan.

11 **Q. How are costs of the healthcare plans determined?**

12 A. ESC engages a consultant to help determine the cost of health plans for the upcoming
13 year. Eversource is self-insured, which means that actual plan utilization influences
14 future costs.[11] ESC's consultants utilize an underwriting process to set future rates, a

[9] In this case, utilization management is the evaluation of the appropriateness and medical necessity of medications according to evidence-based criteria or guidelines.

[10] Step Therapy is a prior authorization program that encourages the use of less costly yet effective medications before more costly medications are approved for coverage.

[11] Under the self-insured plan design, ESC pays only the actual cost of health care claims, along with a fixed administrative fee for the insurance carrier covering the cost of administering the claim reimbursements to employees; managing the network of providers; and other costs of claim administration. By contrast, a "fully insured" plan design requires that the purchaser pay a fixed premium regardless of the actual utilization of services. Also, these premiums are adjusted to provide the insurance company with adequate protection against risk plus a profit margin. With a self-funded design, ESC pays only for the health care that employees actually use. Because Eversource Energy has employees in multiple states, the self-insured design provides a standardized plan design without the need to be responsive to individual state mandates.

1 process typically used by traditionally funded medical plans. When projecting costs for
2 the upcoming year the consultant estimates total plan expenses (including taxes,
3 administration fees, stop loss premiums, etc.) and benefit payments (actual claims) that
4 will be incurred during that upcoming plan year. The underwriting process uses paid
5 claims in developing projections, but enrollment is lagged by one month and an
6 additional month of trend is added. The logic is that, on average, claims paid are incurred
7 by participants enrolled one month prior. Also, claims above the stop-loss threshold are
8 removed from the projection.

9 For determining trends, the ESC's consultants review national trend data as well as
10 Eversource Energy's own claims experience and plan design.

11 Benefit-adjustment factors are developed using actuarial models or by soliciting carrier
12 opinions on the impact of plan-design changes. These adjustment factors are applied to
13 the level of current claims to align those claims to an expected level of claims.

14 Two years of claims experience are blended to help smooth fluctuations year-to-year, and
15 often a larger weight is placed on the most recent year and all fees and fixed costs are
16 considered.

17 **Q. How have PSNH employees contributed to controlling the rate of increase in**
18 **healthcare costs?**

19 A. In addition to self-insuring, the Company employs pricing strategies that encourage
20 employees to consider lower-cost health-plan options and also encourage the evaluation
21 of alternate health-plan coverage available to employed family members.

1 One example of an ESC-employed pricing strategy is to have non-union employees pay a
2 lower percentage of their own premium cost and a higher percentage of the premium cost
3 for their dependents. These percentages are applied against the Company's core plan
4 design, the PPO-90 Plan, and employees pay the cost of buying up to a higher level of
5 coverage or receive the savings associated with buying down to a lower level of
6 coverage. Under this employee-contribution model, non-union employees paid an
7 average of approximately 21 percent of the premium-equivalent cost in 2020.

8 PSNH union employees utilize a different contribution model in which the contribution
9 percent is fixed by plan for each tier of employee and dependent coverage based on the
10 plan in which they enroll, with the lowest contribution required for the Saver Plan.

11 **Q. What steps has the Company taken to promote employee wellness and reduce the**
12 **demand for healthcare?**

13 A. In addition to other health-management programs offered by the ESC's health vendors,
14 ESC uses targeted health risk-management programs to help reduce the demand for
15 healthcare through healthy living, health education and chronic condition management.
16 There are two such programs available to employees and their dependents. The first a
17 wellness incentive program offered on a voluntary basis to employees and spouses
18 includes a wide variety of initiatives such as health education, weight and stress
19 management programs, workplace ergonomics and injury prevention programs.

20 The second option is offered through ESC's healthcare program where participants who
21 have chronic medical conditions are offered coaching and resources aimed at

1 management of those conditions. The health-plan carrier identifies participants eligible
2 for participation in the program by review of claims data and diagnosis information
3 provided to the health plan. Also, many participants who experience a surgical procedure
4 will be eligible for participation. Participants are also able to self-identify for
5 participation.

6 **B. Healthcare Benefits for Retirees**

7 **Q. What steps has the Company taken to control the rate of increase in retiree medical**
8 **costs?**

9 A. Costs relating to retiree medical are recovered through base rates, which recovers pension
10 expenses and post-retirement benefits other than pension ("PBOP") expenses associated
11 with the obligations to retired employees. As part of a standardized program across the
12 Eversource enterprise, the Company has controlled the growth of these costs by changing
13 plan designs for both pre-65 retirees and post-65 Medicare eligible retirees. At the same
14 time, retirees have maintained access to important medical and prescription drug
15 insurance coverage in their retirement. In 2013, the Company transitioned pre-65 retirees
16 to the same new medical plans offered to active employees. Pre-65 retirees were offered
17 plans that were consistent with the employee health plans.

18 The Company also made a series of significant plan design changes for Medicare eligible
19 retirees. In 2013, the Company changed the prescription drug benefit offered to
20 Medicare eligible retirees with the introduction of a Medicare Part D Employer Group
21 Waiver Plan ("EGWP") through its PBM. Participation in the EGWP provided savings
22 in the form of Part D direct subsidy payments, low-income subsidies, pharmacy

1 manufacturer reimbursements and catastrophic reinsurance payments. In 2014, the
2 Company updated the plan design for Medicare eligible retirees, eliminating non-
3 Medicare coverage and applying the full Medicare Part B deductible on all participants.
4 The Company has used a number of methods to control the trend in retiree healthcare
5 costs, including updates to plan design, carrier consolidation, aggressive vendor
6 contracting, the infusion of funds from Medicare Part D under the EGWP, and the
7 imposition of a wide variety of utilization management programs.

8 In response to the increasing pressure of inflation and the diminishing impact of
9 traditional cost trend management programs, effective January 1, 2017, all retirees were
10 transitioned to a private health care exchange, ViaBenefits. Eversource Energy sought to
11 find a standardized approach across all its subsidiaries, including standardizing the
12 amount of the subsidy provided to retirees, and adopting an approach that is sustainable
13 in the long-term and that continues to provide meaningful coverage for retirees.

14 The retiree exchange approach is a more efficient delivery system than a self-funded
15 group plan and benefits both retirees and the Company for the following reasons:

16–20
- The exchange has a larger risk pool than the self-funded group plan. Medicare, outside of employer group sponsored coverage, has over 40 million members, making it easier to spread high cost claimants and manage the cost trend over time. This results in lower premiums and out-of-pocket costs for retirees who are subject to the Company's cap on contributions.

21–25
- The retiree exchange population is getting younger as 10,000 baby boomers retire into Medicare every day and join the risk pool. By contrast, Eversource's population, by virtue of its grandfathering rules, is getting older and therefore the risk increases every year, resulting in escalating costs for retirees and the Company.

1 2 3 4 5 6 7
- This approach provides enhanced access to government funding. The Company's self-funded group health plan received government funding to offset the cost of its prescription drug coverage, but far less than individual market prescription plans do. Prior to the move to the retiree exchange, no Eversource retiree had access to a Medicare Advantage plan. Also, in some areas, the government funding for Medicare Advantage plans is such that retirees have access to a plan with no premium.

8 As retirees were moved to ViaBenefits, the Company provided a subsidy in the form of
9 tax-free contributions into a Health Reimbursement Account ("HRA") that can be used to
10 offset the cost of premiums and out-of-pocket costs for qualified medical expenses.
11 Under this model, retirees choose the medical and prescription drug plan that works for
12 them based on age and residence. Availability and choice of plans varies by state.

13 **Q. Is it reasonable for the Company to sponsor retiree health?**

14 A. Yes. In the utility industry, the retention of skilled and knowledgeable employees is
15 critical to the operation and maintenance of the Company's electric distribution
16 infrastructure and provision of effective customer service. A thorough understanding of
17 these operations and customer service systems requires a substantial investment in
18 training and development over a period of many years. The Company's sponsorship of
19 these employee benefit programs is an important part of the total compensation program
20 that is designed to attract and retain employees who are skilled in operating these
21 systems.

1 **C. Other Post-Retirement Employee Health Benefits**

2 **Q. What actions has the Company taken in relation to its retirement plans to control**
3 **long-term benefit costs?**

4 A. Similar to retiree health plans, costs relating to defined benefit pension plans are also
5 recovered through base rates. PSNH adopted the Northeast Utilities strategy to help
6 control the growth and volatility in pension costs by closing entry to its pension equity
7 plan for newly hired non-union employees and adopting an enhanced defined
8 contribution approach to retirement income benefits.

9 Under this defined contribution program, in addition to the employer 401(k) matching
10 contribution, PSNH contributes an additional non-elective Employer contribution amount
11 equal to a percentage of the employee's eligible pay. These non-elective contributions
12 are referred to as "K-Vantage" contributions and are based on the employee's age and
13 service determined as of each January 1 as follows:

Company Contributions

14

15 Age plus Service	% of Covered Pay
16 Less than 40 years	2.5
17 40 or more but less than 60 years	4.5
18 60 or more years	6.5

19 PSNH has successfully negotiated this change with all unions and all newly hired eligible
20 employees across the Eversource system participate in the K-Vantage program, in lieu of
21 the defined benefit approach.

1 In addition, the Company has implemented a Post-Employment Health Reimbursement
2 Account ("HRA") program under the Med-Vantage Plan that supplements benefits
3 offered to employees in K-Vantage. The Company deposits $1,000 annually into a tax-
4 advantaged HRA account for each participant who is age 40 or older, which can be used
5 for post-employment health care premiums or expenses upon termination of employment.

6 In combination, these initiatives – the introduction of K-Vantage and introduction of the
7 Med-Vantage program — have lowered the Company's retirement benefits expense,
8 primarily by helping to control pension expense, while providing a competitive
9 retirement benefit to employees. Equally important, decreased reliance on the traditional
10 defined pension benefit plan will reduce cost volatility to the Company and its customers
11 in the long term.

12 **Q. Have the Company's costs of providing benefits under the 401(k) plan increased?**
13 A. Yes. As expected, total costs related to the 401(k) plan will increase as all newly hired
14 employees participate in this plan (rather than the traditional defined benefit pension
15 plan), and K-Vantage contributions increase commensurate with pay rates, age and
16 service. However, K-Vantage employees are not active participants in the defined benefit
17 pension plan, and over time, there will be a corresponding reduction in the recovery
18 requirements associated with the defined pension benefit plans.

1 **Q. Please summarize how the Company is providing necessary benefits while working**
2 **to reduce and control costs.**

3 A. The Company's benefit programs are regularly reviewed and compared to industry best
4 practices to help ensure that the Company maintains a competitive program that supports
5 the goal of attracting, motivating and retaining a skilled and qualified workforce. The
6 benefits provided to employees are designed to take advantage of available tax savings
7 and are self-funded in order to provide the Company greater control over the way in
8 which healthcare dollars are spent. In addition, Eversource Service Company utilizes
9 health-management programs to help control cost, and wellness incentives that are
10 designed to proactively reduce the need for future healthcare services. Eversource
11 Energy has taken full advantage of this opportunity to proactively realign programs and
12 reduce benefits costs to customers, employees and the Company.

13 Eversource continues to monitor its benefits program offerings to ensure the Company
14 both attracts and retains the highly skilled employees needed to provide reliable service
15 to our customers. As part of this strategy, PSNH may be recommending changes to our
16 benefit offerings in the near term.

17 **VI. RATE BASE COMPUTATION AND RATE OF RETURN**

18 **Q. Please describe how you determined the Company's rate of return for ratemaking**
19 **purposes.**

20 A. Attachment ES-REVREQ-1, Schedule ES-REVREQ-40, page 1 presents the five-quarter
21 average capital structure and the cost of common equity, long-term debt, and short-term

1 debt. Attachment ES-REVREQ-1, Schedule ES-REVREQ-40, page 2 presents the detail
2 of the Company's Test Year outstanding long-term debt balances and associated costs.

3 As shown on Attachment ES-REVREQ-1, Schedule ES-REVREQ-40, page 1, PSNH's
4 five-quarter average capital structure as of December 31, 2023 is comprised of 39.82
5 percent long term debt, 4.13 percent short term debt, and 56.05 percent common equity.

6 **Q. Did you make any post Test Year adjustments to the Company's rate of return for**
7 **ratemaking purposes?**

8 A. Yes. As reflected on Attachment ES-REVREQ-1, Schedule ES-REVREQ-40, page 1,
9 lines 33 through 41, the Company utilized a projected five-quarter average capital
10 structure as of December 31, 2024, comprised of 46.15 percent long term debt and 53.85
11 percent common equity.

12 The Company has employed a five-quarter average capital structure for the period ending
13 December 31, 2024, in part, to reflect a refinancing transaction of $300 million aggregate
14 principal amount of long-term debt securities through December 31, 2024. The Company
15 petitioned the Commission for approval of this financing in Docket No. DE 23-089. As
16 explained in that filing, the $300 million issuance amount constitutes the refinancing of
17 existing short-term debt. The Commission approved the Company's financing petition
18 on February 8, 2024 in Order No. 26,943.

1 **Q. Have you prepared a summary of the Company's rate-base computation?**

2 A. Yes. Attachment ES-REVREQ-1, Schedule ES-REVREQ-36 presents a summary of the
3 rate-base computation. As shown therein, the distribution rate base balance is
4 $1,692,173,678.

5 **Q. How has the Company calculated rate base for the revenue requirement?**

6 A. The calculations supporting rate based are provided in Attachment ES-REVREQ-1,
7 Schedule ES-REVREQ-36. This schedule identifies the December 31, 2023 balances for
8 Utility Plant in Service, Reserve for Depreciation, Reserve for Deferred Income Taxes
9 (ADIT), Customer Deposits, Customer Advances, Materials & Supplies, and the Cash
10 Working Capital allowances. The schedule reflects a pro forma adjustment increasing
11 the Utility Plant in Service, Reserve for Depreciation and Reserve for Deferred Income
12 Taxes to reflect the impact of forecast 2024 capital additions on the Company's rate base.
13 The Company will provide actual utility plant in service, reserve for depreciation, and
14 reserve for deferred income tax balances through December 31, 2024 at the appropriate
15 revenue requirement update. This schedule also reflects the changes to Cash Working
16 Capital based on the Company's Lead Lag study, presented herein, to develop the pro
17 forma Rate Base amount of $1,852,291,891 shown on Attachment ES-REVREQ-1,
18 Schedule ES-REVREQ-36, line 45.

19 **Q. Have the amounts in rate base have changed significantly since the Company's last**
20 **rate case?**

21 A. Yes. The Company's last rate case (Docket No. DE 19-057) was filed using a 2018 test
22 year. Since that time, the Company made significant capital investments to construct,

1 replace, and repair the distribution infrastructure needed to provide New Hampshire
2 customers with safe and reliable electric service. A main driver of the revenue deficiency
3 experienced in the Company's rate base is due to a $275 million rate base growth that
4 was not covered by the Step Adjustments approved in the DE 19-057 Settlement
5 Agreement. Only 42 percent of the approximately $475 million increase in rate base was
6 covered by the three Step Adjustments in years 2020, 2021, and 2022.

7 **VII. LEAD LAG STUDY**

8 **A. Introduction**

9 **Q. Did the Company prepare a Lead Lag Study for this case?**

10 A. Yes, the Company prepared a Lead Lag Study to update and establish the net lag days to
11 be used for cash working capital that it is proposing to include in base rates.

12 **Q. What is cash working capital?**

13 A. Cash working capital is the amount of capital that is needed by the Company to fund
14 operations in the period between when expenditures are incurred to provide service to
15 customers and when payment is received from customers for that service.

16 **Q. How is cash working capital estimated through a Lead Lag study?**

17 A. A Lead Lag study identifies the amount of time it typically takes for the Company to
18 collect revenue from customers, as well as the amount of time the Company takes to
19 make payment for applicable operating costs. The difference between those two numbers
20 is used as the basis to estimate cash working capital requirements.

1 **Q. Please define the terms "revenue lag days" and "expense lead days."**

2 A. Revenue lag is the time, measured in days, between delivery of a service to PSNH
3 customers and the receipt by the Company of the payment for such service. Similarly,
4 expense lead is the time, again measured in days, between the performance of a service
5 on behalf of the Company by a vendor or employee and payment for such service by the
6 Company. Since base rates are based on revenue and expenses booked on an accrual
7 basis, the revenue lag results in a need for capital while the expense lead offsets this need
8 to the extent the Company is typically not required to reimburse its vendors until after a
9 service is provided.

10 **Q. Please describe the Lead Lag Study and its findings.**

11 A. The Lead Lag Study consists of 12 schedules of calculations to separately calculate lag
12 days for O&M expense. The Lead Lag Study produced an O&M net lag of 13.91 days or
13 3.81 percent (13.91/365).

14 **B. Revenue Lag Days**

15 **Q. How is the retail revenue lag computed?**

16 A. The retail revenue lag consists of a "meter reading or service lag," "collection lag," and a
17 "billing lag." As shown on Attachment ES-REVREQ-2, Schedule ES-REVREQ-2, the
18 sum of the days associated with these three lag components is the total retail revenue lag
19 experienced by PSNH.

1 **Q. How was the "meter reading or service lag" calculated and what was the result?**

2 A. The service lag is 15.21 days. This lag was obtained by dividing the number of billing
3 days in the test year by 12 months and then dividing it in half to arrive at the average
4 midpoint of the monthly service periods.

5 **Q. How was the "collection lag" calculated and what was the result?**

6 A. The collection lag totaled 27.07 days. This lag reflects the time delay between the
7 mailing of customer bills and the receipt of the billed revenues from customers. The
8 27.07 days lag was arrived at by a thorough examination of accounts receivable balances
9 using the accounts receivable turnover method. End of month balances were utilized as
10 the measure of customer accounts receivable. Attachment ES-REVREQ-2, Schedule ES-
11 REVREQ-3, details monthly balances for the majority of the accounts receivable
12 accounts (Customer Accounts). The yearly annual customer revenue is also shown as the
13 sum of revenue from residential, commercial, industrial, and public street and highway
14 lighting accounts. Total revenues are then divided by 365 to calculate the average daily
15 revenue amount. The resulting collection lag is derived by dividing the average accounts
16 receivable balance by the average daily revenue amount to arrive at the collection lag of
17 27.07 days.

18 **Q. How did you arrive at the 1.51 day "billing lag"?**

19 A. Nearly all of the Company's customers are billed the evening after the meters are read.
20 However, if a meter is read on a Friday or prior to a scheduled holiday, there is additional
21 lag over the weekend or holiday. Therefore, the Company's billing lag calculation

1 accounts for any additional lag over weekends and holidays, resulting in a 1.51 day lag
2 for test year 2023. The Company has not made an exception for large customers, which
3 may require additional time to process.

4 **Q. Is the total retail revenue lag computed from these separate lag calculations?**

5 A. Yes. As shown on Attachment ES-REVREQ-2, Schedule ES-REVREQ-2, the total retail
6 revenue lag of 43.79 days is computed by adding the number of days associated with
7 each of the three retail revenue lag components. This total number of lag days represents
8 the amount of time between the recorded delivery of service to retail customers and the
9 receipt of the related revenues from retail customers.

10 **C. O&M Cash Working Capital and Taxes**

11 **Q. Please explain O&M cash working capital.**

12 A. The O&M cash working capital component is associated with O&M cash expenses
13 included in the cost of service. These are expenses that the Company incurs to
14 underwrite the activities conducted in service to customers before it receives payment
15 from customers for those services.

16 **Q. In determining the expense lead period, how were the weighted lead days in**
17 **payment of O&M costs determined?**

18 A. First, total O&M expense was disaggregated among payroll, payroll incentive, employee
19 benefits, regulatory assessments, insurance expense, and other O&M expense. Payments
20 were reviewed and the lead days were calculated for each category. Once the lead days
21 for each category were determined, the lead days were summarized and dollar weighted

1 according to 2023 actual annual amounts to arrive at the total O&M cash working capital
2 requirement. The details of this calculation are shown on Attachment ES-REVREQ-2,
3 Schedule ES-REVREQ-1.

4 **Q. How were lead days calculated for each category of O&M and what were the**
5 **results?**

6 A. The payroll lead is shown in Attachment ES-REVREQ-2, Schedule ES-REVREQ-4.
7 Gross payroll data is obtained from the Company's payroll system and is the basis of the
8 payroll lead calculation. PSNH employees are paid every other Thursday for the
9 previous two weeks' work (based on a work week of Sunday-Saturday). This results in a
10 weighted lead of 11.00 days. Payroll incentives are paid out in March and are associated
11 with employee service in the prior calendar year, resulting in an overall weighted lead of
12 251.00 days. Gross data for employee benefits is also obtained through the payroll
13 system and are paid out on the same schedule as payroll. This results in a weighted lead
14 of 10.00 days as shown in Attachment ES-REVREQ-2, Schedule ES-REVREQ-5.

15 Regulatory assessments are based on the fiscal year beginning in July and ending in June
16 of the following year. Payments of regulatory assessment are typically made on a
17 quarterly basis. This results in a weighted lead of 51.18 days as shown in Attachment
18 ES-REVREQ-2, Schedule ES-REVREQ-6.

19 Insurance premiums typically run for a year and are paid at the beginning of the service
20 period. This results in a weighted lead of (163.57) days as shown in Attachment ES-
21 REVREQ-2, Schedule ES-REVREQ-7.

1 **Q. How was the lead related to other O&M expenses calculated and what was the**
2 **result?**

3 A. The Company obtained a complete list of vendor payments made during calendar year
4 2023 directly from Eversource Energy Service Company's Accounts Payable system.
5 The Company used a sampling method to determine a sample of 100 invoices that would
6 best represent the entirety of other O&M expenses. The sample included a listing of
7 invoices that were reviewed to determine the length of the service period and the date
8 payment was made. The calculation resulted in an average lead of 56.95 days as shown
9 in Attachment ES-REVREQ-2, Schedule ES-REVREQ-8.

10 **Q. How were the lead days associated with taxes calculated and what was the result?**

11 A. The property tax lead days were calculated as (57.40) based on a review of tax payments
12 made by the Company to New Hampshire municipalities in 2023. The lead days for
13 property taxes are presented in Attachment ES-REVREQ-2, Schedule ES-REVREQ-9.
14 The payroll tax lead of 10.00 days was calculated based on the 2023 payments made for
15 New Hampshire State Unemployment, Federal Unemployment, Medicare, and Federal
16 Insurance Contributions Act (FICA) tax. The leads for payroll taxes are presented in
17 Attachment ES-REVREQ-2, Schedule ES-REVREQ-10.

18 Federal Income Tax and State Income Tax expenses are paid on a quarterly basis. The
19 Company compared the period between the midpoint of each month in the quarter and the
20 quarterly payment date under the assumption that the payment is accrued evenly
21 throughout the quarter. The result is a lead of 30.00 days for Federal Income Tax and

1 42.07 days for State Income Tax. Attachment ES-REVREQ-2, Schedule ES-REVREQ-
2 11 and Schedule ES-REVREQ-12.

3 **D. Conclusion**

4 **Q. Would you summarize the Company's proposal regarding Cash Working Capital?**

5 A. Yes. Based on the results of the Lead Lag analysis of cash working capital, the Company
6 identified an O&M working capital component of 13.91 days, or 3.81 percent. As
7 detailed on Attachment ES-REVREQ-1, Schedule ES-REVREQ-41, application of these
8 values results in a request of $10,442,722 for Cash Working Capital.

9 **VIII. MAJOR STORM COST RESERVE**

10 **Q. What qualifies as a major storm under the Major Storm Cost Reserve?**

11 A. Under the terms of the Major Storm Cost Reserve, a qualifying major storm is defined as
12 a storm that results in either (1) 10 percent or more of the Company's retail customers
13 being without power in conjunction with more than 200 reported troubles; or (2) more
14 than 300 reported troubles during the major storm event.

15 **Q. Did Docket No. DE 12-320 allow recovery of qualifying pre-staging costs?**

16 A. Yes. Pursuant to the Commission's ruling, any event where the event has a "high
17 probability (greater than 60 percent) of reaching an EEI Level 3 or higher is eligible for
18 cost recovery as a pre-staging event.

1 **Q. Please describe the Major Storm Cost Reserve that was agreed to in the DE 19-057**
2 **Settlement on October 9, 2020.**

3 A. In accordance with Section 5 of the Settlement Agreement, the Company included $12
4 million in rates for the major storm reserve consistent with the amount presently included
5 in PSNH's rates. Rather than implementing a reconciling mechanism for storm costs, the
6 Company was permitted to file for a separate temporary amortization of storm costs for
7 storm events that exceed $25 million per event which may include a request to recover
8 costs for repair of damage due to such storm events through a surcharge.[12]

9 **Q. Did the Company have any outstanding storm costs it proposed to recovery in DE**
10 **19-057?**

11 A. Yes. Resulting from the Docket No. DE 19-057 Settlement Agreement, the Company
12 was approved to begin recovery of $68.5 million over five years associated with
13 unrecovered storm costs as of December 31, 2018 beginning on August 1, 2019. The
14 Company is projected to be fully recovered on these storms by August 1, 2024, the date
15 temporary rates take effect in this proceeding. As discussed above and included in its
16 temporary rate proposal, the Company is requesting to maintain the level of storm
17 funding in current rates, which includes (1) the amortization of $15,216,947 and (2) the
18 annual storm reserve funding of $12 million to be applied against the approved storm
19 costs from DE 22-031 and DE 23-051 proceedings. Thus, the Company reflected
20 $24,239,102 in the Adjusted Test Year for unrecovered storm costs that will be reflected
21 in temporary rates on August 1, 2024, which includes (1) $23,708,013 associated with the

[12] As further discussed below, the Company is proposing to implement a similar surcharge called the Storm Reserve Adjustment Mechanism ("SRAM") with some modifications.

1 projected unrecovered balance as of July 31, 2024 plus (2) $531,089 in carrying charges
2 as shown Attachment ES-REVREQ-1, Workpaper ES-REVREQ-30, page 3 and page 4.
3 The Company is projected to be fully recovered by August 1, 2025 on approved storms
4 from DE 22-031 and DE 23-051 with the proposal.

5 **Q. What is the Company proposing regarding the amortization level?**

6 A. The Company's total filed unrecovered storm costs amount to $270.7 million. This
7 includes carrying charges at a stipulated rate[13] through July 31, 2024. The table below
8 reflects the unrecovered storm costs and the amounts the Company is requesting for
9 recovery through base rates at the temporary and permanent rate increases. Estimated
10 carrying charges after July 31, 2024 are calculated in Attachment ES-REVREQ-1,
11 Workpaper ES-REVREQ-30, pages 1 through 4 at the Company's proposed weighted
12 average cost of capital.

13 **Table 1: Unrecovered Storm Costs**

DE 19-057 Over/Under Recovery	$	-
DE 22-031 Unrecovered Costs		6,784,655
DE 23-051 Unrecovered Costs		16,923,358
Storm Costs included in Temp Rates for Effect August 1, 2024	**$**	**23,708,013**
DE 22-031/DE 23-051 Over/Under Recovery at June 30, 2025	**$**	**-**
DE 24-041 Unrecovered Costs		246,986,989
Unrecovered Storm Costs as of August 1, 2025	**$**	**246,986,989**
Storm Costs in Perm Rates (amortized over 5 years), incl. carrying charges	**$**	**55,717,417**

[13] As approved in the DE 19-057 Settlement Agreement, PSNH began applying a carrying charge on recoverable storm costs equal to its embedded cost of long-term debt as of August 1, 2019.

1 The Company proposes to increase the current amortization level of $15 million from
2 Docket No. DE 19-057 to $24 million in temporary rates to reflect the level of
3 unrecovered storm costs that have been approved in Docket No. DE 22-031 and Docket
4 No. DE 23-051. Through permanent rates, the Company is proposing to amortize the
5 outstanding storm costs as filed in Docket No. DE 24-041 with the balance of $247
6 million as of August 1, 2025 over five years, inclusive of carrying charges, resulting in
7 $56 million amortized annually. If the Company's four-year stay-out proposed in its
8 PBR plan is approved, the Company will have one year of amortization to recover when
9 temporary rates for the next base distribution rate case will take effect. Please see
10 Attachment ES-REVREQ-2, Schedule ES-REVREQ-30 and Workpaper ES-REVREQ-
11 30 for the supporting calculations.

12 **Q. What is the Company proposing regarding the storm reserve contribution?**

13 A. In temporary rates, the Company does not propose to change the current level of $12
14 million allowed through Docket No. DE 19-057. For permanent rates, the Company is
15 proposing to increase the storm reserve contribution from $12 million to $19 million.
16 The $19 million is based on increasing storm costs for the last ten years excluding events
17 over $25 million as shown in the table below.

1 **Table 2: Historical Storm Cost Summary**
2 **as of January 31, 2024**

Year	Direct Costs	Carrying Charges	Total Storm Costs	Extraordinary Events >$25 million	Adjusted Annual Storm Costs
(A)	(B)	(C)	(D)	(E)	(F)
2014	$ 26,975,213	$ 6,289,051	$ 33,264,264	$ (32,380,119)	$ 884,145
2015	1,170,953	264,159	1,435,112	-	1,435,112
2016	5,234,212	830,656	6,064,868	-	6,064,868
2017	40,467,401	3,973,845	44,441,247	(35,151,783)	9,289,464
2018	26,127,384	1,619,745	27,747,128	-	27,747,128
2019	15,325,969	2,118,806	17,444,775	-	17,444,775
2020	32,416,081	3,815,612	36,231,693	-	36,231,693
2021	16,093,885	1,595,768	17,689,653	-	17,689,653
2022	89,434,538	4,933,415	94,367,954	(47,241,680)	47,126,274
2023	176,107,898	6,377,720	182,485,618	(155,108,482)	27,377,136
				5 year average (2019 - 2023)	29,173,906
				10 year average (2014 - 2023)	19,129,025

3

4 The Company is also proposing to modify the Storm Reserve Adjustment Mechanism[14]
5 where the Company is permitted to file for separate, temporary amortization of storms
6 recovery from the existing threshold of over $25 million per event to when the storm
7 reserve balance shows a surplus or a deficit of a one-year storm funding of $19 million as
8 proposed above, which will be included as part of the Regulatory Reconciliation
9 Adjustment ("RRA") mechanism.

[14] This cost recovery mechanism has been previously referred to as the Storm Cost Adjustment Mechanism. The Company is proposing to change the name of this cost recovery mechanism to the "Storm Reserve Adjustment Mechanism" in this proceeding.

1 **Q. Does the Storm Reserve Adjustment Mechanism provide any benefits to the**
2 **customers?**

3 A. Yes. As described and shown in Table 2 above, the Company has experienced significant
4 storm events since 2022, which has contributed to a large unrecovered storm balance.
5 With the Storm Reserve Adjustment Mechanism in place, it will reduce the associated
6 carrying charges on the unrecovered storm balance resulting in benefits to customers.

7 **Q. Why does the Company propose to modify to a symmetrical Storm Reserve**
8 **Adjustment Mechanism?**

9 A. Although the Company experienced more storm activities in the recent years as described
10 above, it recognizes the weather can be unpredictable and therefore the same experience
11 may not repeat. With the symmetrical Storm Reserve Adjustment Mechanism in place, it
12 provides the opportunity to the customers to receive more timely reflection of the
13 reduction on their bills should there be a significant surplus on the storm balance.

14 **Q. How does the Company plan to report on activity related to the storm balance with**
15 **this proposal?**

16 A. The Company plans to file a report on storm reserve balance on a quarterly basis to
17 indicate the current level of the surplus or deficit on the storm reserve activity in each
18 quarter and report to the Commission within sixty (60) days following a storm event to
19 notify the Commission of a qualifying storm event prior to its Annual Storm Filing.

20 **Q. Will the Company continue to file its Annual Storm Filing?**

21 A. Yes, with some modifications. Currently, the Company files its Annual Storm Filing
22 each May 1st for recoverable storm events whose majority or all of the associated costs

1 are available and thoroughly reviewed with the supporting documentation such as the
2 invoices from vendors. Going forward, the Company plans to file all recoverable storm
3 events which occur through September 30th annually with the associated costs that are
4 available as of December 31st each year and thoroughly reviewed for submission by April
5 1st the following year. Any additional costs received or finalized after April 1st will be
6 supplemented at a later date or in the subsequent Annual Storm Filing. If the storm
7 reserve balance net from the storm reserve contribution through base rates shows an
8 (over) or under recovery of more than $19 million as noted above, the Company will file
9 a storm recovery adjustment request separately to request for a refund or surcharge
10 through the Storm Reserve Adjustment Mechanism.

11 **IX. RECONCILING MECHANISMS**

12 **A. Regulatory Reconciliation Adjustment**

13 1. Regulatory Assessments and Consultant Costs

14 **Q. Please explain the treatment of regulatory assessments and consultant costs through**
15 **the RRA.**

16 A. The RRA mechanism was established in a settlement agreement that the Commission
17 approved in Order No. 26,433 (December 15, 2020), issued in Docket No. DE 19-057
18 (Settlement Agreement). The RRA is a component of distribution rates that is adjusted
19 annually to account for over- or under-recoveries in prior calendar years with regard to
20 certain types of costs, including regulatory assessment costs.

21 The RRA mechanism for calendar year 2023 reconciled actual DOE assessment costs of
22 $5,598,155 to the Docket No. DE 19-057 DOE Assessment Base Rate Recovery amount

1 of $5,220,056, resulting in an under recovery of $378,099. The Test Year actual amount
2 in this filing of $5,598,158 for regulatory assessment costs reconciles to the actual DOE
3 assessment costs from the RRA for calendar year 2023. As noted above, the Test Year
4 expense amount was adjusted to reflect the most recent fiscal year's total assessment
5 costs in this filing. Similar to the proposals for the Fee Free and New Start program
6 expenses, the Company proposes an annual amount to be recovered in base distribution
7 rates, beginning on August 1, 2024, subject to reconciliation at the time of the
8 Company's next rate case, with carrying charges on the over- or under-recovered balance
9 calculated using the prime rate. The Company also proposes the same treatment for any
10 consultant expenses currently recovered through the RRA. The Company does not
11 currently reflect these amounts in its revenue requirement and plans to update this
12 schedule through the course of the proceeding.

13 2. <u>Property Tax</u>

14 **Q. Please explain the treatment of property taxes through the RRA.**

15 A. Per the Docket No. DE-19-057 Settlement Agreement Section 9.1 (c), consistent with
16 RSA 72:8-e, property tax over- or under-recoveries as compared to the amount in base
17 distribution rates shall be adjusted annually through the RRA. The amount included in
18 base distribution rates for property tax expense was set to $45,186,407 based on the
19 property tax expense as of December 2019, normalized to exclude any credits related to
20 property tax settlement proceeds for tax years preceding the test year. On an annual
21 basis, actual property tax expense for the prior calendar year shall be compared against

1 the amount in base rates and any variances will be reconciled through the RRA
2 mechanism. Annual actual property tax expense shall be normalized to adjust for any
3 credits received due to abatement settlement proceeds received for tax years preceding
4 the test year. The RRA shall recover any over- or under- recoveries beginning in
5 calendar year 2020.

6 **Q. Why is the Company proposing to incorporate property tax costs currently**
7 **recovered through the RRA in base distribution rates?**

8 A. The property tax statute, RSA 72:8-e, is set to sunset with the property tax year effective
9 April 1, 2024 as it states, "[f]or the implementation period of the valuation of utility
10 company assets under RSA 72:8-d, VI and *terminating with the property tax year*
11 *effective April 1, 2024*". RSA 72:8-e (emphasis added). Due to this sunsetting language,
12 the Company proposes to remove property tax expense from the RRA effective April 1,
13 2024 and commit to updating its property tax expense in a revenue requirement update
14 for 2024 tax year based on Forms issued to towns in Q2 2024, and subsequent bills
15 received by Q1 2025. This would include actual property tax expense related to CCI
16 asset acquisition and zero-life pole replacements in-service by 2023.

17 **Q. Why is the Company proposing to remove property tax expense as an element of the**
18 **RRA?**

19 A. As part of the Company's overall PBR proposal, the Company proposes to simplify and
20 eliminate certain reconciling mechanisms. Under a PBR framework, the Company is
21 committed to increasing efficiency and minimizing administrative costs. Due to the
22 revenue structure of the PBR, the Company is willing to assume more risk associated

1 with recovery of certain costs, such as property taxes, while reducing administrative costs
2 associated with certain reconciling mechanisms.

3 3. Vegetation Management

4 **Q. Please explain the vegetation management expenses recovered through the RRA as**
5 **allowed under the Settlement Agreement.**

6 A. Section 6 of the Settlement Agreement states the Company shall be allowed to include
7 $27.1 million annually in rates for vegetation management. Of this amount, $11.6
8 million annually is associated with enhanced tree trimming (“ETT”) and hazard tree
9 removal; $14.0 million annually is associated with scheduled maintenance trimming
10 (“SMT”); and $1.5 million annually is associated with full-width right-of-way (“ROW”)
11 clearing. The Company may request recovery of its actual annual vegetation
12 management expenses up to 10 percent over, or any amount under, the total amount
13 allowed in base rates ($27.1 million), credited to or recovered through the annual RRA.

14 Section 9.1(b) further explains the RRA shall include the calendar year over- or under-
15 collection from the Company’s Vegetation Management Program. The over- or under-
16 collection shall be credited or charged to the RRA on August 1 of the following year.
17 The Company may request transfer of unspent amounts to the subsequent year’s
18 Vegetation Management Program budgets. The amount in base rates shall be $27.1
19 million for ETT, Hazard Tree Removal, ROW and SMT programs. The amount to be
20 recovered in the RRA shall be based on the overall vegetation management program
21 variance for the prior calendar year, rather than variances for individual activities within
22 the overall program.

1 **Q. Why is the Company proposing to remove vegetation management expenses as an**
2 **element of the RRA?**

3 A. As discussed above, as part of the Company's overall PBR proposal, the Company
4 proposes to simplify and eliminate certain reconciling mechanisms. The Company is
5 proposing to move all vegetation management expenses to base distribution rates to
6 consolidate these expenses and promote efficiency for the Commission and stakeholder
7 review. Through the proposed PBR framework, the Company will seek to manage these
8 expenses while maintaining safe and reliable service. As discussed in the joint testimony
9 of the PBR Metrics Panel, the Company is proposing performance metrics that require
10 the Company to maintain its service quality, which will require continuation of a strategic
11 vegetation management program. As further discussed in the Vegetation Management
12 Testimony, the Company will continue to provide the Commission with a yearly VMP
13 plan by March 1st of each year agreed to within the Settlement Agreement in Docket
14 No. DE 19-057 to review the expected vegetation management activities and the targeted
15 expenditures for the forthcoming twelve-month period.

16 **Q. What was the Company's level of spending for the vegetation management in the**
17 **test year?**

18 A. The Company's actual test year expense for vegetation management was $33 million.
19 This is more than the $27 million allowed in base rates plus the 10 percent permitted to
20 be recovered in the RRA.

1 **Q. Please describe any changes to the budget for the vegetation management program.**

2 A. The vegetation management program changes are described in more detail through the
3 Vegetation Management Testimony and shown in Attachment ES-REVREQ-1, Schedule
4 ES-REVREQ-20, page 2. The Company is proposing to increase its annual budget to
5 $43.2 million to include more SMT work and hazard tree removals based on the needs of
6 the system. Due to the increase in storms over the last 10 years, the Company requires
7 the ability to be proactive in its vegetation management in order to curtail and prevent
8 outages during major events. By increasing its vegetation management budget and
9 performing more vegetation work on the distribution system, the Company can make the
10 system more reliable and resilient in the wake of these increasing storm events.

11 This increased amount also includes the vegetation management work that will no longer
12 be reimbursed by CCI as a result of the Company's purchase of assets under the PPA.
13 Prior to the PPA, the Company completed the vegetation management on these pole
14 assets and was reimbursed by CCI. With the purchase and ownership of these assets, the
15 Company will be required to fund all vegetation management activities on the poles
16 previously owned by CCI. Therefore, the Company requires the resources to continue to
17 perform vegetation management on and near these poles.

18 4. Storm Cost LTD True-Up

19 **Q. What amount of the Company's storm costs are included in the RRA?**

20 A. Per the Settlement Agreement, Section 9.1(e), storm cost amortization final reconciliation
21 and annual reconciliation is to be updated for actual cost of long-term debt in the RRA.

1 The RRA shall be used to reconcile the recovery amount of the storm costs through
2 December 31, 2018, which were included for recovery as part of the temporary rate
3 increase. Consistent with the temporary rate settlement, the $68.5 million currently being
4 recovered over five years shall be reconciled based on final actual costs, including any
5 audit adjustments, and to reflect the actual cost of debt over time. As part of the
6 temporary rate settlement agreement, PSNH began amortizing the unrecovered storm
7 costs as of December 31, 2018, which were estimated to be $68,474,355, over a five-year
8 period beginning August 1, 2019. As of August 1, 2019, PSNH began applying a
9 carrying charge on these storms equal to its embedded cost of long-term debt. On an
10 annual basis through July 31, 2024, the RRA shall reconcile the amortization amount to
11 adjust for the Company's actual cost of long-term debt interest rate as filed in the
12 Company's Form F-1 on a quarterly basis.

13 **Q. Why is the Company proposing to remove storm costs as an element of the RRA and**
14 **include it in base distribution rates?**

15 A. As discussed above, as part of the Company's overall PBR proposal, the Company
16 proposes to simplify and eliminate certain reconciling mechanisms. The Company is
17 proposing to eliminate a true-up for carrying charges for storm costs and will include the
18 amortization of storm costs in base distribution rates with any (over)/under recoveries to
19 be reconciled in the next base distribution rate proceeding. The consolidation of these
20 expenses to be recovered in base rates promotes efficiency for the Commission and
21 stakeholder review process.

1 5. Rate Case Expense

2 **Q. What amount of rate case expense is included for recovery through the RRA?**

3 A. The Commission approved a settlement agreement relating to Eversource's motion to
4 recover rate case expenses. Pursuant to that agreement, Eversource is authorized to
5 collect $1,762,807 through its RRA mechanism over five years, beginning August 1,
6 2022. Order No. 26,634 (May, 27, 2022) at 1.

7 **Q. Why is the Company proposing to remove this amortization amount from the RRA**
8 **mechanism?**

9 A. As contemplated by the Order, this amount will not be amortized fully until 2027.
10 Therefore, the Company proposes to move this amortization amount into base
11 distribution rates for cost and efficiency purposes. The remaining balance is projected to
12 be at $1 million on July 1, 2024, with $211k per year to be amortized over five-years.
13 This will also minimize the bill impacts for customers.

14 **Q. Why is the Company proposing to remove this rate case expense as an element of**
15 **the RRA mechanism?**

16 A. As discussed above, as part of the Company's overall PBR proposal, the Company
17 proposes to simplify and eliminate certain reconciling mechanisms. The Company is
18 proposing to move rate case expense to base distribution rates to consolidate these
19 expenses and promote efficiency for the Commission and stakeholder as these amounts
20 have been previously reviewed and approved.

1 **Q. When will the final reconciliation through the RRA occur for these items?**

2 A. The RRA will be required to remain in effect to reconcile the actual costs incurred
3 through July 31, 2024, before temporary rates take effect in this proceeding for the
4 components listed above. The 2025 RRA filing submitted on May 1, 2025 for rates
5 effective August 1, 2025 will recover calendar year 2024 expenses through July and
6 reflect any prior-period (over)/under recoveries. The Company will submit a final
7 reconciliation of the RRA on May 1, 2026 for rates effective August 1, 2026 to reflect the
8 prior-period (over)/under recovery. The Company also proposes to eliminate the
9 recovery of lost base revenues attributed to Net Metering as discussed further below and
10 will continue to reconcile DOE assessments and consultant costs on an annual basis
11 through the RRA.

12 **B. Lost Base Revenues due to Energy Efficiency and Net Metering**

13 **Q. Please describe the SBC.**

14 A. The SBC is a volumetric, non-bypassable charge assessed on the bills of electric
15 customers to fund public benefits programs such as energy efficiency and low-income
16 assistance programs. The Company is eligible to include lost base revenues ("LBR") as a
17 reconcilable component of the SBC to reflect the lost revenue due to decreased
18 volumetric sales attributable to energy efficiency programs. Lost base revenue is
19 calculated by multiplying the projected annual energy savings by the utility's distribution

1 rate to calculate estimated lost revenue for the year; in turn the lost revenue is collected
2 through a volumetric rate based on projected sales.[15]

3 **Q. What does the Company recover through the RRA associated with LBR attributed**
4 **to net metering?**

5 A. Under RSA 362-A:9, VII, distribution utilities like Eversource "may perform an annual
6 calculation to determine the net effect this section had on its default service and
7 distribution revenues and expenses in the prior calendar year." Further, it provides that
8 the "method of performing the calculation and applying the results, as well as a
9 reconciliation mechanism to collect or credit any such net effects with appropriate
10 carrying charges and credits applied, shall be determined by the commission." In Docket
11 No. DE 19-057 the Commission approved a Settlement Agreement in the Company's
12 distribution rate case pursuant to Order No. 26,433 (2020) (the "Settlement Agreement").
13 The Settlement Agreement required LBR associated with net metering to be calculated
14 consistent with RSA 362-A:9, VII and the Commission's approved method in Order No.
15 26,029 (June 23, 2017) in Docket No. DE 16-576. The method approved in Docket No.
16 DE 16-576 was a mechanism and process approved by the Commission for Unitil in
17 Docket No. DE 15-147, Order No. 25,991 (2017). The parties to the Settlement
18 Agreement in Docket No. DE 19-057, acknowledged that the Company's base
19 distribution revenues do not include any LBR associated with net metering for

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[15] This calculation is further described in the LBR Working Group Report dated August 29, 2018 from Docket No. DE 17-136

1 installations on or after January 1, 2019. The Settlement Agreement, therefore, stated that
2 the RRA shall recover LBR beginning as of January 1, 2019.

3 **Q. Why is the Company proposing to eliminate the lost base revenues from the SBC**
4 **and RRA?**

5 A. As discussed above, as part of the Company's overall PBR proposal, the Company
6 proposes to simplify and eliminate certain reconciling mechanisms. The Company is
7 proposing to eliminate lost base revenue recovery associated with the energy efficiency
8 programs to promote efficiency for the Commission and stakeholder review. Due to the
9 revenue structure of the PBR, the Company is willing to assume more risk associated
10 with recovery of certain costs, such as lost base revenue associated with energy
11 efficiency, while reducing administrative costs associated with certain reconciling
12 mechanisms.

13 **C. PPAM**

14 **Q. Please describe the background of the PPA.**

15 A. On May 1, 2023 PSNH and CCI executed a PPA (original PPA dated December 30, 2020
16 and a First Amendment dated May 1, 2023), which resulted in the purchase of all
17 previously jointly owned poles and 100 percent interest in approximately 4,000 poles
18 previously owned by CCI. The purchase price was approximately $23.3 million, which
19 was funded via a cash payment of $5.9 million and a settlement of previous receivables
20 due to PSNH of $17.4 million (original PPA from December 2020 carried a total
21 purchase price of $25.4 million to be funded via a $12.8 million in cash and $12.6 million
22 in a settlement of previous receivables).

1 The execution of this transaction was the result of a final order from the Commission
2 issued on November 18, 2022 (order 26,729), which (1) approved the PPA and transfer of
3 ownership of the poles, (2) directed the Company to use the method suggested by New
4 England Cable and Telecommunications Association ("NECTA") to calculate the
5 original net book value ("NBV") of the poles to be used for ratemaking purposes (this
6 methodology yields a NBV of approximately $15.9 million) and (3) approved the
7 Company to recover all pole inspection, pole replacement and vegetation management
8 costs incurred beginning February 10, 2021 (the date the initial PPA was submitted to the
9 Commission) through the proposed PPAM deferral.

10 **Q. Please explain the PPAM.**

11 A. Due to the execution of the PPA on May 1, 2023 all asset acquisition journal entries were
12 recorded in the second quarter. These entries resulted in the establishment of a PPAM
13 regulatory asset of approximately $16.9 million which represents CCI-related vegetation
14 management costs from February 10, 2021 through April 30, 2023, Electric Plant in
15 Service of $15.9 million (FERC Account 101) which represents the NBV established via
16 the NHPUC order and Electric Plant Acquisition Adjustments of $7.4M (FERC Account
17 114) which represents the additional consideration paid above the NBV established for
18 ratemaking purposes.

19 **Q. Why is the Company proposing to eliminate the PPAM and move these costs into**
20 **base distribution rates?**

21 A. As discussed above, as part of the Company's overall PBR proposal, the Company
22 proposes to simplify and eliminate certain reconciling mechanisms. The Company is

proposing to move PPAM costs to base distribution rates to consolidate these expenses and promote efficiency for the Commission and stakeholder review.

Q. When will the final reconciliation through the PPAM occur?

A. The PPAM will be required to remain in effect to reconcile the actual costs incurred through July 31, 2024, before temporary rates take effect in this proceeding for the components listed above. The 2025 PPAM filing submitted on May 1, 2025 for rates effective August 1, 2025 will recover calendar year 2024 expenses through July and reflect any prior-period (over)/under recoveries. The Company will submit a final reconciliation of the RRA on May 1, 2026 for rates effective August 1, 2026 to reflect the prior-period (over)/under recovery. The Company will continue to reconcile DOE assessments and consultant costs on an annual basis through the RRA.

X. IMPACT OF DENYING PBR MECHANISM ON REVENUE REQUIREMENT

Q. If the Commission denied the PBR mechanism, would the Company's proposed revenue requirement change?

A. Yes. The Company has proposed to incorporate certain expenses currently recovered through reconciling mechanisms into base distribution rates if the Commission approves the PBR proposal as filed. If the Commission did not adopt the PBR proposal, the Company will need to continue recovering costs through the designated reconciling mechanisms.

1 **XI. CONCLUSION**

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

3 A. Yes, it does.