ORIGINAL

RE: DE 24-070

PUC HEARING

October 02, 2024

STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

October 2, 2024, 9:03 a.m.
21 South Fruit Street, Ste. 10
Concord, New Hampshire

ORIGINAL

RE: DE 24-070
Public Service Company of New Hampshire
d/b/a Eversource Energy
Request for Change in Distribution Rates
(Prehearing Technical Conference Day 1)

PRESENT: Chairman Daniel C. Goldner, Presiding
Commissioner Pradip K. Chattopadhyay
Alexander Speidel, Legal Advisor
Tracey Russo, Clerk

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APPEARANCES:

Reptg. Public Service Company of
New Hampshire d/b/a Eversource Energy:

Jessica A. Chiavara, Esq.
Jonathan A. Goldberg, Esq. (Keegan Werlin)

Reptg. Residential Ratepayers:
Office of the Consumer Advocate,

Donald M. Kreis, Esq., Consumer Advocate
Matthew Fossum, Asst. Consumer Advocate
Michael J. Crouse, Esq., Staff Attorney
Marc Vatter, Director of Economics/Finance
Charles Underhill, Director of Rates/Markets

Court Reporter:

Nancy J. Theroux, LCR, RPR
NH Licensed Court Reporter #100
(RSA 310-A:161-181)

APPEARANCES: (Continued)

Reptg. New Hampshire Dept. of Energy:

Office of Administrative Support

Paul B. Dexter, Esq.
Alexandra K. Ladwig, Esq.
Mary Schwarzer, Esq.
Matthew Young, Esq.
Elizabeth Nixon, Utility Analyst
Jay Dudley, Utility Analyst
Jacqueline Trottier, Utility Analyst
Amanda Noonan, Director of Regulatory Support

Reptg. AARP:

Christina FitzPatrick, NH Director
Patrick McDermott
John Coffman (remotely)

Reptg. Clean Energy New Hampshire:

Chris Skoglund, Director of Energy Transition

Reptg. Conservation Law Foundation:

Nicholas Krakoff, Esq.

Reptg. Mary Ellen O'Brien Kramer:

Raymond Burke, Esq., NH Legal Assistance

ALSO PRESENT:

Reptg. PSNH, Eversource Energy:

Doug Horton
Robert Coates
Ashley Botelho
Jonathan Kallen

APPEARANCES - (Continued)

Reptg. Eversource Energy: (Cont.)

Dominick Brescia
Brian Dickie
Paul Renaud
Marc Lemenager
Sandra Gagnon
Shamus O'Brien
Warren Boutin
Matthew Kolesar
Augustin Ros

Reptg. NH Department of Energy

Nicholas Crowley (Remotely)
Donna Mullinax (Remotely)

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P R O C E E D I N G

CHAIRMAN GOLDNER: Good morning. I'm Chairman Dan Goldner. I'm joined here today with Commissioner Pradip Chattopadhyay. This is day one of the prehearing technical conference attended and presided over by the Commission regarding the Eversource performance-based ratemaking, or PBR proposal, presented to the Commission in its Distribution Rate Case docketed in DE 24-070.

These prehearing technical conferences were scheduled by the Commission in its commencement of adjudicative proceeding, Order No. 27,029, issued on June 28th, 2024.

The Commission established these prehearing technical conferences pursuant to our authority and duty to keep informed and investigate the Company's proposals, pursuant to RSA 374:4 and other authorities, given the high degree of technical complexity and novelty of the Company's proposals, including those related to PBR.

The Commission was also being

responsive to the Company's suggestion, made in the cover letter signed by Eversource's outside counsel, that a process should be put in place to allow for active engagement by the Commission at an earlier stage of the proceeding rather than later. We note that we are now nearly four months into the proceeding.

The Commission recognizes that the parties to this proceeding will be independently engaged in their own discovery process, including technical sessions in which the Commission will not be involved. However, as the ultimate arbiter of the interests of Eversource and its ratepayers in this proceeding, given the novelty of the PBR proposal, it is critically important for the Commission to ensure that it understands how PBR works generally and would work in the Eversource framework and as to what pieces fall under the rubric of PBR, including some very large pieces of potential capital investment.

To that end, at the outset, the Commission views these sessions to be for our own understanding and our own application. The parties have been invited to attend, virtually or in person, to these sessions, but we do not view these sessions to be a substitute or a replacement for the parties' own discovery processes, nor are these sessions meant to be a vehicle for the parties' own litigation on the issues.

Rather, the Commission will seek to find grounding on the technical issues presented as we find, having reviewed the Company's filing, there's significant gaps in explanation and information that require more information to complete our understanding.

Let's begin today by taking a roll call of the parties and persons here today, beginning with Eversource.

MS. CHIAVARA: Good morning, Commission. Jessica Chiavara here on behalf of Public Service Company of New Hampshire, doing business as Eversource Energy.

I have with me here today Jonathan Goldberg, Senior Counsel for Keegan Werlin, and a couple others we will -- a few other people that we'll get to them in due time.

CHAIRMAN GOLDNER: Okay. Can you -- we didn't receive any kind of preliminary filing from the Company. Can you perhaps, at this time, introduce your technical folks, the folks that are here today that provided testimony and would be available for Commissioner questions?

MS. CHIAVARA: Yes. Actually, what we had planned on is we did bring the PBR witnesses today. We also brought support staff. And we weren't aware that there be would be a court reporter here. So we thought it was going to be more of an issues discussion, and so we thought that support staff would also answer questions if needed or if it would be helpful. But, I mean, obviously, we'd pivot to the witnesses predominantly.

CHAIRMAN GOLDNER: Okay. So just to verify, the witnesses that provided testimony on PBR are all here today?

MS. CHIAVARA: That's correct.

CHAIRMAN GOLDNER: Including your consultants?

MS. CHIAVARA: Yes.

CHAIRMAN GOLDNER: And then you -- in addition, you've brought other folks along who could potentially answer questions?

MS. CHIAVARA: That's correct.

CHAIRMAN GOLDNER: Okay. That's great. Thank you.

Okay. AARP?

MS. FITZPATRICK: Hello, my name is Christina Fitzpatrick. I'm the State Director for AARP, New Hampshire, and there are two other people here, Patrick McDermott, who is our volunteer State President, and John Coffman, who is joining remotely.

CHAIRMAN GOLDNER: Okay. Very good. Thank you.

MR. COFFMAN: Hello. I don't know if you can hear me, but -- John Coffman here. Thank you for allowing me to be here.

CHAIRMAN GOLDNER: Thank you, Mr. Coffman. Yes, we can hear you perfectly.

Alexander Cook? (No response.)

Okay. Clean Energy New Hampshire?

MR. SKOGLUND: Good morning, Commissioners. Chris Skoglund, Director of Energy Transition with Clean Energy, New Hampshire.

CHAIRMAN GOLDNER: Thank you. The Community Power Coalition of New Hampshire?

(No response.)

Conservation Law Foundation?

MR. KRAKOFF: Good morning, Commissioners. Nick Krakoff on behalf of the Conservation Law Foundation.

CHAIRMAN GOLDNER: Thank you.

Rate LG Customer Consortium?

(No response.)

Mary Ellen O'Brien Kramer?

MR. BURKE: Good morning, Commissioners. Raymond Burke, New Hampshire Legal Assistance, on behalf of O'Brien Kramer.

CHAIRMAN GOLDNER: Thank you. New England Connectivity and Telecommunications Association, NECTA?

(No response.)

CHAIRMAN GOLDNER: Standard Power of

America?

(No response.)

Walmart, Incorporated?

(No response.)

Is there anyone else here today that would like to be acknowledged?

Okay. Seeing none, I'm just going to review the roll call. So I capture that Eversource is here. AARP is here. Community Power Coalition of New Hampshire is here. Rate LG Customer -- I'm sorry -- let me start over again.

Eversource is here. AARP is here. Clean Energy New Hampshire is here. Conservation Law Foundation is here. Mary Ellen O'Brien Kramer's representative is here, and that's the group here today. My apologies, my notes were incomplete. Unintentional, of course.

Let's move on to the Office of the Consumer Advocate.

MR. KREIS: Good morning, Mr. Chairman. I'm Donald Kreis, the Consumer Advocate. My office represents the interests of residential utility customers pursuant to RSA 363:28. I have the entire OCA team with me here today. To my left is Michael Crouse, our Staff Attorney. To his left is Matthew Fossum, the Assistant Consumer Advocate. To his left is Marc Vatter, our Director of Economics and Finance. And somewhere else in the room is Chuck Underhill. I believe he's right behind me, but I don't have eyes in the back of my head. He is our Director of Rates and Markets.

The Office of the Consumer Advocate wishes to preserve for the record an ongoing objection to this proceeding today. We believe that it is authorized nowhere, in either the Administrative Procedure Act, the Commission's enabling statutes, or any of the Commission's procedural rules. We do not believe it is a reasonable application of Section 4 of RSA 374. We're concerned about prejudice, due process, and the possibility that -- well, just all of the irregularities.

In addition, our two -- or at least two of our PBR witnesses from Synapse Energy

Economics have asked the Clerk's office for permission to observe today's proceeding. It appears that that permission has not been granted, and we object to that as well.

CHAIRMAN GOLDNER: So, first, the -- everyone who has requested access has been granted access, so if we need to take a pause in the proceedings to make sure that your folks have -- have access to the proceeding, we can do that. But we issued -- we issued something yesterday that clarified our connection and technical status.

No. 2, I'll just say this is a roll call, but I'll allow the comment in and just say that the Commission clearly has a right to inquire of the Company regarding its rate case proposals, and the Commission clearly has the right to conduct prehearing conferences to enhance its understanding. In any event, no rehearing was sought for Order No. 27,029, so we will continue.

We'll move to the New Hampshire Department of Energy.

MR. DEXTER: Good morning, Mr. Chairman, Commissioner Chattopadhyay. Paul Dexter for the Department of Energy. I'm joined here by most of the members of the New Hampshire Department of Energy's Legal Division and Regulatory Division. I can name them if you'd like.

CHAIRMAN GOLDNER: Please do.

MR. DEXTER: So with me from Legal today is Attorneys Alexandra Ladwig, Mary Schwarzer, Matthew Young.

And from our Regulatory Division, Liz Nixon, Jay Dudley, Jackie Trottier, Amanda Noonan, and I think that's everyone.

Also participating on behalf of the Department of Energy are several consultants from Christiansen Associates. They're participating remotely pursuant to the Commission's grant, as well as Donna Mullinax from Blue Ridge Consulting.

CHAIRMAN GOLDNER: Thank you, Attorney Dexter.

Is anyone else having any connection

problems? The Consumer Advocate indicated a couple of his folks were having trouble getting connected. Is anyone else having trouble, have you heard? No other trouble?

Consumer Advocate, do we need to take a break and give your folks a chance to connect?

MR. KREIS: I -- excuse me. I just think it would be helpful if the Clerk's office would email them the link to the proceeding, and then they can just power it up on their screens.

I don't think it would make any sense to take a break, because that would waste a lot of people's time.

CHAIRMAN GOLDNER: Okay. Thank you, Attorney Kreis.

So the clerks are in the back room, so I'll just direct the clerks to make that happen, and we'll proceed. And Attorney Kreis, please, keep me posted if there are continued connection problems.

MR. KREIS: Will do. Thank you.

CHAIRMAN GOLDNER: Thank you.

Okay. So let's continue. So

regarding the outstanding motion for confidential treatment filed by Eversource on July 10th, we will address that in conjunction with the September 26th motion for confidential treatment.

We note that the 10-day -- 10 days for parties to respond to that September 26th motion will fall on October 7th, so we invite parties to be prepared to provide their responses to that motion by then.

In the interim, we wish to ask the Counsel for the Company -- that would be Attorney Chiavara -- if arrangements can be made to enter into a Nondisclosure Agreement with our consultants, Daymark Advisors, so that provision can be made so they receive the information for analysis in a timely fashion.

MS. CHIAVARA: Yes, I can get that drafted up.

CHAIRMAN GOLDNER: Thank you. Thank you, Attorney Chiavara.

All right. So we'd -- just in terms of setting up the day, we'll plan on taking a regular break at roughly 90-minute intervals and take an hour at noon, so people can plan accordingly.

Livingston is reserved for the Company, right in back of us, so the Company has a place to confer between sessions.

Okay. So let's -- let's begin today, and I'll just begin by asking Attorney Chiavara and the Company if the Company has prepared a more detailed summary presentation for today's technical conference, or would you like the Commission to direct the next portion of the agenda?

MS. CHIAVARA: I -- I think we are very well prepared for a robust discussion, but if you'd like to take the lead, that would be great.

CHAIRMAN GOLDNER: Okay. Very good.

Okay. So we'll begin the -- we'll provide the direction for these sessions, beginning with the Company's PBR proposed algorithm. We would like you to go through each element in detail so we understand how it is calculated, the maximum and minimum values, how it will be validated, and, finally, why the Company proposes the particular metric and not some other metric.

I'll repeat that just so that we have the scope for the discussion today. So we'd like to go through each element in detail, so that we understand how it is calculated, the maximum and minimum values, how it will be validated, and, finally, why the Company proposes the particular metric and not some other metric.

And so where I'd like to start is the basic equation, at least as the Commission understands it, which is Revenue Requirement sub-t equals ((Revenue Requirement sub-t minus 1) times (1 plus I sub-t, minus X, minus CD)) plus Z sub-t, plus K sub-t, plus ESM sub-t.

So that's the basic equation that was in two of the filings, both by the consultants and by the Company. So I think that at a high level, that's what the Company is describing as PBR, at least as we understand it.

And then, in addition to that -- pardon me -- and perhaps we can get into this after we've gone over the high-level view, there's -- there's lots of other -- there's lots of other factors. There's stretch factors, and there's K-bars, and there's all kinds of other things that seem to be in addition to this sort of base equation.

So what we're looking to do today, at least for the first part of today, maybe all day, depending on how it goes, is just to understand how the PBR works, what is this equation, and walk us through each of the elements, and, again, going through how it's calculated, maximum values, validation, and why you propose that particular metric.

So, Attorney Chiavara, I'll look to you to, sort of, advise us in terms of who to direct the question to, but that's what we'd like to go through first, is the equation.

MS. CHIAVARA: Thank you very much, Mr. Chairman. I would just ask that we are able to confer a minute, and then I will get somebody to respond to the question. Thank you.

MR. HORTON: I can jump in at this

part. When you say it like that, in the formula form, I -- it makes total sense. Where's the question? I'm just kidding. So if we take a step back --

CHAIRMAN GOLDNER: And I'm sorry, for today's proceeding, because we have a stenographer, if everyone could identify themselves before they speak, at least the first time so the stenographer can know who's speaking.

MR. HORTON: Yes. So I'm Doug Horton. I'm the Vice President of Distribution Rates at Eversource.

So if we take a step back, in terms of what we are proposing in this proceeding, there are two main elements and components. The first is to establish castoff rates, and that process is what we're going through to determine the permanent rate that will take effect August 1st of 2025, which is, I would say, following, for all intents and purposes, traditional New Hampshire precedent and practices for determining the cost of service. That is the same whether it's a performance-based ratemaking proposal or not. So that's one critical element of the rate case.

The second is to establish a revenue support framework or a regulatory framework to work between rate cases.

And so, as we were approaching this case, we took into account a lot of considerations, and it actually started with a PUC prompt last year regarding step adjustments, which has been the norm in recent rate cases for revenue support between rate cases. The questions were around, you know, what is the philosophy of a step adjustment, how can we make this a little bit more -- and this is my editorial, but how can we make the process for step adjustments a little more -- less administratively burdensome and contentious, what have you.

So we started to think about that, certainly, at that time, and we have experience in other jurisdictions for frameworks that can, you know, provide revenue support between rate cases, and there are many.

The performance-based ratemaking approach starts with the castoff rates, again, determined in a rate case proceeding, and then it establishes, based on a formula, what revenue support will be needed to run the business to provide the Utility an opportunity, but not a guarantee, to earn its authorized ROE between rate cases, while remaining or -- keeping incentive so that the Utility has maximum incentives to operate efficiently and result in a lower overall cost of service over time for our customers.

And we have hired consultants who are experts in this field and can speak to the science behind that and provide their experience and where it's been used in the past.

The formula is intended to do that simply. There's a lot of letters in the alphabet soup, I realize, but really what it is doing is it's trying to come up with a framework that will -- when you start with your castoff rate, also called a going-in rate, when you start there, and then you apply this formula to the castoff rates, you can have comfort that the Utility should have an opportunity, but not a guarantee, to earn its authorized ROE, and that having incentives to do what I said, to maintain and optimize our cost performance, which is the key element of a performance-based ratemaking framework; that we are incentivized to be good cost performers, which benefits customers.

CHAIRMAN GOLDNER: Can I pause you there and make --

MR. HORTON: At any point.

CHAIRMAN GOLDNER: -- briefly?

So in, then, the basic equation that we talked about is, Revenue Requirement sub-t minus 1, is that the castoff rate or is the entire equation the castoff rate?

MR. HORTON: The castoff rate for the first PBR adjustment would be Revenue Requirement sub-t minus 1.

CHAIRMAN GOLDNER: Okay. Thank you. And then you had described the rest of it -- I won't repeat all of the variables, but the six or seven variables that followed, that's, sort of, the regulatory framework that would -- that would be implemented annually?

MR. HORTON: That's correct.

CHAIRMAN GOLDNER: Okay. Thank you.

MR. HORTON: And so, if we start with the castoff rate, or the going-in rate, that will take effect August 1st of 2025. And we did have an alternative proposal that was outlined in the response to PUC Question 3, based on a schedule and where we are as compared to when we had originally filed the case.

But for simplicity in answering this question, if you walk through the formula, it starts with that castoff rate, and then there are two main adjustments -- I know, again, there's lots of letters, but there are two main adjustments that provide that revenue support.

One is an adjustment for, essentially, changes in operating and maintenance expenses. Typically -- and, again, the consultants can speak to this better than I, but, generally, in an I -- in a PBR framework, there is a formula. The base formula is I minus X.

Essentially, what we're doing is saying, okay, for an average utility company, an average industry participant, how did their overall costs change relative to a benchmark.

In this case, that inflation benchmark is GDP-PI. So the X is determined as a relationship between overall costs changing -- and please, chime in if I'm not speaking the science language correctly. But, generally, the way I think of it is that, for an average industry participant, their cost will change, relative to GDP-PI, in some correlated fashion. That correlation is the X.

So the first main adjustment is to take your castoff rates and then say, if I were an average industry participant, my cost will change by inflation minus the X factor.

And if nothing else were to be part of the PBR equation, that is what would be the resulting revenue change on August 1, 2026, which is that first PBR adjustment. The castoff rates are set August 1, '25, and the first PBR adjustment would take place a year after that.

So if we were simply doing that, you would say -- in roughly the beginning of 2026, we would say, okay, we know what the castoff rate is. Now we're going to adjust August 1, 2026, for PBR, and then we'll calculate and measure what was inflation that would go into the formula, based on "I" that will be an actual result that we would demonstrate with verifiably -- independently verify both data points, based on how the general economy, GDP-PI -- measured by GDP-PI has changed.

And then we would add to that the value of X, which will be determined in a rate case. It wouldn't change between rate cases.

CHAIRMAN GOLDNER: All right. But it's zero in this particular rate case?

MR. HORTON: Correct, based on our proposal. Now, the science says that that would be negative 1.42 percent. And the science says that, for an average utility, their costs are changing at a rate that is, relative to inflation, minus 1.42, meaning you add --

CHAIRMAN GOLDNER: Higher, yeah.

MR. HORTON: Right. So you would take inflation minus the negative. So you would take inflation plus 1.42 percent.

We are not proposing to do that, and there's lots of reasons why. But that's the first step.

MS. BOTELHO: I believe Mark had something to add as well.

CHAIRMAN GOLDNER: And remember to identify yourself before speaking, okay? Just so the stenographer, at least the first time, has your name.

MR. KOLESAR: Mark Kolesar. I think it might be helpful just to take a giant step back, okay? So what the PBR formula does is, it adjusts the total allowed revenue, the total revenue requirement for the firm, every year by an index. It's simply an index.

Now, it's a complicated index, in the sense it has a number of individual parts that make it up, but, at the basic level, what PBR intends to do is to adjust the amount of revenue the Company is allowed to get every year by an index, which is different than cost of service, where you essentially set the rates going in on day one, and they stay unchanged until either you bring the Company back in or the Company wants to come back in, because earnings attrition has gotten to the point where you need to have your next rate case.

So, at its most basic level, what this complicated formula is intended to do is to regulate rates, or the revenue that the Company gets, over an extended period of time that will be longer than the period of time that you'd normally see in a cost of service regime, such as you have now.

So I think it -- it's -- it's helpful to have that context at the outset. Now, I'm sure we will go through and we'll talk about how every component of that index helps to create the overall index, but, at its core, we're simply adjusting the total -- what I like to call spending envelope that the Company gets every year over the PBR term, and that's what this formula does. It simply creates an index.

So if -- if you're familiar with, say, an inflation index, like GDP-PI, right, it simply says inflation is increasing by a certain percentage every year.

What this does is increases the Company's allowed overall revenue every year by an index. It's just a complicated calculation of an index, and that may help provide some context.

CHAIRMAN GOLDNER: Yeah, let me pause you there for a minute.

MR. KOLESAR: Yes.

CHAIRMAN GOLDNER: So in New Hampshire, the -- in the Company's last rate case, and I think it's true in all of the utilities in the State, there have been step increases. There's vegetation management and indexing and adjustments, and so forth. So there was -- this regulatory lag had been addressed in a different way in the past.

Can you maybe speak a little bit to how this is -- how this is better than the conventional method, or how this is different. I guess I don't -- I guess I'm just trying to understand what PBR is addressing that the prior methodology didn't address.

MR. KOLESAR: Okay. I don't know -- do you want to take that one?

MR. HORTON: Yeah, I can jump back in, I think. And, again, that's where we started. So you're right, there's -- if you're looking at pure cost of service, that's -- how Mark described it, you wouldn't -- the rate case, that's the rate. The rate doesn't change.

And to your point, in New Hampshire we have had rates change between rate cases based on step adjustments. Those step adjustments have been the result of -- Settlement Agreements generally have been capped, have not included all capital that the Company has spent. There's also a lag from when that revenue support will take effect and the period of time where the capital will have been spent.

And so, our analysis demonstrated that -- well, multiple things. First is that that -- under that framework, we would have annual processes and proceedings before the PUC to evaluate the prudence of each capital addition that has been put through that mechanism, which is a time-consuming process and a process that's necessary under a step adjustment framework, unless there are modifications to the standard for allowing those to take effect.

But also, because of the rate of increase in our capital spend -- and this is true of the industry but, certainly, for Eversource here in New Hampshire -- because the rate of change of that capital spend is so great, what we've seen in this case, in my mind, is a classic demonstration of this and a fact, not anecdote, that the level of spend and the increase in that level of spend has outpaced the support that can be provided for through steps, such that when we have a rate case like we are having now, the rate increase is significant.

And it isn't that the -- it is a function of the fact that the step adjustments have been designed to be lags and caps and less -- and limited, to the point where, now when we have a rate case, the predominant factor driving the large rate increase, which is a significant increase in the distribution portion of the bill, as we all know, it is showing and demonstrating that those steps aren't keeping track -- keeping pace, I should say, with the level of spend that's needed.

So, now, we're looking at it and saying, well, we have options, and the Commission, certainly, is the ultimate decider of what path do we want to take. On the one hand, status quo, which would be where we are now.

And I can feel confident in saying that multiple things would happen. But the fact that the step adjustments are what they are and not keeping pace, there's a cost to that for our customers that we think is better achieved through a performance-based ratemaking framework.

CHAIRMAN GOLDNER: Okay.

MR. HORTON: The PBR framework, that formula, the complex formula, is essentially trying to get to the same place by providing revenue support for all of the Utility's cost changes between rate cases in a way that is more administratively efficient, that is a natural and transparent glide path for rate changes over time, that doesn't require -- although, certainly there is additional -- additional administrative process, it doesn't require that annual prudence review, mini rate case function, and it provides the Utility with the revenue in a rate year that gives the opportunity, but not a guarantee, to earn our authorized ROE. And it comes with a commitment that we will forego our constitutional right to file a rate case during the PBR plan, which then solidifies the incentives of PBR that, rather than making a decision when faced with a declining ROE and earnings attrition, the decisions we have are limited, to file a rate case to change our revenues. We can't do that without the Commission approval and without a rate case. That's option No. 1, which is taken away under PBR.

Or option No. 2 would be to cut spending, defer investment, defer O&M, what have you. The idea is that, with PBR, we are committing to take one of those options off the table for a period of time so that we will be incentivized to aggressively pursue cost efficiencies and savings in a way that we are always motivated to do, for sure, but those incentives are naturally embedded in a PBR framework.

And that isn't -- it isn't there with an alternative, when you have the ability to file a rate case, in fact, an expectation -- especially with times of increasing capital expenditures, an expectation that we will enter into a pattern of multiple and successive and sequential rate cases.

So from a -- from the perspective of, you know, regulatory efficiency, there is benefits. I also see benefits from the customer perspective, because we are avoiding that large rate increase that happens. It doesn't change the overall cost the customer pays, except to the extent that we do find efficiencies lower our overall costs of service, which we would be incentivized to do in the meantime, but it provides for a more natural, smooth transition in rates.

CHAIRMAN GOLDNER: Thank you. Let me just back up a little bit. So in 19,057, the Company's last rate case -- and I'll look to the Company, although I think many people here participated in that docket. There was a stay-out period in that docket as well. Was it four years, the stay-out?

MR. HORTON: So the last step adjustment in 19,057 was -- I believe it stipulated that we could file a rate case using 2022 as a test year and could file no sooner than the first quarter of 2023. So there was a limited stay-out period, correct.

CHAIRMAN GOLDNER: And all I'm doing here is I'm saying, I think, that in this PBR proposal, it mirrors, I think, convention in New Hampshire, where there's typically a stay-out period in the settlement. So the Company's being proactive in suggesting a stay-out period, as opposed to it being -- coming late in the game as a part of settlement. Is that what you're saying?

MR. HORTON: I would say two things. The first, I believe, if we did the math, the PBR has one additional year of a stay-out provision than what was in the 19,057 rate case.

I would also say that, while that was a condition of -- settlement condition of that rate case -- and certainly, we're not at this point in time. But from the Company's perspective, knowing what we know of the system needs and the investment needs on the system, that stay-out commitment, under a traditional or a status quo regulatory framework, wouldn't be -- it would be a very large concession if we were in settlement.

I wouldn't anticipate making that commitment under a step adjustment framework, knowing it would be deficient, and certainly not able to make that commitment for the period that we are under PBR. It would be, if nothing else, an abbreviated commitment, if anything.

CHAIRMAN GOLDNER: I don't want to diverge too far from the PBR path, but this is all kind of set up for PBR. So, if the Company could have filed in 2022 -- for the 2022 test year, why didn't it?

MR. HORTON: We could have. There's lots of considerations that go into when we file a rate case. I mean, we always would like to avoid a rate case filing when we can. That's -- Eversource's general philosophy is to try to stay out as long as we can. And so, that additional year was a function of us, you know, taking all factors into consideration and wanting to extend as long as we could. Clearly, the earnings attrition was evident and increasing, and that caused us to file when we did.

CHAIRMAN GOLDNER: Thank you. And I think, if I've done the math right, and please do correct me if I get this wrong, but the increase in distribution rates in the Company's proposal with the -- with just the castoff rate is 47 percent. So that's kind of the Company's proposal for the castoff; is that -- am I -- do I have the right baseline?

MR. HORTON: Yeah. For some reason, I thought it was 42, but subject to check. It's a large distribution increase. On a distribution basis, it's a sizeable increase, including storm cost recovery, in that framework. And that's -- again, that's a major factor in why we're here and proposing what we're proposing.

CHAIRMAN GOLDNER: If somebody at Eversource could check that while we're getting through these initial pieces.

I just want to make sure that I -- that the Commission understands the castoff and what we're talking about here is the baseline. So I have 47, but if it's different, then it's different.

Then I want to return, Mr. Horton, to a couple of other comments that you mentioned. You also mentioned that one of the advantages of PBR is that it's capped. But isn't that just replicating the same problem, in the eyes of the Company, that the step increases presented you with? They were both capped. And I think your case is, because they were capped, then spending got out ahead of the recovery, and thus, you have a big jump in the next rate case.

MR. HORTON: There's a lot there, and you're not wrong.

I think what we're proposing, we are trying to propose with PBR a framework that provides -- and certainly, it does. It provides more revenue support than a step. But by its design -- by its design, it is intending to give us in each rate year an opportunity to do what I said. I don't want to keep repeating that phrase all day, but an opportunity to cover our operating costs and still be able to earn a return that's close to our authorized ROE. And our analysis shows that it's actually still less than our authorized ROE, in any scenario we're looking at, in any given year, to be able to attract the capital necessary to serve our customers.

Certainly, there are other alternatives that would provide more revenues than what we're asking for that would minimize that gap. Anytime we're showing a deficiency, meaning our authorized ROE is greater than our earned ROE, that indicates a need for a revenue increase, for sure. But by its design, it is intending to give us the revenue support that we need in each rate year to run the Company and to serve our customers. Whereas, the step adjustment was not met. Certainly, from my perspective, the step adjustment was a revenue support mechanism that, by its design, excluded capital from the equation. It went into effect eight months after the rate -- after the year in which the plant was placed into service, which would mean that the regulatory lag built into that was up to 20 months from when a plant addition would have been made.

So when we're setting a step adjustment for -- if it were to be August 1 of 2025, basing it on actual plant additions in 2024, knowing that those plant additions that would be allowed in the step would be limited, because not all categories of capital were allowed in the step, and having the rate effect go into place, on a prospective basis, August 1st of '25 based, on additions spent in '24. By its design, it's lagged. And, through settlement, the parties would agree to a number that would not, at that point, be tied to actuals. It would be a number that also could provide additional caps and gaps.

And then, through the process of litigating that step adjustment, there were delays in the rate implementation date. There were concessions around projects that could, or could not, be included. There were other things that would happen through that process that made it even less -- provided less revenue support for the case.

My point is that, by design, it was not designed to give us that opportunity in any given rate year; whereas, the PBR is.

So I'm not saying that PBR would be the end-all, be-all. It's not a perfect solution. We're not asking or seeing one. We are trying to come up with a framework that I do truly believe, I buy into this stuff, and think that it will give us the opportunity that we need to attract the capital to serve our customers and, ultimately, to result in a better deal for our customers, because the rate changes will be more natural, smooth, transparent, predictable, steady, all those things. And it will maintain the incentives for us, by avoiding a large rate case too, as long as we can, to maximize efficiencies.

And by having additional resources provided through the PBR mechanism, as compared to a step adjustment that's designed, like I said, to be restrictive, that will also give us the opportunity, potentially, to pursue investments that would be de-prioritized if we had more limited financial resources. And those investments could help us operate more efficiently, as we invest in people, processes, and technologies. If we have those resources and we're able to bring something onto the table that would otherwise get left on the cutting room floor, if we had fewer and more limited resources available to us, that will also add benefits to customers in terms of overall cost of service and the service quality that we're providing.

CHAIRMAN GOLDNER: So I just want to

see if I can repeat that back. So in conventional cost of service ratemaking, there's a long regulatory lag and the Company is incentivized to come in as often as it can under the statute to minimize that regulatory lag.

And New Hampshire, then, some years back, perhaps Attorney Dexter could -- could shed some light on the timing, given -- given the long history at the Commission. Then, New Hampshire went to the step process, which reduced the regulatory lag. And the Company is here proposing a PBR solution, which further reduces the regulatory lag.

Is that kind of how the history shakes out?

MR. HORTON: Yeah, I think that's right, and I think each mechanism has its place in time, and many come back into good standing. In other words, in my view, the traditional method of rate cases -- cost of service, you set a rate and that's it -- can work, and has a good place in all of our -- it can come back, provided there is also sales and growth to sustain the

Company. But if you go back in time when we, traditionally and historically, have rate cases, we would only be talking about the revenue deficiency. That would be, like, the number-one aspect of a rate case; what's the revenue deficiency and how are we setting rates. And you'd focus on the cost of service. You would set rates.

But from the Company's perspective, that wouldn't be the end-all, be-all for revenue support, to allow it to stay out of rate cases as long as it could, because there were too many things that happened in the old days. One was you would have steady, stable, predictable increases in sales volumes that, when you applied against the rate that had been set in the rate case, would produce more revenues to support the business.

So that's one thing that just doesn't exist today, even in -- we don't have decoupling here in New Hampshire. Our sales volumes are generally flat, modest --

CHAIRMAN GOLDNER: I'm sorry, Mr.

Horton. There was noise in the room. Can you please repeat that point? I think I missed your point. If you could just repeat it. I didn't quite hear it.

MR. HORTON: Yeah. So under traditional cost of service, in the absence of step adjustments, there are two main things that don't exist today that, in my mind, cause us to need to look to alternative regulatory frameworks.

One is that, historically, utilities would have steady, persistent increases in sales. So when you would establish a rate in a rate case, that rate wouldn't change until your next rate case, but your sales volumes would. So from -- if you're just thinking purely about the Utility's earnings, that would provide a natural, steady increase in earnings that -- that's necessary to support the increase in investment.

And the increase in earnings would come from the fact that you would have rates set at a fixed rate, times sale volumes that are increasing, providing additional revenue between rate cases.

Then you would also -- the second key factor is that the increase in capital expenditures was more due to things like natural inflationary pressures, so that your capital expenditures were roughly in line with your depreciation expense in rates. And if that's true --

CHAIRMAN GOLDNER: And, I'm sorry, let me just jump in and -- is the Company's forecast for the next five to ten years increasing load, increasing volume, or is it remaining flat -- I know the last ten years or so have been pretty flat. But to your point, conventional ratemaking is a workable solution, it sounds like, if your revenues are increasing.

MR. HORTON: And there is -- and I don't have it at my fingertips. I know it's on the record, so that's a number we can get. There is a projection of modest sales increases that, in our proposal, in the analysis that we have submitted, is embedded. Meaning, there is some -- I believe it's around one percent --

sales volume increases.

CHAIRMAN GOLDNER: It's pretty small, though, a very modest sales increase, as opposed to, I think, you know, forecasting that's out there in different states and different jurisdictions, with electrification and so forth, some forecasts are quite a bit higher than that. But Eversource's internal forecast, it sounds like, is pretty modest, relatively flat, roughly one percent.

MR. HORTON: And even in jurisdictions where electrification is more on the forefront, in the here and now, the here and now is very subjective and unknown as to when that will happen.

And even in, you know, Massachusetts, it's -- it's still a question as to when, but it's years off. It isn't in the immediate, you know, four- to five-year horizon.

CHAIRMAN GOLDNER: I see. So this is a Company solution to, sort of, solve a flat revenue profile for the identifiable future to minimize revenue lag, among other things.

MR. HORTON: I think another key piece, though, the point that I was trying to also finish is the level of investment that's needed to serve the system, which is that, if -- if the capital infrastructure investment is generally stable or modestly increasing over time, the traditional cost of service model works, and can work again, if the level of capital expenditures is close to your depreciation expense. Depreciation expense provides you annual cash to fund ongoing investment. If you're generally close to that, then regulatory lag is only to the extent you're spending more than that.

Whereas, in our forecast, we're seeing significantly more need for capital than what's going to be provided for through base rates. Meaning, we're going to have to continue to attract capital into the system, in both debt and equity, which is causing two things to happen. I mentioned that just the natural revenue support provided by sale growth is insufficient to support changes and expenses.

So as we invest more in the system, people, processes, and technology, the depreciation expense that's contributing to a higher expense, without corresponding higher revenues, is causing, on its own, a decline in our earnings over time.

But also, we are having to attract more capital into the system. So that when we look at the calculation of ROE, return on equity, which is simply our net income over our equity balance, that's an additional contributing factor. We're having to contribute more capital, more equity. And to attract that equity into the system, that we're able to get through base rates, because we're spending significantly more and projecting to have to increase that level of spending far beyond what's provided through base rates, that that causes additional attrition in the ROE.

So it isn't that we're looking at it to say we're looking for -- I forget how you worded it, but it struck me in a way that -- yes, we're looking for additional revenues to support the business for all the things that I said, but the fact of the matter is that, in the absence of something -- and we think PBR is the way to go. But in the absence of some additional revenue support, those two factors are going to be what's driving constant, continuous rate cases, until those two factors normalize. Meaning, until we get revenue increases through the form of sales volume that naturally provide that revenue support, which we don't know when will happen or is far off, or until the level of investment stabilizes, such that the level of increased capital that's needed, the equity balance, the increase in that is able to be supported by that natural increase in revenue and corresponding net income.

Right now, we're at a point -- and, again, it isn't just Eversource here in New Hampshire, but it's an industry issue. There's a lot of capital that's needed to finance the energy infrastructure across the country, for a whole host of different reasons, but there's a lot of capital that's going to be needed to finance that. And how do we do that in a way that doesn't overburden our customers and allows us to still have affordable rates.

We think PBR is the right thing, companion to do that. In the absence of it, and just going through a traditional cost of service framework, would result in the need for sequential, successive rate cases and the corresponding -- and we've shown, you know, volatile rate increases through that historical method, because the lag is so great and the revenues can't keep up.

CHAIRMAN GOLDNER: On that second point, I think it's probably outside the scope today, but perhaps in a later proceeding, the Company could take a note to help the Commission understand these investments that are required, optical ground wires and the, sort of, new technology that the Company intends to implement, and why it's required and not -- couldn't be viewed by the Commission or parties as gold-plating and this kind of thing.

So just help the Commission understand

why this investment is needed. When you look at the revenue for the last, you know, ten-plus years, and you look at the forecast for the next however many years, you see flat revenue, and you see increasing expenditure, which, you know, sort of from a common-sense perspective, doesn't make a lot of sense.

But if the Company could help the Commission understand in a systematic way -- and we don't have to talk about it here today. But just help us understand the "why" part; why is all this investment needed on a flat revenue stream. I think that would be very constructive.

I just want to go back, Mr. Horton, to the PowerPoint presentation that the Company presented -- very helpful -- at the outset of this proceeding.

And it's on Page 3. On Page 3, it talks about the Company's invested more than $765 million in New Hampshire electric distribution systems over the last five years. And on that same slide, it talks about the percentage of customers restored within five minutes has increased over that time period from something like 40 percent to 52 percent.

And I'm sure we'll talk about the metrics of safety and reliability and so forth, you know, out over the next day or two.

But coming back to your point on depreciation. The Company has invested $765 million, and I think your point is, is over that same period, the cumulative depreciation has been less than that, which drives this problem.

Is that -- am I capturing that right, or would you explain that differently?

MR. HORTON: Yeah, it is, and in addition, the revenue support provided for through step adjustments was also not providing revenue for the full 765.

And just on to the prior point you made, we totally agree, and understand we did put in a distribution systems planning panel. We don't have them all here today, but certainly -- I know we have four days for PBR. I'm sure we'll talk about -- we have topics for them. We could have them present at one of those days or a future tech session. But that was -- the idea of that was to show: Here's how all of the decisions get made. Here's what we take into account as we're looking one year, two year, three -- five years ahead, in terms of how we're identifying needed infrastructure projects on our system, to show that there's no gold-plating, that there's a real issue that needs addressing, and for a whole host of reasons, age and asset condition, increasing automation, just that example -- and I'm a finance person. I have, sitting to my left here, someone who can speak much more eloquently than I. But just anecdotally, as you think about that example, we're not adding customers, nor adding automation. We're improving the quality of service.

And so, there's not a need for -- there's not any additional revenue that would naturally come from the traditional cost of service ratemaking framework for that. It's being driven by customer expectations and requirements of their electric grid, which certainly has evolved over the last 15, 20 years, in particular, since COVID, and continues to.

So I think there's a lot of factors that's driving the need for investment -- and also say that, in that last rate case, we also had that -- we saw this coming, to a great extent, that the need for investment was ramping up. We saw it coming and had proposals in that case, and continue to see the same dynamic here at play.

CHAIRMAN GOLDNER: Okay. Thank you. We'll take it back on the Commissioner break and come back with a request to hear more about that topic, either in these four days or subsequent prehearing conferences. But I appreciate the offer, because that will be ultimately important to the Commission.

Okay. Very good. I appreciate the explanation on that piece. Perhaps we could -- I think -- I think that, you know, we're turning to, sort of, the equation and helping us understand how it's pieced together. I think we got through I minus X, though I don't totally understand how the K-bar enters into that portion. It's not in the equation, and I, sort of, don't grasp how it fits together. So that's really the -- one of the motivations for today's session, is to, sort of, you know, help the Commission understand how all the pieces of the puzzle fit together. In 20,000 pages of filings, it's hard to piece it together. So we could maybe just focus on that part of the equation. I know Commissioner Chattopadhyay has questions on the K-bar topic, but could we -- if we could just focus on that portion of the equation, I think that would be helpful, if I'm in the right portion of the equation.

MR. HORTON: Yeah, sure. And I had mentioned there are two main factors, although there's a lot of letters in the formula.

The first is the I minus X, which we talked about. The next is the K-bar, which is in the formula as Kt, so it's -- I just moved off the page. So it's the I minus X, plus Kt, which is the -- the K equals the K-bar.

So what the K-bar does --

CHAIRMAN GOLDNER: So -- I'm sorry, just to verify.

MR. HORTON: Yeah.

CHAIRMAN GOLDNER: So K sub-t, the capital revenue adjustment, is the K-bar? Those are the same thing?

MR. HORTON: Yes.

CHAIRMAN GOLDNER: Okay. Thank you.

MR. HORTON: The K sub-t is the K-bar. What that does is it says -- it's a mechanism that comes in to say, knowing that -- in particular cases, where there is a need for additional capital spending that isn't covered by the I minus X, the K-bar is a way to add additional revenue support and then still adhere to the principles of performance-based ratemaking.

Because it is not a capital tracker, it doesn't give dollar-for-dollar recovery. What it does is it says, we know that there's a need for additional investment in the system, which is Step 1. First, agreeing or understanding or trusting that that's the case. And that the

K-bar will provide an additional layer of revenue support outside the I minus X formula. And, in fact, that's how the function works together. When we get into the schedule, which is Exhibit ES-DPH-1, that's where we showed an example of how the K-bar would work over time, which is a total complication, but it is, in the end, relatively simple.

What it says is, based on the Company's actual historical plant additions, adjusted to the rate year by that I minus X formula, it's essentially determining, what is a revenue requirement for capital in the rate year, but based on Eversource's New Hampshire distribution operations, actual spending over time.

And it's really getting back to the point of saying, when you have increasing capital expenditures, that's increasing at a rate greater than historical and increasing at a rate greater than the I minus X, the K-bar comes in to say, how can we calculate a revenue requirement on that higher capital that isn't a capital tracker, essentially.

CHAIRMAN GOLDNER: But why is it cumulative? If you have the GDP inflation factor in there, why would you add the K-bar -- why would it be additive? Why wouldn't you subcontract out the inflation rate?

MR. HORTON: You do, in fact. That's where I say, those two -- the formula works in tandem. So you start with I minus X. You take your castoff rate, times the I minus X result.

And then in the K-bar calculation -- I -- I can go through the actual -- but conceptually first, perhaps. It literally starts, and it says, how much capital support -- how much capital revenue requirement is in that castoff rate.

Let's say our castoff rate -- oh, hold on. I'm going to need my glasses for this, and they don't work anymore, so...

So if you take --

CHAIRMAN GOLDNER: Have you ever noticed that the finance guys have the biggest three-ring binders?

MR. HORTON: Ashley says she didn't bring hers. Just one moment.

CHAIRMAN GOLDNER: Take your time.

MR. HORTON: So if you wanted to look at Attachment ES-DPH-1, which is our --

CHAIRMAN GOLDNER: I have to go slow on this because, in the 20,000 pages, it's hard to find things.

MR. HORTON: That's at Bates 1434.

CHAIRMAN GOLDNER: Thank you.

And also for the court reporter, yeah, so we can capture it.

So is this in your testimony, Mr. Horton?

MR. HORTON: Yes. In the overview.

CHAIRMAN GOLDNER: Just give us a second to get there.

CMSR. CHATTOPADHYAY: Can I -- can I inform whether you're also looking at the same information that's available in Excel?

MR. HORTON: Yes.

CMSR. CHATTOPADHYAY: So this is the ES-DPH-1?

MR. HORTON: Yes. I believe it was provided as Attachment PUC 1 in Excel.

CHAIRMAN GOLDNER: Just a second. It's here somewhere. Can you give us the page again, Mr. Horton?

MR. HORTON: It's Bates 1434.

CHAIRMAN GOLDNER: Okay. I'm there. Commissioner Chattopadhyay, are you there?

CMSR. CHATTOPADHYAY: Can you tell me which worksheet it is?

MR. HORTON: We can start on Worksheet 1, Total PBRA.

CMSR. CHATTOPADHYAY: Thank you.

MR. HORTON: And I'll try not to get us mired in the spreadsheet, but -- so I don't throw out new numbers. I just wanted to try to ground it.

CHAIRMAN GOLDNER: Helpful. No, this it great.

MR. HORTON: So Page 1, which is Line 1 on Bates 1434, and it's Excel Row 17, that $618 million operating revenue requirement, that is our total -- that's what we're asking for in this proceeding. So assuming what we have requested as a permanent rate change is approved, that would be our T minus 1 -- or that would be our revenue requirement T, the going-in rate.

CHAIRMAN GOLDNER: It would be T -- it would be T minus 1? Or T?

MR. HORTON: It would be T.

CHAIRMAN GOLDNER: So your total revenue requirement, T, before we -- it would be T and T minus 1 in the first year.

MR. HORTON: In the first year, yes.

CHAIRMAN GOLDNER: Okay. That was a trick question.

MR. HORTON: The T minus 1 is -- so in the first year -- correct? That the first PBR will take the castoff rate, which is the revenue requirement, that 618, and then each year it builds off the prior year, which is YT minus 1. Okay.

CHAIRMAN GOLDNER: Okay.

MR. HORTON: So 618 is what we requested. Then there are adjustments where we're saying, we're going to take out certain components of that request and not subject them to the PBR, but I won't -- I don't know that we need to get through -- that's a detail, although important.

So, if you look at the base revenue requirement, excluding storms, is 525 million. So when we're doing the first step of the PBR adjustment, the I minus X, we will apply that I minus X, where X is zero, to the 525 -- that's on Excel Line 22, and it's on Bates 1434, Line labeled 6, I think.

So 525, that is what we will -- what we will determine for the I minus X adjustment. And that's shown on the subsequent line. It's shown on Line 9 and 10 or Excel Line 25 and 26.

When we take off that castoff rate, 525 times inflation of 1.86 percent, that will provide PBR alone of a $10 million adjustment, not the K-bar yet. Are you tracking that?

CHAIRMAN GOLDNER: Maybe. I'm not sure. So I understand we start with 618.2 on Line 1. There's some adjustments for other revenues and storm costs and so forth. And you get to 525.9.

Is 525.9 the revenue requirement?

(No audible response.)

CHAIRMAN GOLDNER: Okay. So -- so 618 is the starting place. You have some adjustments to get to 525.9.

And then your point is, if you just take inflation of 2 percent, it would add $10 million to the 525.9?

MR. HORTON: Correct.

CHAIRMAN GOLDNER: Okay. So far, so good.

MR. HORTON: Yes. And so that, if we were just doing I minus X, and X were zero, that would be the end, and it would be $10 million adjusted on the 525.

CHAIRMAN GOLDNER: Okay. So that would mean -- so the Company would be asking -- or 535 would be the revenue requirement in year zero -- or Year 1, whatever we call the first --

MR. HORTON: The first PBR adjustment.

CHAIRMAN GOLDNER: -- the first PBR adjustment.

MR. HORTON: Yeah. And so what that's saying -- if I take a step back again. So August 1, 2026 -- excuse me -- August 1, '25, the castoff rate would be set at 618 million.

For purposes of the PBR adjustment, which would go in August 1, 2026, we would say, okay, how are we going to change the base revenue requirement for PBR?

And all we're doing is we're taking that 618 and saying, okay, other revenues are other revenues. Those don't get changed by PBR. Those are separate.

And we say, storm cost recovery is its own separate thing. We're not going to increase that by PBR. So we take those out, leaving us with a base distribution revenue requirement, capital, and O&M of $525 million, such that, August 1, 2026, the first PBR adjustment, I minus X -- and X is zero -- would be $10 million.

Meaning, if that were -- just to get back to the science. That would say -- if that were mathematically supportable, that would say that that $10 million increase, theoretically, would be enough to give the Company, starting August 1, 2026, an opportunity, but not a guarantee, to cover its operating expenses in that year, including capital, and the earned and authorized ROE.

It doesn't stop there, but I'm just trying -- if that were to be where it stopped, that would be what that stood for, at that point in time.

CHAIRMAN GOLDNER: Okay. And just help us understand, maybe, where the other -- it looks like it's about 90 million or something. The 618, the 525, where does that go? Where does that show up?

MR. HORTON: So when we start with our total revenue requirement in this providing of 618, we start with -- not PBR related, again. We say, how much do we need to collect from our distribution customers through rates?

So Step 1 is simply taking --

CHAIRMAN GOLDNER: 618.

MR. HORTON: -- 618 is the total, except 17.6 of that is other revenues that we collect from -- not through our base distribution rates, but other means.

So when we're designing rates, we start by taking other revenues out of the equation. So as it relates to the 90, 17.6 of it is other revenues, and that's just traditional ratemaking. That's not PBR.

Then we say, for storm cost recovery, there's two components. We have a separate proceeding pending now, where we have a large balance of unrecovered storm costs, where we're proposing in this proceeding to begin to collect that in base rates.

So part of the 618 million is storm cost recovery for previously incurred storm costs, and we're saying, well, we're going to get recovery of that amount in base rates. It shouldn't be subject to a performance-based ratemaking increase.

So we take that out. We're still collecting it in base rates. We just don't apply the PBR increase to it.

CHAIRMAN GOLDNER: Okay. Because in

PBR, all you're really looking for is the delta, the increase each year, so that's what the Company cares about, right? Because whatever -- whatever the revenue requirement is, it is. And then PBR gives you the delta, and that's the increase that the Company gets to whatever that baseline is over years; is that -- am I understanding how that works?

MR. HORTON: Yeah, I think that's right. And conceptually, or theoretically, what we're saying, we're getting that 55.7 million, reflects recovery of previously approved storm costs, so it's not -- it's not subject to the same factors and forces of the rest of our operating expenditures, like, you know, maintenance and capital infrastructure investment. It's a previously approved amount that we're just collecting. So we take it out of the PBR equation.

CHAIRMAN GOLDNER: And just briefly, I want to go back to the "I," which is GDP-PI, and you were saying, for this example, let's call it 2 percent. That's fine. But what is GDP -- I know what GDP is. But GDP-PI, like, can you explain that portion of the calculation?

MR. HORTON: It's simply the Gross Domestic Product Price Index, so it's a separate index that has measures. It's a data point that measures the level of change in gross domestic product, so --

CHAIRMAN GOLDNER: It's published by the U.S. Department of Commerce or something like that.

MR. HORTON: Yeah. Yeah. It's --

CMSR. CHATTOPADHYAY: And it's, actually, Sheet 10 in this --

CHAIRMAN GOLDNER: Okay.

MR. HORTON: Exactly.

CHAIRMAN GOLDNER: So the parties won't have any challenges with that. It's a published U.S.-level data. No problem.

And then what was the PI again?

MR. HORTON: That's just what they call it. It's the Gross Domestic Product Price Index.

CHAIRMAN GOLDNER: Oh, okay. So it's

actually -- it's not GDP minus PI. It's GDP, dash, PI.

MR. HORTON: Yes. Right. Right.

CHAIRMAN GOLDNER: See, that's where these are helpful conferences.

MR. HORTON: I totally agree.

CHAIRMAN GOLDNER: All right. Excellent. I was trying to do some subtraction there with PI -- and PI in other docket, and couldn't figure out what was going on.

MR. HORTON: Oh, no. It's not a performance incentive. It's just part of the acronym.

CHAIRMAN GOLDNER: That's what I thought it was. Okay. Thank you.

Okay. Thank you. That's helpful. So we're at 525.9, and we've got the 2 percent just as an estimate here, so it would be a $10 million increase before we get to K-bar.

MR. HORTON: Correct. So then what happens is -- again, that 525.9, that reflects our total cost of service. So the PBR increase of 10 is providing revenue support, to support total cost of service. And the total cost of service includes capital-related components and expense-related components.

The K-bar comes in and says, how much additional revenue, if any, is necessary to support only the capital-related components?

Some revenue support is provided through just operation of I minus X, that $10 million, because it's applied against the total castoff rate, inclusive of capital and O&M. Some of that 10 million is supporting our capital expenditures.

So the PBR formula -- one moment. The -- the K-bar formula, starting on Tab 2 -- so that's going to be Bates 1435.

CHAIRMAN GOLDNER: Okay.

MR. HORTON: On Tab 2, K-bar sum, what it does first, at the top of that page, is it says, how much of that 525 from Page 1 is capital related. So it says, I have depreciation expense in there of 99 million, pretax return on rate base of 176 million, property tax expense of 44 million.

So the sum of those things, 319 million, is saying that, of the 525, 319 million of that is capital related. And the rest is O&M.

So then it says, in the K-bar calculation, is it starts with -- one moment.

Okay. So to see how the K-bar gives credit, effectively, for that I minus X -- you can see it on Tab 3, K-bar Detail, which is at Bates 1436.

So it starts with -- at the top, again, it just reiterates the 319 million as capital related. That's included in the castoff rate of 525. And it shows us -- in the first adjustment, the first section, Step 2, establish cumulative I minus X percent relative to 2024, what that's doing is it's saying, if I had 319 million -- okay. If I had 319 million -- it's actually on Lines 12 to 16, if you're looking at the -- number, the outline is 26 to 30.

It's saying, I have 319 million, August 1, 2026. I would have implemented that 2 percent increase in I minus X, so that -- that amount of revenue support supporting capital has gone up from 319 to 325 in that first year.

CHAIRMAN GOLDNER: So just to go back to the castoff of 525. You wouldn't -- you wouldn't add the 2 percent to that. It would only be the 2 percent on the 319, or the 2 percent on the whole 525?

MR. HORTON: It's 2 percent on the whole 525, so we get a $10 million increase on the whole 525. And then the K-bar is a separate step, but it works like that, by saying -- the K-bar says, what additional revenue is needed for capital that's not covered by --

CHAIRMAN GOLDNER: I see. It just happens to be 2 percent, but it's not -- it's not the same calculation to get to the 2 percent.

MR. HORTON: Well, it is.

CHAIRMAN GOLDNER: It is?

MR. HORTON: It is.

CHAIRMAN GOLDNER: Okay.

MR. HORTON: What's happening here is it's taking us through each step of the K-bar. It's saying, number one, well, we know that the PBR is giving revenue support on the whole. It's giving revenue support for capital and expense.

So the K-bar is going to give credit for that, by starting -- by saying, well, if I have 319 million in base rates for capital revenue support, and I have increased my base rates by 2 percent, how much of that went to support capital?

That's what this step is showing us here.

CHAIRMAN GOLDNER: Okay.

MR. HORTON: And it's saying that, basically, 6 million of that 10 million supports capital.

CHAIRMAN GOLDNER: Perfect.

CMSR. CHATTOPADHYAY: Dan, can I just --

CHAIRMAN GOLDNER: Sure.

CMSR. CHATTOPADHYAY: To make sure. So let me just summarize what you're saying.

You're essentially saying that 525 includes both capital and O&M expenses, but the K-bar is, obviously, related to capital, figuring out what piece of that 525 is capital, which is

319. Then you're trying to see what that same multiplier, which is 2 percent roughly, does to the capital piece, and that adds -- for example, for 2026, it adds 6 million, and that is being accounted for when you figure out what is the net K-bar.

MR. HORTON: Yes. Yes. Because the 6 million is in that 10 million, on that first tab that we looked at. The 6 million is already given to us in the I minus X, yes.

So the rest of this sheet says -- again, you kind of put that aside, and then you say, well, what -- what does the K-bar formula then say that the Company needs in the rate year for capital only. So then we go off track. The K-bar formula kicks in, and says, again, we're looking for a formulated way to give revenue support for capital, that's not a capital tracker, that's not dollar for dollar, it's based on that entity's actual plant addition activity, adjusted for the I minus X over time.

It's trying to say, what is the revenue requirement, based on your recent trends and plant additions, that you're going to need in the rate here. So the sections -- and I'll -- go ahead.

CHAIRMAN GOLDNER: Oh, sorry. I just brushed up against the microphone.

MR. HORTON: Okay.

CHAIRMAN GOLDNER: But you were -- the K-bar is -- just real quick, Commissioner. The K-bar was the three years of history, right?

MR. HORTON: Yes.

CHAIRMAN GOLDNER: And it's moving average calculation.

Commissioner Chattopadhyay.

CMSR. CHATTOPADHYAY: When you're calculating the K-bar for -- and I may have not understood this correctly, but you're going back to 2021, '22, '23, all these years. There you are applying the I minus X to them, right?

MR. HORTON: Yes.

CMSR. CHATTOPADHYAY: And can you explain to me why -- why not begin with where we are right now?

MR. HORTON: So -- and Mark or

Dr. Ross might help me, but, I mean -- so the idea is -- again, is to say, we're not under a K-bar, although -- we're not trying to get to a pure formulaic capital cost recovery that's giving the Utility dollar-for-dollar recovery.

It's not saying, take your actual plant additions, put those into rates. You know, that's not what it's doing. It's trying to say, effectively, we know that the capital expenditures are increasing, so we're going to rely first on an actual data point, what the Company actually spent in recent time, but we also know that that recent period -- in our case, we are proposing three years -- is going to just naturally change by inflation. So forget -- it's really trying to capture the two forces that are driving our capital to increase. One is the actual investment needs on the system. So that's why we're relying on our actual experience over a period of time. And the second is, well, inflation is going to cause -- even if we were just doing the same work, inflationary pressures would cause that to cost more.

So you're taking your actual experience, which is showing, for us, increasing expenditures but still based on history, not a forecast and not just one year, but from showing a trend in our actual investment activity, and then saying, if that trend were to continue, effectively -- if that trend were to continue, and just inflation were to happen, what does that revenue requirement need to be in the rate year to support that trend.

So you're using a three-year average to, sort of, smooth out anomalistic behavior. Or perhaps, if it was just the most recent year and it was a high year, it might yield too much.

CMSR. CHATTOPADHYAY: I think -- let me just -- I think what I'm asking is, those investments are already undertaken. You know what that amount is. So, now, to calculate the three-year average, I'm just not fully grasping why you have to apply the 2 percent to each of those years so that I get a number, which, then, for those threes years I'm going to add and divide by 3 to get a number to start with.

That's my question.

MR. HORTON: Okay.

CMSR. CHATTOPADHYAY: And I'm seeing somebody else wants to respond.

MR. KOLESAR: The quick answer is because you want the value to be in current 2025 dollars. So what that does is it adjusts that historical spend, the average historical spend, as if the spend was occurring in 2025.

So by -- by doing that, you're converting that spend into current dollars in 2025. So by adjusting it, in this case, by I minus X, and X is zero, so you're really only adjusting it by the rate of inflation in current dollars, in 2025 dollars, what would that average spend be.

So the basic reason why you're making that adjustment is because you want it in current 2025 dollars.

CMSR. CHATTOPADHYAY: Follow-up.

I understand that point, but not being an accountant, one of the things that I'm, sort of, grasp -- or dealing with is, when you're talking about, let's say, a 2021 number, that's spent in 2024, you know, adjusted for -- normalized for inflation, you have a certain number. You're, sort of, saying it's being -- that 2 percent is being applied to that.

I'm trying to understand whether, over the year, what you have in 2021, there's also depreciation happening, and whether the same treatment is being applied to depreciation or not.

MR. HORTON: The answer is yes. And the formula takes care of that in a couple of ways. So what you start with -- like you're saying, you take historical spend. You get it to current year's dollars. And what that's doing, in theory, is it's saying, again, if our history is going to -- that trend will continue. We're going to reflect that in current year dollars. That's what's happening on -- that's what it's saying will be needed for revenue support in the rate year, and it takes into account --

(Conferring.)

So -- so what the formula is doing in

Step 4 is, it's then saying, once I figured out what on -- sorry, hold on. Let's get organized so I don't throw us off track.

If we just try to -- I'm just going to try to quickly retrace. So Step 1 on this sheet is saying, what is our going-in capital revenue requirement. That is 319.

Step 2 is simply regurgitating, what is the I minus X formula giving us.

Step 3 is saying, how much revenue support is being provided by operation of the I minus X for capital. So it's taking the 319 plus 2 percent, and then each year thereafter.

Step 4 then says, well, based on taking into account those factors that you just mentioned, Commissioner, that we have additional additions that's being informed by that K-bar formula, which is the three-year historical average inflated at GDP-PI, and also taking into account that we have ongoing depreciation expense that, all else equal, would be wearing down, rate-based -- that's in base rates. How much additional revenue requirement is needed, then, to run the Company and support capital in that rate year.

So it's naturally taking into account both the fact that existing plant and rates is going to depreciate and take into account the fact that the -- if -- on the K-bar addition side, if you used historical average, inflated by inflation, how much additional revenue would be needed.

And then at the end, in Step 5, it says, okay, I know what the capital -- what calculates the K-bar revenues by saying, from Step 3, how much capital support is provided through the function of the I minus X, which is that 325 million.

How much K-bar revenue requirement is needed from Step 4? Step 4 is the most complicated of the steps. But, again, what that's doing is it's saying, based on the historical three-year average, inflated to the rate year inflation, how much additions would there be needed to support from the K-bar perspective.

But it's also taking into account accumulated depreciation. It's essentially snapping a new chalk line for rate base in the rate year, reflecting that existing rate base will depreciate, and new rate base will come on, based on the K-bar formula.

How much revenue requirement is needed, which is in Step 4, so that says, you need 367 million, based on the K-bar formula. You're getting 325 million through operation of the I minus X. So the K-bar adjustment would be 42 million in that first year.

CMSR. CHATTOPADHYAY: Again, I'm not an accountant, so maybe I'm raising questions that the answers are pretty obvious, but what I'm trying to understand is you're -- you're, sort of, applying that 2 percent to the capital amounts for 2021. Over 2021 through 2022, there has been some depreciation that is applied to the capital that was there in 2021. And when you're counting that depreciation, it goes into the accumulated depreciation, you know, calculation. Are you -- because that is happening over 2021 to

2022, are those dollar amounts being also captured in term of 2024 or not? That's my question.

MR. HORTON: I see.

CMSR. CHATTOPADHYAY: And if it is -- sorry. If it is -- if that's not the way to do it, explain to me why.

MR. HORTON: Yes. (Conferring.)

It might just be easier to have Mr. Kallen speak to the --

MR. SPEIDEL: Please introduce yourself.

MR. KALLEN: Jon Kallen. So if I understand your question correctly, the actual depreciation for the years '21, '2, '3, and '4 are going to be captured in the perm rate, the initial revenue requirement, the castoff rates.

The incremental depreciation thereafter is going to be based on the K-bar plant additions that are estimated in this formula, depreciated at -- in this case, it's an approved depreciation rate.

So the depreciation of that 2021 plant

does continue, and the '22 plant, it does continue. It does continue to accumulate in rate base -- the K-bar rate base.

MR. HORTON: But can I just -- I think I -- (Conferring.)

I think the answer is yes on both sides of the equation. And it's a good question, and it's not an accounting -- I'm also not an accountant, so I get in trouble when I get over those skis.

So in two steps -- it is taking into account inflation in both steps, such that both are in that rate year look. Meaning, as Mr. Kallen explained, in the castoff rate, you're really taking into account already what is the actual inflation on that '21 investment that is going to be reflected in rates and in rate base.

From there, on both sides of this equation, the I minus X is being applied. So from the castoff rate perspective, we are saying that depreciation expense is also being adjusted. That's that first step, the three main components that are capital related. Depreciation expense, property taxes, and returns are all being increased in rates by the I minus X.

So that's Step 3. That's the first one. Just basic. 319 times 2 percent, $6 million more that's giving us depreciation return and property tax adjustment in some capacity.

And then, when calculating the K-bar adjustment, we are also applying that same math by saying, well, how much additional depreciation expense would be needed by operation of actual plant additions and inflating those plant additions by 2 percent.

So I would say on both sides of that equation, when calculating the K-bar, it's taking that 2 percent into account. But really, all it's doing is, it's simply trying to say, again, based on the Company's actual experience, normalized or adjusted and reflect in current year dollars, how much revenue requirement would you need, how much is provided for already. And the difference, if positive, would be an add to rates in the K-bar.

CMSR. CHATTOPADHYAY: Thank you.

CHAIRMAN GOLDNER: Okay. Let's take a quick break -- a very quick break. We'll return at 20 of, and then we'll continue until about noon, and then take a lunch break. Off the record.

(Recess taken.)

CHAIRMAN GOLDNER: Okay. We're back on the record. First, I'll just check with the OCA to make sure that the OCA's participants were able to join.

MR. KREIS: Yes, they were, Mr. Chairman. Thank you so much for checking.

CHAIRMAN GOLDNER: Okay. Thank you.

Okay. Just picking back up. I think the Company was going to verify the amount of the increase in distribution rates in Year 1. I think I had 47 percent. I think there was maybe another suggestion that that was not the right calculation. Does somebody have that?

MS. BOTELHO: Yes. So with the updated temporary rate settlement, it ended up at 29 -- 39.8, is what I have. So the temporary rate increase was 14.64 percent, and the permanent rate increase is 25.16 percent, so 39.8 percent distribution increase.

CHAIRMAN GOLDNER: Okay. Thank you for clarifying that.

And then next, let's just back into the number to make sure that the Commission has the right set of data. So I -- just a moment here. Let me log in.

So I don't know if we'd gotten all the way through the calculation, but I think that the Company's number for the revenue requirement, T minus 1, was 525; is that right?

MR. HORTON: That's right.

CHAIRMAN GOLDNER: Okay. And that means I didn't do the math on 525 less 39.8 percent, but can we do the math together to make sure that we have the right step? So I think what that means is that, in 2024, baseline -- let me do that again. The 2023 baseline would be -- I'll get out the calculator here, but it would be 300-something million.

MR. HORTON: No, I don't know what math you're trying to do. I don't think that's going to be right.

CHAIRMAN GOLDNER: Okay.

MR. HORTON: The total increase, that 39 percent, or whatever it is, would be getting to the -- what was it, 618?

All right. So let -- maybe it would be best -- you're trying to understand what is our current level of revenue requirement, and what is the --

CHAIRMAN GOLDNER: Exactly. Just trying to triangulate to the 39.8, I think you said, so that we understand what the baseline is. That's all.

(Conferring.)

MR. HORTON: So if you look at -- well, the -- in our revenue requirement filing -- I don't have the Bates number, but I can get it. One second. The revenue requirement, which is Bates 1638.

CHAIRMAN GOLDNER: And whose -- whose testimony is that in?

MS. BOTELHO: That would be myself, Ashley Botelho, and Yi-An Chen.

CHAIRMAN GOLDNER: All right. And it's in the attachments, you say?

MS. BOTELHO: Yes. It's Schedule ES-REVREQ-1. We're just finding you the Bates number.

CHAIRMAN GOLDNER: Okay. And that one starts at 1489. Maybe it's quite long. Let's see. I only see that one going to 1515. Unless -- oh, there's another set of attachments. Maybe it's a different set. Let me try the second set. Maybe that's it.

Yeah, there we go. 1638. Okay. I'm there.

MR. HORTON: So if you're trying to understand the current operating revenues and what is the increase in revenues from current, which is shown on Line 20, you see operating revenues of 436 million.

CHAIRMAN GOLDNER: Yes.

MR. HORTON: The increase of 182 million would bring us to the 618 million. That is an overall increase in revenues of 42 percent distribution revenues.

CHAIRMAN GOLDNER: Okay. And how does that line up with the 39.8?

MS. BOTELHO: So I was saying the distribution rate impact. So I don't believe we have Scott Anderson here today, but we could get you that information on how that translates to the bill impacts.

CHAIRMAN GOLDNER: Okay. So to the -- I'll look to Attorney Chiavara to kind of maybe keep track of these things as we go. Thank you. And that way, we don't lose track through the day.

Okay. So you're going from 436, which is Line 20, to the 618 that we saw on the other sheet on -- for the revenue requirement for the castoff. So that's the delta between 436 and 618 that the Company is asking for, which is the 182?

MR. HORTON: Correct.

CMSR. CHATTOPADHYAY: Can I -- can I ask about the -- I know that you're saying it's 42 percent. But when you said 39 percent, did you simply just add the percentages? That won't be correct. We have to go with base, and that's why it would be higher, correct?

MS. BOTELHO: Correct. It was just the addition of the temporary rate increase, plus the permanent rate increase on a separate basis. But that's right.

MR. HORTON: So we can produce a reconciliation to address, how does the total revenue increase correlate to the bill impacts.

CHAIRMAN GOLDNER: Thank you.

MR. HORTON: There will be other factors. I think that is one, for sure.

CHAIRMAN GOLDNER: Thank you. That would be very helpful.

And so, the 182 is the revenue requirement delta increase. We see it on the spreadsheet here.

And then, Mr. Horton, if you could just take us back to the 525 as being the baseline for PBR, that -- the 525 baseline is really just a number that gives you the foundation upon which you calculate the delta, and the delta is what gets added to the revenue requirement year by year by year; is that right?

MR. HORTON: Yes. Thank you.

CHAIRMAN GOLDNER: Okay. Thank you. If we could turn to -- now I have to find it. If we could return to the Bates page 1434. Actually, 14 -- sorry, just a moment.

1436, the calculations we were going through and Commissioner Chattopadhyay was asking questions on. I think my question before Mr. Horton, and maybe either I don't understand or that we were miscommunicating, but when you calculate -- just a moment, please.

When you calculate, on 1436, we started at the top on the 319 plus the 2 percent equals 325. Okay. So that -- that was the 6 million we talked about.

And then at the bottom, there's the calculation where you go through all the numbers on the spreadsheet, which we'll want to go through, I think, in a little bit more detail.

But going to the bottom line, you calculate 367, you subtract out 325, so you have a delta of 42, but that 42 gets added to the 6 from the prior sheet. No?

MR. HORTON: No. It doesn't get added to it, because the 325 million, right, it reflects the increase of the 6 already.

CHAIRMAN GOLDNER: I see. Okay. So the 42 when we -- so this is just some machinations to get to the number 42, which is the delta that you add to whatever the baseline is each year, so that you can determine what the increase is in the revenue requirement. Okay. Thank you.

MR. HORTON: Yes.

CHAIRMAN GOLDNER: Now I understand.

Okay. So let's go back to the calculations on the spreadsheet, which is -- which is -- there's a lot of numbers on the spreadsheet, and I'm going to have to move to the big screen here to see the numbers, but can you -- can you walk us through how the spreadsheet works. I'm surprised in the sense that I don't see the -- because I thought the K-bar was the prior three years and moving averages and so forth. So I don't see the prior years on here, so I'm just trying to understand how the K-bar is calculated without seeing the prior year numbers.

MR. HORTON: Absolutely. So the Step 4 is where the machinations of the K-bar occurred. And we have additional supporting schedules for the calculation that's provided there for plant additions, for cost of removal and for retirements. But it's all happening in Step 4.

And I think it would probably be best if I had a combination of Mr. Kallen and Ms. Botelho try to walk through -- and you guys can flip a coin or -- but to walk through the machinations of how the K-bar formula works and how it's provided there, but...

CHAIRMAN GOLDNER: Okay. Thank you. That's a key part of today's discussion, is that we're -- we're just trying to sort through how this is calculated. It looks -- it looks -- when you see it on paper, you go, oh, a three-year moving average, no problem. This should be a one-page PowerPoint presentation, and there's sheets and backup sheets, and so forth. So we were having -- at least I was having trouble understanding how it was calculated.

MS. BOTELHO: Sure. I can start.

So Ashley Botelho, Director of Revenue Requirements for the service company. I don't believe I introduced myself for the stenographer, so...

We can probably start -- you specifically asked about the rolling average and where we're showing that in the workbook.

CHAIRMAN GOLDNER: And please start however you want for K-bar.

MS. BOTELHO: Sure.

CHAIRMAN GOLDNER: I think we're trying to grasp today what it is and how it works. It's like -- we're just trying to understand how the watch works. That's our goal for today.

MS. BOTELHO: Sure. So for each component of the revenue requirement formula, talking about plant additions, you have depreciation. You have retirement costs considered in that, as well as ADIT.

So Tabs 1 through 3, and specifically Tab 3, is meant to summarize the K-bar revenue requirement. But the support --

CHAIRMAN GOLDNER: I'm sorry. Can you reference the Bates pages. I'm looking at the --

MS. BOTELHO: Oh, sure.

CHAIRMAN GOLDNER: Commissioner Chattopadhyay is using the spreadsheet, and I'm old school.

MS. BOTELHO: No, that's quite all right. So we would have, I would say, starting on Bates page 1436 is where we're calculating the K-bar revenue requirement in Step 4.

CHAIRMAN GOLDNER: Okay.

MS. BOTELHO: So if you move -- I'll just progress on the one page. So you specifically asked, where can I look at how the rolling average is calculated, right? So if we advance one page to 1437, we have starting -- I would say starting on Lines 6 through 12, where you see the plant additions for each vintage year. So you have, in 2021, plant additions of 138. Those are actuals. So you'll see, 2021A, actuals. Anything that is estimated has an E at the end.

So for 2021, 2022, and 2023, that's the first three-year average, a three-year average for each of those investments placed in service for those vintage years.

So when you look at -- so the investments -- when we say vintage year, I should define that. So vintage year is the year that you've placed the investments in service. That -- those investments would continue to contribute to your rate base and your plant additions on a cumulative basis in the subsequent calendar year. So that's what you see starting in Column B through, I would say, F here.

So in 2021, if you look at Column B, you have 138 million of plant additions. In each year, you are escalating those plant additions by the I minus X formula on Line 1, to get to the 2025 rate year dollars, right? So -- I'll stop there. Questions?

CHAIRMAN GOLDNER: Commissioner Chattopadhyay, any questions?

CMSR. CHATTOPADHYAY: No, I think we went through some of this previously.

MS. BOTELHO: Yes. So --

CMSR. CHATTOPADHYAY: Right? Why you're using the I minus X and applying it on 2021. We know what the amount is, but you're still normalizing it.

MS. BOTELHO: That's right.

CMSR. CHATTOPADHYAY: And I'm just trying to summarize what you were telling us.

MR. HORTON: I think if -- I'm going to take you back one page. If you go to Step 4 on the Bates page 1436, and look at Excel Line 34 or the row labeled 20, you can see K-bar Additions, 2025, of 246 million. Do you see that?

CHAIRMAN GOLDNER: You're on Line 28?

MR. HORTON: It's -- on Bates 1436, it's Line No. 20, labeled K-bar Additions, under 2025, of 246 million.

CHAIRMAN GOLDNER: Okay. I'm with you now.

MR. HORTON: Which is also the Line

28. But the way the -- so that number for 2025 is pulling from the next page, the Plant Additions tab. The next page is where we show -- the math behind the 246 is where we show it's the prior three years of additions, inflated at 2 percent.

So I'll walk through that, but conceptually, that is the number that's reflecting the prior actual additions for the prior three years, inflated at 2 percent to the rate year.

So this is for the K-bar adjustment that would be August 1, 2026. So the three years of plant additions that would go into that formula are Calendar '25, Calendar '24, and Calendar '23, actual additions all inflated to the rate year.

So now, if we look at Tab 4, Plant Additions, Bates page 1437, and you go to Excel Row 34, or the pdf row labeled 17, you can see -- under the column labeled, Bridge 2025, you can see 246 million.

And what that's doing is, it's taking

the 739 million in the line above it, which is taking the actual additions for 2023, which are currently actual and will be at the time, plus estimated additions in 2024, which, when this calculation is done, would be actual, but for now are estimates. And then also, similarly, estimates for 2025, which would be actual when this calculation is done.

So the 246 million is simply the -- the 739 divided by 3. That's what 246 million is. But what makes up the 739 is on the -- the lines right above it. It's the sum of 208 plus 262 plus 270.

CHAIRMAN GOLDNER: I followed you until the very end.

MR. HORTON: Okay.

CHAIRMAN GOLDNER: The 246, shouldn't it be the average of 313, 531, and 806?

MR. HORTON: In that -- the 313, 581 [sic], and 806 is what?

CHAIRMAN GOLDNER: I'm looking at Line 14, the cumulative total. So I thought what we were doing is we were taking the total from '22, '23, '24, summing those, dividing by 3, and that created the K-bar plant additions.

MR. HORTON: Got you. No, we're taking the actual additions in each year. What that line that you're looking at is showing, the cumulative total. So, mathematically, that's not what the K-bar is doing. It's saying, based on the prior three years of actual additions -- which, again, we've got estimates built in right at this point in time. But at the time the math is done, it would be actual.

CHAIRMAN GOLDNER: Oh, I see. Okay.

MR. HORTON: It's actually a component of the 1 billion 092 right above it. Okay? The 739 is the most recent three years from that column. It's 208, which is the 20 -- sorry. It's 208 million, which is the 2023 actual additions of 197, inflated three years at the I minus X to get to 208.

CHAIRMAN GOLDNER: Okay.

MR. HORTON: And it's also the 2024, inflated one year. And it's the 2025 additions.

CHAIRMAN GOLDNER: And this would be

implemented when? When would the K-bar -- this K-bar would hit in August of 2026?

MR. HORTON: I just want to make sure. Yeah, this is August of '26, correct.

CHAIRMAN GOLDNER: Okay. So you're taking actual -- so at that point, everything would be known. The 262, the 270 would all be known in the books, and you're just taking the simple average of those three to determine what the K-bar would be in that -- for 2026?

MR. HORTON: Correct.

CHAIRMAN GOLDNER: Okay. And that's -- give me just a moment, please.

CMSR. CHATTOPADHYAY: Can I have a follow-up, please?

CHAIRMAN GOLDNER: Go ahead.

CMSR. CHATTOPADHYAY: So the way you presented this, say, 2025, you're taking the average of sales, I-'25 through I-'27, in the worksheet right now, right?

MS. BOTELHO: That's correct.

MR. HORTON: Yeah.

CHAIRMAN GOLDNER: And you move to

2026, that average still is '25 through '27. While I move to Column K, that average is K-'26 through '28. And then the next one is L-'27 to L-'29.

So I'm a little confused why the one that shows 753 is using the same three rows as that was for the 739, and I just want to understand why.

MR. KALLEN: Jon Kallen. So the very first one -- so the year that we're referring to as a bridge year is the same as the next one, because, at that point in time, so the year is 2020 -- the year that we're making this filing is 2025 -- I'm sorry. It would be -- we'd make the filing in '26 for rates in '26. At that point in time, we would know the actuals through 2025. For that very first adjustment only, we use that most -- the average of the three most recent years twice, so for '25 and '26, in lieu of using actuals -- actual '25 plant additions. That's really the reason.

And then, because we're still starting from the rate base that's determined through the course of this proceeding, we're still starting there, but to get from the 2024 plant to '26, there's that year in the middle, 2025. Rather than use actual plant, we used the K-bar for that average, and then we used it again in '26. And then thereafter, it just rolls one year at a time. So that one year, '25, is unique is all.

CMSR. CHATTOPADHYAY: I'm trying to confirm. The 739 will be used for 2026. When you go with -- you know, the division by 3. That's what you will be using as a K-bar for setting rates for 2026, correct?

MR. KALLEN: So the -- the average plant for the years '23, '4 and '5, the actual average is 241 million. Escalated to 2025 dollars, that 241 becomes 246. So in lieu of actual by using 2025 plant, we use that 246, and then we escalate it for that first adjustment only. To get to 2026 rate year, we had one more year's worth of plant additions. So it, effectively, gets escalated one more time for another year's worth of investment. That's the 251. And then after that, it just increments one year at a time.

CMSR. CHATTOPADHYAY: The 251 would be what we use for rates for 2027?

MR. KALLEN: '6.

CMSR. CHATTOPADHYAY: '6, okay. Now I -- I understand. Okay.

CHAIRMAN GOLDNER: What's the purpose of Line 14, the cumulative total? It goes from, you know, 138 to 1738, over the course of the six years and is, obviously, accumulating the numbers, but what's the purpose of that line? What's it used for, if anything?

MR. KALLEN: I would say it's there for information purposes. I didn't know if one of them -- I can't see their faces. It's there for informational purposes. So that row -- that Row 14, total cumulative dollars, conceptually, it would represent the dollar value of all the plant service that has gone in, starting with '21, escalated to current dollars. But nowhere does any K-bar math specifically rely on that line, so I would say it's just there, you know, for information.

CHAIRMAN GOLDNER: Okay. Thank you. So if I just take the simple average -- the 1773 is a cum., if my calculator is working right. Let me do it again. 1773 divided by -- so I think there's eight years total here. One, two, three -- yeah. Then the average is 222 over that time period, and that would be -- it's not -- it's not super useful, because it's in -- it's captured in each year's dollars. So 221, the 138 is captured in 2021 dollars, but 2028 is captured in 2028 dollars, so the cum. isn't super useful in and of itself, but it's just helping us understand how things are progressing over time.

MR. KALLEN: Yeah. I think, in this case, because this is a forward-looking analysis that is meant to mimic what will really happen, I would agree it does get a little confusing having projections -- projections that are treated as actuals, but then you're escalating it. So how is it -- you know, I think it gets a little confusing as an analysis, but at the time -- you know, the time of a PBR filing, it would only use actual, so you wouldn't see anything happening in the future and getting escalated from that point.

CHAIRMAN GOLDNER: Okay. That's very helpful. Thank you.

So if these numbers are correct -- and, of course, these are forecasts, so they're subject to change. The 2025 bridge number we were talking about from the prior spreadsheet, and on this spreadsheet, is 246. And then the next year, the forecast is for it to go to 251. So would that mean that the delta in that year that would be applied to PBR would be 5?

MR. HORTON: Well, that, unfortunately, for all of us, is just the starting point.

CHAIRMAN GOLDNER: Oh. I thought as much.

MR. HORTON: Yeah. So that, what it's doing is, it's taking on -- you know, Tab 3, the K-bar Detail, we're starting with plant additions. The same sort of logic is going to apply to every subsequent tab?

But, effectively, it's taking -- you know, the question was, I thought it would be simple. Where's all the math behind it? And what we're doing on that K-bar Detail tab, we do have the pages supporting each line that goes into the K-bar revenue requirement. But, again, what it's doing is it's saying, based on a three-year moving average of actual additions, and inflating it to the rate year, what is the revenue requirement that the K-bar calculus would say is needed.

And then it compares that to what you're actually getting through the I minus X, and the delta would be the K-bar adjustment.

CHAIRMAN GOLDNER: So going back to 1436. August 1st, 2026, yields a revenue deficiency of 42 million, so that was what we talked about so far.

The following year, it results in a revenue deficiency of 62 million, and it goes from 331, which I think I understand, that's the 325 plus the inflation factor, and then that's subtracted from 392. Where can I find the 392 on page 1437?

MR. HORTON: So the 392 is on page

1436, pdf Line 50, Excel Line 64. Which is -- I'm on, in Excel, the K-bar Detail. You can see the 392 there.

CHAIRMAN GOLDNER: I see it. Yeah.

MR. HORTON: And what that's saying is, based on all the math above and all the detail behind it, what is the total K-bar revenue requirement that's needed, in this case, August 1, 2027, 392 million.

CHAIRMAN GOLDNER: So how does Page 1437 relate to 1436 in the case of the column we're talking about there, August 1st, 2027?

MR. HORTON: So there, if you scroll up back to Line -- on Excel, it's Line 34. On the pdf, it's Line 20. You can see the K-bar additions are listed there at 284 million.

CHAIRMAN GOLDNER: 284. Okay. And then that lines up with Row 17 on the next sheet.

MR. HORTON: Yes.

CHAIRMAN GOLDNER: Okay. Okay. All right. That is helpful. So I guess maybe -- maybe walk us through how you get from Line 20, which we now have, sort of, firmly established those numbers are the following spreadsheet that -- I think we understand how those numbers are now calculated, and then you've got a lot of mathematics between then and the bottom line down on Line 55.

MR. HORTON: Yes.

CHAIRMAN GOLDNER: Can you walk through the rest of it or -- in whatever sequence you guys -- I know you had just started, so I don't mean to interrupt your train of thought.

MR. HORTON: Well, what I would say is at a high level -- I'll try to do it at a high level -- would be that same logic; that if you walk through in detail, which we certainly can, is applied for cost of removal, retirements, and ADIT, and we have separate tabs for each one. So as we have a plant addition tab on 1437, we have a cost of removal tab on 1438, Excel Tab 5, and so on.

So in each of those -- you know, on the summary tab, we're showing at the top, what's the K-bar calculation showing for additions, which we've talked through; costs of removal, retirements, and ADIT, which are all then used to calculate the K-bar rate base, which is shown in 4B on Tab K-bar Detail, so this is still on 1436.

Each one of those inputs is calculated on their own separate tab, but following a similar logic. Then it gets reflected in our calculation of what is the theoretical K-bar revenue requirement.

CHAIRMAN GOLDNER: And just to baseline the Commission, in terms of the prior years. The end result of K-bar is yielding substantial numbers: 42 million in 2026 and 60 million in 2027 and 81 million in 2028. So it's yielding an increasing and large number.

What was it in prior years in the current rate case? What kind of revenue requirement adjustments were made? My recollection is they were much smaller. Wasn't it like 10 million per year or something like that?

MR. HORTON: It was. We -- and I just want to be clear. The K-bar revenue increase, it says, on the 60 million and the 81 million that you're referring to, those are cumulative.

What you need to take into account is -- and it's including the -- excuse me. Those are cumulative. So the actual increase is shown on Line 56, or Excel Row 70, of Bates page 1436.

CHAIRMAN GOLDNER: Okay. So it's 42, because that's a double year. Then it's 19 in '21.

MR. HORTON: Yes.

CHAIRMAN GOLDNER: So it's really 20 million a year, roughly, annually.

MR. HORTON: Yes. Yes.

CHAIRMAN GOLDNER: Okay. Thank you.

MR. HORTON: That's in addition to the PBR increase.

CHAIRMAN GOLDNER: Yes. This is just one component.

MR. HORTON: Yes.

CHAIRMAN GOLDNER: This isn't the case of T or the K-bar, but this -- particular calculation would add roughly 20 million per year, and in the step paradigm, which I think of as equivalent, and if you think of it differently, then please correct me, but the step paradigm was -- and I understand it was a negotiated settlement and all those things, but that was yielding something like 10 million a year. This new way of calculating it yields something like 20 million a year. If I have that basically right, that would be helpful to know.

MR. HORTON: Yeah. (Conferring.) Just one moment.

CHAIRMAN GOLDNER: Sure.

(Conferring.)

MR. HORTON: So the -- right. The three adjustments in the prior settlement was a step adjustment of around 11, 11, and 9.

CHAIRMAN GOLDNER: Thank you. Okay. That's very helpful for us to baseline. Commissioner Chattopadhyay?

CMSR. CHATTOPADHYAY: Just to follow up. Looking at Worksheet 3, K-bar Detail, and Line 70 is reflecting the early increases needed for the K-bar revenue, right?

MR. HORTON: Yes.

CMSR. CHATTOPADHYAY: 42, 19, and 21.

MR. HORTON: Yes.

CMSR. CHATTOPADHYAY: If the percentages, the I minus X, those percentages, were different, lower, would these numbers be higher?

MR. HORTON: The -- it would impact the equation in two ways.

CMSR. CHATTOPADHYAY: I think so.

MR. HORTON: Yeah, right. So on the I minus X, the -- the first step -- I think the answer is yes, but there's two things that would happen. The first step, where we calculated the 6 million, the 6 million would be less. So that, yes, if everything else were equal, the K-bar adjustment would then be higher. However, because the K-bar adjustment also uses that same GDP-PI percentage, the K-bar adjustment would be lower.

I don't -- I think the math would work out that, yes, if inflation were higher -- excuse me -- inflation were lower than what we're projecting here, the K-bar adjustment would be higher than what we're reflecting here. The overall increase -- I think the overall increase would be lower, but the K-bar component of that increase would be higher.

CMSR. CHATTOPADHYAY: So the percentage increases that g116 6 you're talking about for 2021, '22, '23, they are already hard-coded?

MR. HORTON: Correct.

CMSR. CHATTOPADHYAY: So, really, those numbers do not change, because -- I'm really trying to do a thought experiment in my head. What happens if the number is lower going forward? How does that impact?

So I think, when you're talking about the K-bar calculation itself -- this is all hypothetical, because in reality, things will be different. But the K-bar piece for the last three years, that won't change, right? Because you -- you've applied -- I forget which -- I think it's in K-bar -- or is it not?

So I'm looking at Worksheet 4. The percentages for I minus X, 2021, 2022, 2023 are like 1.35 percent, 4.42 percent, 6.91 percent.

And -- right? Those are being applied. And now that I'm looking at it, it also touches upon the issue of -- I may have misunderstood it. There's a -- the inflation piece is going to be bounded by 025, so -- I'm a little confused about using those numbers to figure out K-bar, but I understand this is just hypothetical.

MR. HORTON: Correct. The -- you're right. The -- to the extent we're using the actual, that wouldn't change, I think, for the first K-bar. But what would change is if the -- because we're using, in this example, forecast additions. The actual K-bar math in any year will rely on -- except for that one year that Mr. Kallen explained, but will rely on actual additions.

So the formula would change only to the extent things that are in here right now are being estimated, and in the future will become actual and will be different. That would be additions and the inflation.

MS. BOTELHO: So -- and then we used forecasted inflation starting in 2024. We had actuals through 2023. And that's on Tab -- it's the GDP-PI tab. So it shows, to the left, the actuals; and to the right, what is an assumed forecast.

CMSR. CHATTOPADHYAY: Yeah. Even if one of those years has a number of 6.91 percent, you would use that?

MS. BOTELHO: We would use the actual.

CMSR. CHATTOPADHYAY: The actual is being adjusted for the I minus X, right? My question is, when you're adjusting it, are you going to use whatever the number is, the actual percentage that comes from the GDP-PI data? Or will you apply zero to 5 to that? That's my question.

(Conferring.)

MR. HORTON: So the answer is no. The way that the cap would apply, in terms of how we've applied it here, the cap applies on that I minus X. So in that instance, if PBR were in place and it was producing inflation of 6.9 percent, the I minus X would be capped at 5. The K-bar would rely on actuals as being -- because there, we're calculating the theoretical -- we're getting historical spending to current year dollars using actual inflation.

CMSR. CHATTOPADHYAY: Okay. But if you were doing it right, then you won't have 6.91. You'd have 5.

MR. HORTON: I understand where you're heading, and I think it's a good theoretical discussion. We're not proposing -- we're proposing that the cap would apply on the I minus X. We haven't applied that cap on the K-bar, on the theory -- and the methodological theory, that the K-bar calculation is trying to inflate actual historic plant to current year dollars using actual inflation.

CMSR. CHATTOPADHYAY: Thank you for the -- I think I got you.

MR. HORTON: Okay.

CHAIRMAN GOLDNER: So, just to follow up on that min/max question quickly, just to make sure we understand.

So the Company's proposal is that X is zero. The Company's proposal is that "I" can vary between zero and 5. And so that's -- that's the min and the max there.

On K-bar, Commissioner Chattopadhyay just clarified that the Company's proposal is using the actual inflation rate as opposed to capping it at 5.

Are there any other caps applied to K-bar, or can K-bar be, theoretically, infinitely high or infinitely low?

MR. HORTON: There are caps applied to K-bar for the input -- if you're on the plant additions tab, the plant additions --

CHAIRMAN GOLDNER: I'm sorry, which are you on?

MR. HORTON: Sorry. It's Bates 1437.

CHAIRMAN GOLDNER: 1437. Thank you.

MR. HORTON: And there we walked through, how did we derive the 246 and the 241, and that's based on actual additions. And what we're -- the way that the K-bar is limited is by saying that the K-bar -- the actual additions that would go into this K-bar calculation would be capped at 10 percent above our current forecast of capital expenditures.

CHAIRMAN GOLDNER: So walk us through exactly how that would work, please.

MR. HORTON: Sure. If, in 2027 -- or, I guess, we'll take 2026. On Line -- pdf Line 11 or Excel Row 28, Column C, where it's labeled, Plant Additions Nominal, we're projecting plant additions of 296 million. So if plant additions actually come in at 120 percent of that, meaning 20 percent over our projection, 355 million, 20 percent over our -- what we would do is we would -- and we're going to -- we would do this on a cumulative basis, but in just simple example. If, in that year, we were cumulatively 20 percent more, so 355 million instead of 296, the K-bar additions would be capped at 10 percent above that, so -- I'm going say this simpler.

If -- our actual projected additions are 296 in that year, as of this point in time. So that's the starting point for the K-bar cap. The K-bar cap is going to be 10 percent above that. So 326 million is roughly 10 percent above 295. That's the maximum that would be allowed to flow through the K-bar method for that year, all else equal.

CHAIRMAN GOLDNER: And if there was something over that, what would happen to that overage? Does it disappear forever, or does it get rolled or --

MR. HORTON: It would be -- it would contribute to additional regulatory lag. Meaning, even under our proposal and knowing -- if we spend just as what we had projected to spend now, not a penny more, we're showing that we're going to have more rate-based in-service than the K-bar will provide revenue support for.

So if, in that case, we're spending 355 million, that would mean we'd have more rate base that's not covered by current rates, and would just contribute to a revenue deficiency that would be allowed in a future rate case. It wouldn't be disallowed or gone forever. It would be subject to us convincing you that those were prudent investments to make.

CHAIRMAN GOLDNER: And how does that reconciliation happen on the over/under, either direction? Is that trued up in the next rate case or -- one thing I was -- had a note to ask about in this -- in this was if you -- you could have -- you could have a variation between what's actually happening on the ground and what's happening in the calculations. So how and when is that -- is any variation trued up?

MR. HORTON: Great question. I would say it's not trued up retroactively. It's not a capital tracker. So the K-bar -- let's say -- again, just looking at this one example. Let's say we're 20 -- we actually put into service 20 percent more than we say now we will need to. So we actually, in 2026, put into service 355 million.

The K-bar is going to be capped at what it would give at 325 million, that 10 percent. So the K-bar will still function and provide revenue support for whatever that math would say for that rate year. The delta, which is going to be the amount above the cap, plus anything else that's been spent in prior years or not reflected -- because, again, the K-bar is not giving us dollar for dollar. Even under our current projections, without any variability, we're showing we're going to spend more than what's provided in rates. That would all be left to a future rate proceeding, where, just like today, we would come in and present all our documentation to justify the need for an additional increase on a prospective basis only, on a prospective basis. So if, at that point, the Commission said, yes, all additions that we deem that would be prudent and are allowed for recovery, even the $30 million that was in excess of what the K-bar gave us in that year, we would have rates set, prospectively, to get recovery of that.

CHAIRMAN GOLDNER: Okay. And then, just to go back to the baseline. Is the baseline based on this spreadsheet? Is this lockdown K-bar? This is what the Company is forecasting? And then the Company is allowed to spend 10 percent more than what's on the spreadsheet and still be able to -- what I'll call recover within this set of calculations, but if it's over 10 percent, that goes to the next rate case?

MR. HORTON: Lockdown. Lockdown, except to the extent we have some details around bridge modernization investments and co-optimization investments, but it is locked down as of today. We're not proposing that each year we try to adjust that forecast. It's locked down as of today.

CHAIRMAN GOLDNER: Okay. So just to repeat that back, to make sure I understand. So the 2024 number -- it's kind of hard to read, because there's so many, and the print is small. But I think 2024 is 256.

MR. HORTON: Yes.

CHAIRMAN GOLDNER: And that is not yet an actual. Will that be locked down as an actual in the process of this proceeding, or what will happen to that number?

MR. HORTON: Okay. So for purposes of -- I should be -- for purposes of calculating -- hold on.

For purposes of calculating the cap, it's locked down at our estimates. And to the extent the actual K-bar additions come in different, then it will naturally flow through, but the cap is set. The cap is based on our projections as of today.

CHAIRMAN GOLDNER: Okay. And this is something I had -- I didn't participate in the prior rate case, and -- I think it was in this -- in the Eversource prior rate case. But I guess my question would be, why wouldn't the Company just propose the cap? Why -- why the 10 percent thing and we have to do these machinations? Why not just propose what the cap would be, and then, everyone could read -- if you went over that cap, then -- then -- then it gets pushed to the next rate case. If it's under the cap, then it goes into the calculation, easy as pie. Is there any logic for the 10 percent versus just giving us a list of what the cap is?

MR. HORTON: We could certainly convert the 10 percent into a cap. Part of it was -- again, getting into some of the details. Part of it was that we have additional capital spending that's not reflected in these baseline numbers that we're asking the Commission to evaluate as part of this proceeding, which would change that cap. But it certainly would be able to be simplified if we could just calculate what that cap is in each year and have that be a static number.

CHAIRMAN GOLDNER: Yes. Just a moment, please.

And this is a good segue. I think, Attorney Chiavara, you had offered to educate the Commission as early as tomorrow, and if that's too early, we can certainly do it next week, but on this investing that the Company is doing, why is it doing it, technology and grid hardening and so forth, and helping the Commission understand the reason why significant investments are requested, even in a flat revenue environment - --

So before -- I'll just mention, too, that in that discussion, we would also want to know more about the distribution solutions plan and Company-owned solar PV, which I think are separate from performance-based ratemaking, kind

of. I mean, they're proposed in
performance-based ratemaking, but they're, sort
of, not totally connected.
So I just wanted to get the Company's
opinion on how best to, sort of, educate the
Commission on how all this works.

MS. CHIAVARA: Sure. Thank you,
Mr. Chairman. We may need to pull different
witnesses into this, and we may need remote
access for those witnesses, if it's not -- we'll
try to get them in, but we may need to resort to
remote access, if that's possible.

CHAIRMAN GOLDNER: -- of course. Yes.

MS. CHIAVARA: Okay. We'll confer at
lunch and see what it is that we could put
together on those topics.

CHAIRMAN GOLDNER: Thank you. And if
it makes sense to break it into two pieces, one
tomorrow, one next week or something, that's all
fine. We're just trying to get through the list
of questions.

MS. CHIAVARA: Okay.

CHAIRMAN GOLDNER: Okay. So we return

to that topic after lunch.
CMSR. CHATTOPADHYAY: Can I --
CHAIRMAN GOLDNER: Commissioner Chattopadhyay, yes.
CMSR. CHATTOPADHYAY: Conceptually, I just -- I'm trying to make sure I have the concepts right here. So by the time the 2026 PBR goes into effect, you know what the K-bar is, right? And it's being set for that year, correct?
MR. HORTON: I just want to track. So in -- when the K-bar would go into effect August 1, 2026, it would require a filing to be made earlier in 2026, which is going to be based on actual additions for '24 and '25, actual GDP-PI, and then, yes, you would know at that point.
CMSR. CHATTOPADHYAY: And that K-bar ends up impacting the revenue requirement?
MR. HORTON: It ends up -- well, it ends up impacting the total revenues, yes. Yes.
CMSR. CHATTOPADHYAY: As the year goes by, if you end up spending less, what happens? You still have the same revenue being collected,

correct?

MR. HORTON: Right. Yeah. Yeah, so great question.

CMSR. CHATTOPADHYAY: So the impact would be, again, next year perhaps, of lowering the K-bar?

MR. HORTON: That's correct. Multiple -- yeah, right. The actual additions in that year then go into the following K-bar adjustment, correct.

CMSR. CHATTOPADHYAY: So regardless of whether it's more or less, one-third of it is being captured?

MR. HORTON: Correct.

CMSR. CHATTOPADHYAY: Okay. Thank you.

MR. HORTON: And I thought you were heading in a different direction. It's another of the alphabet soup. I thought you were suggesting, you know, you get the K-bar in place. It gives you an assumption of additions at X, and then what if you don't spend X. That's where we have some of these other variables to say, well, if we don't need to spend X, of course, we're not going to.

I think the whole goal of PBR is that we don't spend where we don't need to. It's to try to have the incentives aligned in that way. There are safeguards in place, an earning sharing mechanism, in particular, which would say, if we didn't -- if you got revenue that was in excess of what we needed, that would provide a protection for customers for that.

CMSR. CHATTOPADHYAY: Thank you.

CHAIRMAN GOLDNER: And maybe just picking up on that, that was another question we can just take now.

So can you explain the Company's motivation or incentive to spend less inside of PBR? I'm not sure I understand that.

MR. HORTON: Absolutely. So, listen, I'll say, I'm in the finance organization. Our objective is to spend as little as we need to to run the business efficiently and serving our customers. And I say that, you know, coming from a place of love in serving our customers. We are in the business of serving our customers. It takes a lot of money to do that, but we are motivated to try to do that as cheaply as possible, and that's true under any framework, period.

PBR, though, again, the key thing is it takes away one of our financial levers, which is to file a rate case to increase our levers -- sorry -- to increase our revenues. So that has us being intensely motivated to find efficiencies to maximize our earnings and to maximize our enterprise value and serve our customers as efficiently as we can.

So it really comes from that long-term stay-out. It comes from the ability to earn our authorized ROE by having revenues that provide us enough support to run the business, and to have an earning sharing mechanism, as we're proposing, that allows for some additional sharing of earnings above the authorized level.

I think the science would say an earnings sharing mechanism actually dampens the Company's incentive to operate efficiently. If you didn't have an earning sharing mechanism, the theory would be, well, you're motivated to extract all savings that you can.

Our motivation is to just try to have a framework that lets us earn closer to our authorized ROE and not have to have rate cases every two years. And so that's why we have an earnings sharing mechanism in place as a customer protection, knowing, in our view, it's a necessary component of a PBR, especially a first-generation PBR. It's a lot -- just the depth of detail we're in now, we know this is a lot to bite off. Having an earnings sharing is a catchall seatbelt in case something goes awry, you know, to the detriment to the customers, yet still having the incentive for us to try to earn as much as we can.

CHAIRMAN GOLDNER: And that's the integral calculus I was having trouble doing, because if you're -- I would think the Company would be motivated to -- in terms of making money for its shareholders, would be motivated to spend up to the cap in something like K-bar, which is, of course, a big portion of any change that would happen year on year, and that that would be a greater incentive than the revenue sharing, which the Company only gets 25 percent of.

And so, I couldn't quite do the math, but I would think the incentive would be greater to spend up the cap and no more, and that the profit-sharing piece would be, sort of, not -- not as big an impact.

MR. HORTON: Okay. It was recommended to me at the break that I'm long-winded, and I need to be more succinct and stuff, so I -- this is hard, because this gets me going. I love this conversation.

So this is what I would say. If you think about the notion of gold-plating, which we are constantly faced with, if that were real -- and, look, I'm a Company guy. I'll be the first to admit it. I love Eversource. I love what we do. I don't believe there's any of this happening, but here's why. If we were gold-plating, spending beyond our means, to achieve this notion of growing value or earnings or benefitting shareholders, that's a death spiral that never comes to fruition, because the only way -- so shareholders get what's left in any year. Shareholders are the owners of the Company. They pay out all -- in simplest form, they're paying out all operating expenses of the business. They're left with what's left.

So if we're constantly spending more to quote/unquote gold-plate and spend beyond what we have in revenues, shareholders are never left with anything that's sufficient that's what's left.

If we were spending beyond what we're getting through revenues, we're doing two things. We're decreasing the numerator. We're decreasing our net income, because we have depreciation expense, we have property taxes, we have carrying costs on that capital that's not reflected in rates, so our net income is declining.

And the denominator is increasing, because we have to finance that investment with something. Because just the math says, we're not getting that revenue. It is not sufficient to finance that capital. We have to go get it from somewhere, and we can't just rely on debt. We have to balance our equity and our net.

So the denominator is increasing, while the numerator is falling. So shareholders' earnings are constantly declining. And shareholders, just like any person who is fortunate enough to invest a dollar, is going to look for the best return that they have.

And if we at the Company, as managers of the Company, are giving them constantly declining returns in this pursuit quote/unquote of gold-plating to increase returns, it never happens. You're constantly outspending what you're getting for rates. You never catch up. It just doesn't work.

So I -- I discard out of hand this notion of gold-plating. It just doesn't work. If we were in the business of just maximizing earnings for shareholders, we would stop spending. And that is actually why, when you go back to PBR, in places that have adopted it, they have said, this is our concern. And that's what utilities will do. So they have service quality metrics that come into play that say, let's make sure that service doesn't degrade, that Companies don't do that.

And that gets into a whole, you know, separate part of our discussion on the metrics and performance and accountability.

CHAIRMAN GOLDNER: Let me just ask one, and then I'll turn it back over.

So, in the conventional revenue requirement calculation, the Company is -- many people view it as the Company is motivated to gold-plate, because if you -- you add capital, you get a 7 percent weighted-average cost of capital return on that. That money gets passed to shareholders, and that's the logic that some people use for saying the Company is maybe -- any utility is maybe spending more than it necessarily has to.

I think your case might be that, if you're increasing the amount of assets that you have in your system, then the shareholder actually receives a lower rate of return as capital relates to O&M, because you're only getting -- well, now I've confused myself.

How does that -- I'm just not -- I'm just trying to follow your logic enumerators and denominators and how it fits together, because this is a very interesting and important topic. So please don't let anyone tell you you're long-winded. Take as much time as you need.

MR. HORTON: I think I might be about to engage in an argument with myself.

On the one hand, I think the -- so the notion that we're gold-plating to do what you're saying -- I get it. In the math, you're earning on rate base. So the simple analysis would say, you want to go rate base, so you can earn on that. However, just if we think about that, what that means, if you're constantly doing that, you're never earning. You're never earning, because you're having to grow your denominator to do that. We have to --

CHAIRMAN GOLDNER: When you say "denominator," you mean your asset base?

MR. HORTON: Equity.

CHAIRMAN GOLDNER: You're growing your X, so -- so I can see how that works, yeah.

MR. HORTON: So as an investor, you are the equity component of rate base, right? As an investor, you own the equity.

And so, for us to grow rate base, we need to be able to attract capital in the form of debt and equity to grow that rate base. So in order for us to do that, we have to increase the denominator, which is our equity balance. If our rate base is growing and we're balancing that rate-based growth with equity and debt, the denominator is increasing.

So as an equity investor, I'm sitting there saying, you need more of my money to facilitate this gold-plating pursuit that you're on, Eversource.

Now, as an equity investor, I'm also seeing Eversource's net income decline while this pursuit of gold-plating is happening, because as I'm gold-plating -- and just to be clear for the record, I'm using this as -- we're not gold-plating. The argument is, what's happening is you are -- as you are investing in things that, in this theory, you don't actually need to do; you're trying to pursue earnings. You're degrading earnings, because the second that plant goes into service, we recognize depreciation expense, we pay more property taxes, and we incur interest charges on that, such that the amount that's left over for shareholders has gone down.

That's earnings attrition. That's -- if you want to call it regulatory lag. But it's -- our earnings are declining, at the same time that our equity needs are increasing, in this reckless pursuit of gold-plating, that is causing the return on the equity investment to go down.

So, as an equity investor, if a Company is doing that, I'm telling them to stop doing that, because I'm never getting any -- I'm not getting what's left. If I can earn 6 percent by investing in Eversource in this reckless pursuit of gold-plating, I would prefer to get 6 percent in a safer investment somewhere else, and especially knowing that we are going to be accountable to people like you, who are going to look at that and say, well, you gold-plated; you shouldn't get that money. You didn't need to spend on this whatever, so you're not actually going to get the revenue that you set out to pursue in this, again, reckless pursuit of gold-plating.

So I just don't see that as being what can actually happen, because if you do that consistently, you'll get disallowances, of course, and you will never actually earn that return on equity that you're promising to the shareholders by them giving you their capital.

CHAIRMAN GOLDNER: Okay. Commissioner Chattopadhyay.

CMSR. CHATTOPADHYAY: I think I'll pass. You know, already people are in a lighter mood, I can -- "maybe I will." I won't.

I just wanted to point out, in your testimony, 1408, Bates page 1408, you had said in the end: For any year in which the return on equity is above 25 basis points, the percentage portion that is to be shared with customers would be credited to customers in the succeeding year over a 12-month period.

I think you really meant 25 basis points above the allowed return. Otherwise, this would be great for the Consumer Advocate and me.

MR. HORTON: That's a good point. Yes, that would be the end of my career. 25 basis points above the allowed.

CHAIRMAN GOLDNER: It's too late. We already requested --

CMSR. CHATTOPADHYAY: And I'm not pointing you to -- you later talk about it correctly, so -- but, you know, let's just truncate your testimony here.

CHAIRMAN GOLDNER: So is there any -- just a moment, sir. Just a moment.

Is there any -- Mr. Horton, is there any -- can you just help us walk through the logic of being a subsidiary of PSNH here in New Hampshire to the larger Eversource and how that relationship works with respect to the return-on-equity discussion you were -- you were just having.

MR. HORTON: Okay. Yeah, and that's -- that's a great question. And, of course, as an entity, PSNH does not issue shares to the market, does not trade publicly. That's done at the parent Company level by Eversource.

So, generally, equity investors who are evaluating Eversource stock are looking at the whole Company; whereas, here, we're just talking about the distribution. The same parameters, I would say, would hold true. If Eversource as a stock, or as an investment overall, is constantly degrading its earnings because it is pursuing investments that aren't yielding any return, the same will happen. As investors are looking at Eversource stock, evaluating whether, you know, the Company will be able to uphold its commitments in terms of dividend growth and earnings per share, which is generally how equity investors grade a company, they're going to take into account, will it actually earn what it says it's going to? Will it actually produce the dividends it's going to?

So I would say, although it's a

different conversation, the same dynamic holds as what we're talking about.

CHAIRMAN GOLDNER: Okay. There is -- one the consultants wanted to jump in.

MR. ROS: Hello. Good morning. My name is Agustin, A-g-u-s-t-i-n, Ros, R-o-s, Senior Managing Director of Ankura Consulting and adjunct professor at Brandeis University.

Just very quickly, the difference between the incentive effects between the current system of rate of return, cost of service regulation and PBR. There are very significant incentive effects that the Company -- a Company that goes to PBR has, compared to rate of return regulation.

Rate of return regulation, you're regulating the profits, so the Company is regulated by how much profit they can earn. Price cap and revenue cap regulation, you're regulating the rates that are allowed. Both, if you do them correctly, result in just and reasonable rates.

The big incentive effect is, under

PBR, you're loosening the link between a Company's actual cost and rates. You're loosening it, depending on how the system is developed. It could be a very specific delinking of cost to rates, or it could be less. It really depends on the system.

Whereas, under cost of service, if you're regulating cost of service perfectly every period, there's less of an incentive to cut costs, because those costs have to be returned in rates in the next period.

So a big issue -- or how you evaluate PBR and the incentive effects that occur under PBR, compared to cost of service regulation, I think that kind of -- at a high level, when we were talking about, you know, understanding PBR in general compared to what we have now, I think, you know, that's an important point to add to the conversation.

CHAIRMAN GOLDNER: Thank you. That is helpful. The part that I'm having a hard time moving past is just that, if you're PSNH and the parent Company expects something from you, they expect dollars. They want dollars to flow to the parent. And not at any cost. They're not going to spend a billion dollars to return $10, but they -- the parent Company wants dollars in return.

So I'm just having -- I'm still having trouble, despite the excellent explanations, untangling this business of returning dollars to the parent, and the incentive to do that, and -- and, you know, how that incentivizes the Company to spend less in a PBR environment. So I'm just having trouble connecting the two. Yes, sir.

MR. KOLESAR: Okay. So you're really, I think, trying to express some concerns about, why is the Company not going to be motivated to -- and the term you used was "gold plate." Why aren't they just going to spend as much as they can? Because the revenues that they get that their -- within which they have to run the business are restricted by the PBR formula. So they've only got so much money they can actually work with.

So, the only reason why they would

want to spend capital is -- well, not the only reason, but one of the things that they would want to consider in any decision to invest capital is, does that investment in capital make me more efficient, make me more productive, so that I can earn a greater return, given the limit that I'm under with respect to how much revenue I get.

So, in effect, the incentive to gold-plate really goes away, because there's no upside. There's no upside to me gold-plating. There's no upside to me investing more money than I can recover under the revenue cap that I have to live under. So, in effect, the incentive to gold-plate really goes away.

CHAIRMAN GOLDNER: Yeah, and maybe we're all saying the same thing. I'm just trying to process information. So in the business that I used to work in, we had a 12 percent hurdle rate, so if the investment couldn't meet the hurdle, then we just discarded it, because it wasn't good enough.

And, so, I'm just trying to understand

how that works in a regulated environment, and maybe --

MR. KOLESAR: It's fundamentally exactly --

CHAIRMAN GOLDNER: -- the same, yeah.

MR. KOLESAR: It's exactly the same, but now, their hurdle is gonna be, at least somewhat, dictated by the fact that we've got a revenue cap we have to live under, so --

CHAIRMAN GOLDNER: And wouldn't that result, in theory, in a higher hurdle, effectively? I mean, wouldn't you -- if you had limited dollars, you would choose the best projects, and you would get the highest return.

The challenge in this environment is we have a flat revenue profile.

MR. KOLESAR: Uh-huh.

CHAIRMAN GOLDNER: So I'm just puzzling over this and trying to understand how it works from the Company's point of view.

MR. HORTON: And there's a few -- few differences, too, because, of course, we have an obligation to serve -- we have to serve our customers, and we can't approach each investment as if it's a moneymaker. And that's where I get so passionate about the gold-plating, is because we don't look at, hey, can we make the most amount money.

If you're looking at PSNH, I think you're saying, well, what's to stop PSNH from spending more capital? And I think the parent Company dynamic may complicate this.

CHAIRMAN GOLDNER: And just not to interrupt too much, but -- and how does PBR help? Ultimately, that's what I'm trying to understand, is how does PBR help -- help in this analysis.

Sorry. Go ahead.

MR. HORTON: No. So, number one is, we have to keep in mind, that although some -- if we're talking about, like, making our workforce more efficient, certainly there's an analysis where you could say, wow, that's going to cost me a lot of money.

You know, a good example is -- is maybe not a current one, but AMR meters. You can look at when we went from walk-up meter-reading activities to AMR drive-by meter-reading activities.

You could do a business case analysis -- and we did. We didn't say, we're going to make this investment because it's going to make us more efficient, it's going to lower our overall cost structure, and that's going to help us from a shareholder perspective, and then it's going to help us from a customer perspective.

And we did that investment, without a separate tracker. We did it because it was a way to reduce our overall cost structure.

So some investments we make are like that. Some investments we can't approach that way. So the analogy does fall a little bit short.

However, I think you're asking -- to go back. You're saying, well, what's to stop PSNH from just stop spending more money under the --

CHAIRMAN GOLDNER: Sorry, just to invert that. It's really, what's the incentive to spend less?

MR. HORTON: And I think, if you boil it down just to that, the incentive to spend less is because that's how you maximize your earnings. That's how you achieve the hurdle rate that you're trying to get to.

CHAIRMAN GOLDNER: So maybe said differently -- I mean, the way I was thinking about this this morning was, you're effectively establishing a budget. The Company is asking for freedom to operate within that budget, subject to the usual prudency and, you know, reviews and so forth over time, but to be able to, sort of, operate freely within that budget, so the Company could make game-time decisions efficiently, knowing that a certain amount of spending was allowed; a certain amount of spending, while not being disallowed, would roll over to the next rate case and be more challenging and problematic, and lags, and so forth would enter into the equation.

Is that -- am I thinking about your perspective on PBR? Is that the way you think of it as well?

MR. HORTON: Exactly, because we're taking away -- so if we're spending more than the budget gives us the ability to spend and still earn our authorized ROE; if we agree that our authorized ROE is what we should be earning, that's our hurdle rate.

The only way we can earn our authorized ROE within a year is if we spend under that envelope of the revenues or that budget. And PBR incentivizes us to do that, because it takes away one of the two levers we have to pull. It takes away our ability to come in to you and say, I need more revenues. I have to stay out of a rate case.

So now, I'm incentivized to find any efficiency I can, whether it's through a capital investment in people, processes, or technologies, or a way to do more with less on the O&M side, or what have you.

In order for us to deliver that value to our shareholders, in this case, Eversource parent Company, but it would be the same as if we were independently traded. In order for us to make a compelling case that, no, we're either -- earning the return that you require us to earn, we would have to spend less. We'd have to find ways to operate efficiently. We can't go in and increase our revenues. That's the only lever we have.

CHAIRMAN GOLDNER: And so wouldn't -- trying to find the balance is, obviously, the hard part. Because if the parties were to work together and come back with a settlement, and it was to have -- or massively somehow reduce the spending, the Company's perspective would be, well, I'm leaving a lot of good projects, a lot of projects that would be helpful to the Company on -- I'm having to take those off the table, because I now don't have the budget to do what I feel like I need to do in order to do all the projects that need to be done.

So, first, you have to prioritize the projects, and then you have some kind of cut line. And then below that cut line, then you have all the issues that we talked about in terms of revenue lag and so forth.

So -- and we can save this for after lunch, but really, my question will boil down to the Company's, sort of, optimization algorithm or the optimization process, how -- given you have some kind of budget you just have to deal with, and every Company has a budget that they have to deal with, how does -- what's the Company's process? Because I think this business of the incentive to spend less and how -- how a Company can thrive in an environment where revenues aren't growing is puzzling to me. I'm just trying to understand how that works.

And so, I appreciate the time and the discussion on this topic today, and we can -- we can resume after lunch and pick it up again.

So the action that I have, Attorney Chiavara, was to talk about when it made sense to have this discussion on investor requirements, and so, after lunch, we can come with that.

I'm going to rip people off with 55 minutes, but let's come back at 1:00. We will plan to wrap up by 4:30 today, the normal ending time, earlier if possible. But just so people know, we're not -- we'll terminate somewhere between -- somewhere prior to 4:30.

So off the record, and back at 1:00 o'clock. Thank you.

(Luncheon recess.)

CHAIRMAN GOLDNER: Okay. We'll go back on the record. Attorney Chiavara, I think you had some updates.

MR. KREIS: Mr. Chairman, before you recognize Attorney Chiavara, I respectfully request the opportunity to be recognized myself.

CHAIRMAN GOLDNER: It might not be timely, Mr. Kreis. What is the issue?

MR. KREIS: I would be committing Consumer Advocate malpractice if I did not stand up and renew the objection that I made first thing this morning with a vengeance at this point.

I would really like to know with some clarity what it is exactly that we are doing here. If the Commission truly thinks that keeping faith with its RSA 374:4 duty to keep informed allows all of us to sit here and listen to a self-serving presentation, such as the one we have been sitting through this morning, then I'm just flabbergasted. I don't see where anything in New Hampshire law justifies this.

It's one thing to listen to the facts. It's another thing to listen to sermonettes about what a public-spirited, awesome, selfless bunch of people Eversource is, who would never do anything that reeks of gold-plating or anything else that isn't completely virtuous.

I would like to know what this is. There's gonna be a transcript of this proceeding. These people are testifying, but we don't have an opportunity to cross-examine them. They are not even under oath. This entire thing is improper, and we should all go home right now.

CHAIRMAN GOLDNER: All right.

So I'll just remind you, Consumer Advocate, that the Commission clearly has the right to inquire of the Company regarding its rate case proposals, and the Commission clearly has the right to conduct prehearing conferences to enhance its understanding.

And in any event, no hearing was sought for No. 27,029, and so we will continue.

Attorney Chiavara.

MS. CHIAVARA: If you could -- sir, if you could give me just one moment?

CHAIRMAN GOLDNER: Of course.

MR. KREIS: And while the Company is conferring, let me just say, they should be very concerned about what's going on here, because at the end of this rainbow, if the result in this case is not acceptable, there is going to be a really, really interesting appellate proceeding, and they're going to have to go in the front of the Court and defend what they did here.

CHAIRMAN GOLDNER: Attorney Chiavara -- Mr. Skoglund, yes.

MR. SKOGLUND: Yes. Thank you, Mr. Chair. Chris Skoglund, Director of Energy Transition, Clean Energy New Hampshire.

I wonder if it might just be simpler -- well, not simpler. I make no comment on the Consumer Advocate's particular framing of the issue, but do maybe have another way to ask a similar question.

And if there could be clarity on how the transcript will be used and how this proceeding -- coming at it from a non-lawyer, and actually as an educator, I'm wondering, is this just for the edification of the Commission, how the transcript will be used? Because there have been instances today where it has been referred to as testimony or witnesses, and no one has been sworn in, so it is a little bit unclear as to --

CHAIRMAN GOLDNER: There are no --

MR. SKOGLUND: -- the nature of how this will be used in the future.

CHAIRMAN GOLDNER: No problem.

There are no witnesses. There is -- nobody's been sworn in. This is an interrogatory between the Commission and the Company for its own understanding.

The other parties and participants here today are welcome to stay and listen, and that is not a problem at all, but this is -- this is for the Commission's information, pursuant to 374:4, and we intend to continue. So I appreciate the comments, but we will proceed.

Attorney Chiavara.

MS. CHIAVARA: Yes. Thank you, Chairman.

In regard to making the -- the DSP witnesses available, tomorrow was a little bit of a stretch.

CHAIRMAN GOLDNER: Not witnesses.

MS. CHIAVARA: Or -- they're not witnesses, yes.

The people that would speak to the DSP are not available for tomorrow, but we can make them available next week. Some may be able to be in person, but we would want to reserve the ability to have some of them attend remotely.

CHAIRMAN GOLDNER: Remote participation is no issue.

MS. CHIAVARA: Okay.

CHAIRMAN GOLDNER: I guess my question would be, how does the Company propose to share the information? And would you break it into pieces, or what would be the Company's proposal?

MS. CHIAVARA: The information being

the answer to -- with revenue flat-wise, investment needed in the system?

CHAIRMAN GOLDNER: Yeah, so -- I'm sorry. First things first. So, operationally, please make sure to file a request for the remote participation.

MS. CHIAVARA: Yes.

CHAIRMAN GOLDNER: So, I know you would do that anyway --

MS. CHIAVARA: Sure.

CHAIRMAN GOLDNER: -- but please do.

Secondly, there are, really, three different components to the question. One is the -- to help the Commission understand why the investments are required, this new technology, grid modernization, etcetera, inside the PBR bubble. So whatever is inside PBR to help us understand the need for this investment in a flat-revenue environment.

And then also -- because I believe these are actually connected, but perhaps outside the Venn diagram, mostly of PBR, the Distribution Solutions Plan and solar PV -- Company-owned solar PV, those components, which I think are related to the PBR. I'm not quite sure they're in or not, but that would be good to help us understand what's going on in those three areas.

MS. CHIAVARA: All right. And as far as someone speaking to that today, the President of PSNH Operations, Bob Coates, who is sitting two seats to the right of me, would have some comments today for the Commission if they -- if the Commission would like to hear those.

CHAIRMAN GOLDNER: Okay. That would be great. And then, how would the rest of it roll out? Would we do it next Tuesday or --

MS. CHIAVARA: I believe next -- we're still getting information from the people who would be speaking to those issues. It looks like we may be able to do it by next Tuesday.

CHAIRMAN GOLDNER: Could you do any piece of it tomorrow, or would it all be next Tuesday?

MS. CHIAVARA: We're having a tough time getting -- we've gotten no feedback from anybody for tomorrow.

CHAIRMAN GOLDNER: Okay.

MS. CHIAVARA: But we could speak to metrics tomorrow. There's still a lot of PBR information that we could speak to tomorrow.

CHAIRMAN GOLDNER: For sure. For sure, yeah. I think the earlier we can roll this forward, the better. I wouldn't want to wait until the last day.

MS. CHIAVARA: Okay. So --

CHAIRMAN GOLDNER: So if you can do it on Tuesday, if you could encourage the team to --

MS. CHIAVARA: Sure.

CHAIRMAN GOLDNER: -- rearrange their schedule, if needed, that would be fine. And being on screen is fine, so just -- if you could file a request on that.

MS. CHIAVARA: Sure.

CHAIRMAN GOLDNER: Okay. All right. Anything else on that, Attorney Chiavara?

MS. CHIAVARA: No, that is all. Just the statements from Mr. Coates, whenever you're ready for those.

CHAIRMAN GOLDNER: Okay.

MR. DEXTER: Mr. Chair, before we proceed, the Department of Energy had a housekeeping question.

CHAIRMAN GOLDNER: Of course, please.

MR. DEXTER: So the Procedural Order that was issued September 26th mentioned this is an opportunity for the Commission to ask questions as well as the parties.

We have a consultant on the screen, Nick Crowley, from Christiansen Associates, who has about 20 to 30 minutes of questions planned for Eversource.

Would there be time to do that today, or could we work that into the schedule?

CHAIRMAN GOLDNER: Yeah. No, thank you for that, Attorney Dexter.

Just a moment, please. I want to confer. (Conferring.)

So what I would suggest is the -- at this point, we -- we can take a recess in a little bit and, sort of, sort out the -- that piece of it.

Our intention today was just for the

Commission to ask questions of the Company, and we hadn't anticipated -- I need to go back and read the order myself to see what it says, but that was -- it was just meant to be a dialogue between the Commission and the Company, with everyone, of course, welcome to attend in a public setting. So that was the intention, but let me -- let's take a break in a little bit, Attorney Dexter, and we can confer with Counsel and come back to you.

MR. DEXTER: All right. Thank you.

CHAIRMAN GOLDNER: All right. Yes. Attorney Chiavara, you had a suggested course of action?

MS. CHIAVARA: Yes. I was going to turn things over to Mr. Coates as this point.

CHAIRMAN GOLDNER: Thank you. Mr. Coates.

MR. COATES: Good afternoon. I just wanted to offer a few comments with respect to the comm -- the questions about flat revenues over-earning projects -- trying to drive projects to over-earn.

I want to just have people understand that, while revenue and growth may be minimal, the fact of the matter is, if you look at that across the state -- I understand the statistics. But when you look at regional pockets, there's pockets of heavy growth that we have to address, and those investments are necessary to address the growth piece metroplex in the -- actually, there's several projects that we have where this growth is going on.

In addition, we have lots of projects that are addressing aging infrastructure as a condition of resiliency and reliability.

Again, holistically, looking at reliability across the organization, the entire service territory represents one condition, but there are areas that are struggling with reliability performance, and those projects would be necessary to address.

So my point there is, frankly said, you know, we have more work than we have money, and the idea that we could take and drive one project, just from an earnings perspective, on the PBR or any ratemaking infrastructure, is just not viable with all the work that we have going on.

So there are pockets of low growth and pockets of reliability need, resiliency need, and infrastructure need. And the DSP will discuss that in more detail next week, but I just wanted to share that the likelihood and, realistically, the driver, to just drive projects for, you know, an over-earnings perspective is very, very unlikely.

CHAIRMAN GOLDNER: Okay. Thank you --

MR. COATES: Thank you, Mr. Chairman.

CHAIRMAN GOLDNER: -- Mr. Coates.

So let's return to the topic when we left at break about the Company's operational or, sort of, optimization algorithm that it uses, given it has a finite amount of funding in terms of determining projects.

Is it -- how does it -- what's the Company's process for determining the projects that it works on or doesn't work on?

MR. HORTON: Yeah, I'll start, and

then Mr. Coates can chime in, perhaps from an overall PBR perspective, the margin, and I'll chime in as well.

But -- so I think your question was driving at, what is the cutoff point where the Company snaps the chalk line for needed infrastructure investments. And that's an excellent question. It is not a pure algorithm, as if there's not judgment, you know, consideration taken into account. There's a lot of factors that go into it.

ROE tends to be the measure that at least I look at from the rates' side of the house to say our revenue is sufficient to support the business. So a lot of the discovery that we've been engaged in so far, we're putting out the ROE as a measure of how well the support mechanisms are doing with keeping up with those investments, but it doesn't really get to the question you're asking.

I would say it like this. And, again, Mr. Coates can chime in. We start from a capital perspective with, what are the system needs, which is an effort that's undertaken from the engineering operations, those on the frontline, knowing the system and what it requires in order to keep the lights on and operate safely. And we build a bottoms-up list of those projects that need to be funded.

While at the same time, on the finance side of the CFO, well, of course, we have our budget. We have -- you know, we're -- to keep it simple, if you were to just think of PSNH as a standalone. It has revenues that it knows it's going to recover. It has expenses it knows it's gone to incur. It has requirements to keep sufficient cash flow and targets for earnings, etcetera. But what we're really trying to do is -- and where I think it falls off from other businesses is that, we are starting with a fundamental obligation to serve our customers, and to do so reliability and safely.

So it's typical that the earnings, that ROE as a measure of how well the revenues are keeping up with our needed infrastructure investments, are declining. And that's true in

New Hampshire. That's true in Connecticut. That's true for electric, gas, water. That's just the state of affairs that we're in.

We don't have and are not operating -- and I don't think it would be the responsible thing to do to say, 9.3 percent is our authorized; therefore, we will not fund Project X, because it would put us in a position of earning less than our authorized.

And that's where I get back to the discussion we had earlier, gold-plating. If the motivation was to typically hit the level of earnings, I think the motivation would actually be the opposite. It wouldn't be to overinvest but to underinvest, so you're actually earning, in any given year, a level of return on investment, and that's just not how we approach it, nor do most utilities.

I think -- I don't have a clear and concise answer as to, well, how do we snap that chalk line, because it really starts with what the system needs. In a conversation between Bob, at the lead, and our finance organization, what is basically the -- I guess, the minimum investment that we're able to make and sleep comfortably, that we're going to be able to uphold the responsibility to our customers, while still maintaining our financial viability, and it's not any one metric or any one -- you know, there's a lot that goes into that conversation.

CHAIRMAN GOLDNER: How does the Company intend to over-design? So from an engineering perspective, you know, nobody ever got fired for things working, right, but you -- you tend -- as an former engineer, you'll over-design if you have the choice, because you want to make sure it works, and you get to keep your job, and -- and so you're -- you know, you typically don't design at the margin, and you design with multiple factors of safety, just to make sure that nothing goes wrong.

What's the Company's process for dealing with that, sort of, classic engineering problem?

MR. HORTON: Mr. Renaud, Vice President of Engineering, is going to speak.

MR. CHAIRMAN: Perfect. Thank you.

MR. RENAUD: Hi. Paul Renaud, Vice President of Distribution Engineering. Excuse me.

So the question, you know, how do we prevent over-designing, I think is what you're asking. You know, I look at it as, you know, we -- we need to have a -- we need to design to a minimum to meet whatever criteria we're looking at. It could be safety codes, National Electric Safety Codes. It could be our own internal criteria and -- which we have quite a few of. We'll talk more about it on Tuesday with the DSP discussion, to talk about those types of things, and how we categorize projects.

But after -- once we're doing that, you know, over-designing, to me, is really just eating into things that we -- we would have to trade off. So if we over-design for one thing, we wouldn't be able to work on something else, or do another project or do something like that. So it's somewhat of a waste of capital, so to speak.

So there's that incentive that we have

to keep things, to a minimum, to our criteria. That's why we design criteria, so we know -- so all our folks, our engineers and our operators, know this is -- this is what we're saying is a minimum requirement for us to provide service to customers.

So, you know, we don't want to go above that. We have to justify that. We have processes in place where we justify how we're designing facilities or designing a line or part of the system, and people would challenge that if we tried to go too far.

And, you know, going back to criteria standards, and we know, you know, we have the checks and balances here, that we have to sit down in front of the DOE and Commission and have those same discussions when it comes time to say, this is what we spent money on.

So there's lots of checks and balances that we do think about when we're doing that.

CHAIRMAN GOLDNER: Okay. Thank you. Very helpful.

Okay. Let's take 20 minutes to work

through the legal questions that came up, and we'll return at 20 of. Off the record.

(Recess taken.)

CHAIRMAN GOLDNER: Back on the record. So I'll just remind everyone of the scope of the proceeding today, which is for the Commission's benefit. And I think, what I understood, Mr. Dexter, is that the Department has some questions for the Company that could help us understand the mechanics, understand how the -- how PBR works, and that that would be helpful for the Commission.

Is that the thinking?

MR. DEXTER: Well, yes, I think it would also be helpful for the Department's consultants, that --

CHAIRMAN GOLDNER: Okay. And just -- just maybe I'll add to this, that the -- from the Commission's perspective, given the break with the DOE back in 2021, the Commission doesn't have access to discovery. We can't pick up the phone and call the Company, So this is really our only opportunity to understand, which is why it's great that the parties have some questions for the Company that can be helpful in our understanding? But that all the parties have access to discovery, which the Commission doesn't have. So our time is limited to these four days in terms of understanding how PBR works, the mechanics of it, so we do appreciate the opportunity to learn more from the Department's experts.

So the idea would be today, let the Commission finish the line of questioning. We still have a ways to go, and it will probably drift into tomorrow. As soon as we, sort of, finish with this topic area, then we would turn to questions, and, of course, afford all the parties the same opportunity that the DOE is requesting, just reminding everyone that the idea here is to help the Commission's understanding of the mechanics.

And then we can turn on Tuesday to the separate topic that we discussed, and then sort of follow the same process, so bite this off into kind of two chunks, would be the idea. So that's the -- that's the plan.

So from the Department's perspective, would -- it likely would be tomorrow. It could be Tuesday, if things go long. Would your expert be available on those days?

MR. DEXTER: I believe Mr. Crowley was planning on attending all the sessions to observe the Commissioner questions and the Company's answers, so --

CHAIRMAN GOLDNER: Okay. Thank you, Attorney Dexter.

Very good. Okay. Let's move forward.

MS. CHIAVARA: Excuse me, Mr. Chairman, if I may.

CHAIRMAN GOLDNER: Yes.

MS. CHIAVARA: I guess I was just wondering -- you said covering the mechanics, and so we have some limited staffing issues as far as scheduling goes for tomorrow. Mr. Horton won't be available in the morning, and so I was wondering if you -- if you had slightly more specifics about -- we could certainly talk about metrics and mechanics tomorrow morning, but we might need to be a little bit strategic on the aspects of the PBR plan that we address.

CHAIRMAN GOLDNER: Sure. Sure. The preview of coming attractions is to finish going through the high-level equation, and then talk about the other pieces that were in the testimony, things like exogenous factors and offsets and stretch factors and so forth, so sort of grind through the details to give the Commission the next depth of understanding beyond the high-level equation.

And then after that, we're also interested in what the Company proposed in Massachusetts and what it ultimately implemented. So that transition from what was proposed to what was implemented, and then the differences with what you implemented there -- and I'm talking about PBR -- with what you proposed in New Hampshire and why.

So that transition would be helpful tomorrow. Anytime in the morning or afternoon, I'm sure, would be fine there.

And we're also interested in the

comparative use, which was in the testimony, in the U.S., and I think there's some Canadian data in there as well. So we're interested in that comparative yield at the same time, so, really, the competitive viewpoint of PBR is also addressed to the Commission.

You know, ultimately, we're just trying to understand PBR's benefits, costs, risks from both the Company and the ratepayer point of view, so that's the next piece of it.

And let me check here. What else? We'd like to discuss the record requests, which were quite helpful, and we just have some follow-on questions to those record requests.

And then, you know, ultimately, what we're just trying to get to is the -- you know, assuming PBR is implemented as requested by the Company, how much exactly will it cost? What's the max? What's the min? How does it vary around?

And then, we've talked a little bit about this, but what does the Company -- what do ratepayers get in return? So kind of the highest level of extraction. We were going kind of from the bottom up to try and understand the whole picture, mechanically how everything works, and what the result would be in the end.

MS. CHIAVARA: Okay. All right.

CHAIRMAN GOLDNER: How does that work with your schedule and Mr. Horton's schedule?

MS. CHIAVARA: We can work that out.

CHAIRMAN GOLDNER: You can make that work?

MS. CHIAVARA: We'll discuss it, yes.

CHAIRMAN GOLDNER: Okay. Okay. Let's return to the equation itself and how everything fits together. I think -- I don't know if there's anything else that the Company would like to add to the interest rate and the K-bar before we move on to a different topic, or at least high level. I think we're going to come back to some sub-questions, but if there's anything else that the Company would like to add before move on.

All right. So maybe next, there is a CD, which is .015 when "I" exceeds .2 [sic] percent.

And, I guess, just helping the Commission understand what that is, why it's there, and why it's .15 and not something else.

MR. HORTON: I can start. The consumer dividend, or the CD, is, as part of a performance-based ratemaking framework, a way to share in the efficiency gains over the course of the PBR term with customers.

In our proposal, we have two main facets of that. One is, we've presented evidence that the X factor should be a negative 1.42, but we are setting the X factor to zero. If we had implemented an X factor at negative 1.42, the corresponding PBR rate changes over the intervening period for the PBR term would be greater, because you'd have inflation plus 1.42.

So by setting that X factor to zero, there is an inherent benefit, or sharing in time, with customers out of the gate for that.

The consumer dividend is established at 15 basis points when inflation is in excess of 2 percent, really as a way to say that, in times of lower inflation, recognizing that we've already built in a negative 1.42 stretch factor into the equation, we have less opportunity, knowing the pressures that we have on the business currently, to extract savings when the -- when the revenue support is lower, by function of the fact that inflation is less, than if inflation were higher. And so we're proposing to have a consumer dividend at 15 basis points, only to the extent that the actual inflation is at 2 percent or greater, but I'll ask Paul Eisman [sic] to chime in on some of the --

CHAIRMAN GOLDNER: The follow-on for that is, how did the Company arrive at .15 instead of .2 or .7 or point -- something else? Yeah.

MR. KOLESAR: I actually don't know exactly how the Company --

MR. HORTON: No, I -- I was looking to them for more of the theoretical basis for the consumer dividend, which, if you want, I'm sure --

CHAIRMAN GOLDNER: We would, yeah. We can do that next, yeah.

MR. HORTON: The 15 basis points was really aligned with -- (Conferring.)

CHAIRMAN GOLDNER: Mr. Horton, please proceed.

MR. HORTON: The 15 basis points was a holdover from Massachusetts, which was the established rate there. And, again, there are ways that you can try to quantify, but, again -- and I'll ask Mark and Dr. Ros to chime in. In my view, it's more of an art than a science. And I don't have a methodological basis to establish it shall be this. It's more reflecting, like I said, that we see an opportunity with inflation at 2 percent or greater to be able to extract additional savings and to share them in real-time through the operation of a consumer dividend, and establishing it at 15 basis points was our attempt to try to strike that right balance.

CHAIRMAN GOLDNER: Okay. Thank you.

MR. ROS: I can add some context to that. Earlier, I mentioned about the incentive gains in going from rate of return regulation to price cap or revenue cap. There's to be increased incentives to reduce costs.

In one of the first PBR plans in telecommunications in the early '90s, there was a recognition that there should be something called a consumer dividend, also known as a stretch factor, which is a sharing of these benefits, these efficiency gains, these incentives, the sharing of that immediately with customers. So that when you move from rate of return regulation to PBR, the first cut benefits of that change is going to go to consumers. So that's why it's called the consumer dividend or the stretch factor.

This is on top of the X factor, which -- we can get into the X factor later -- is the productivity of the industry. So the way the equation is -- the revenue equation is written is, it tries to mimic the changes in rates that we would observe in competitive markets. That's why you have this inflation factor, minus a productivity factor.

So in a competitive market, a firm is going to change their rates based on how their input costs change, minus how productive they are in taking those --

So that's the X factor, and we have a study for what the X factor is, which is a Total Factor Productivity study of the industry. But in addition to that, there's this consumer dividend, this stretch factor, which is -- from a public policy perspective, it's a way to share these benefits of the switch -- of the switch from rate of return to PBR, to go initially to the consumers.

The TFP has a long, theoretical, methodological way of being calculated. It's been done many times, not only in regulated industries. The U.S. Government calculates total factor productivity. The OECD calculates it. So there's a well-established methodology of how that's done. Not so for the consumer dividends or the stretch factor. Historically, it's been viewed more as a policy judgment by the regulator in balancing the overall PBR plan, so taking a look at the elements that you're going to prove for the PBR plan provide a certain level of efficiency incentives, and no two PBR plans are the same.

So the stretch factor is using the judgment of the regulator, given this PBR plan, how effective are the incentives going to be, and to kind of guide you in determining whether it should be .15 or .2 or what have you.

What Doug was saying is that, in a sense, the PBR plan of the Company, because we calculated an X factor of minus 1.42, but the Company is coming in with an X factor of zero, implicitly -- a lot of that difference can be considered a consumer dividend or a stretch factor as well, in the sense that it's giving benefits to the consumers. So that was also, I think, a consideration, is, you know, the exact level of what the consumer dividend should be.

And then, finally, I think you had mentioned earlier about interest in what other regulators have done, in Canada, in the U.S., with respect to the stretch factor. We have some -- some benchmarking on that in our report. And, again, this is all judgment based on the regulator, but we see a range between zero and .6, seemed to be typical ranges of stretch factors in electricity distribution.

The last thing I'll mention is that there is also an approach to try to quantify, or help quantify, the consumer dividend, by looking at the Company's costs compared to the industry costs, and we can get into that as well. We put together a econometric cost benching analysis that looks at how Public Service New Hampshire compares in cost to the industry, and that has been used as an additional element in helping one come up with the consumer dividend. So there's a lot of moving parts in how one comes up, and how regulators have come up, in the past, with the consumer dividend.

CHAIRMAN GOLDNER: Thank you. I guess the follow-on question would be, if inflation was 10 percent or 8 percent or 12 percent, .15 is a pretty small number. But if, you know, inflation is 2 percent or 2.2 percent, it's a pretty big number. So I was curious as to why it was a fixed number as opposed to some sort of percentage.

MR. ROS: Yeah, so I think that's right. But if you look at, in the past, some of the telecom consumer dividends tended to be a little bit higher, because TFP coming out of the telecom industry was much higher, because you had a lot of growth. And so that -- that result was holding everything else hostage in higher productivity growth. So you can go back and see a relationship between the consumer dividend at the X factor. That's possible to do, and there is something near to that. But in general, it's been usually on basis points; how many basis points does the regulator add for the consumer dividend, and that could be from zero to 60 basis points.

CHAIRMAN GOLDNER: Thank you. I'm not sure if our microphone has gone mad.

(Discussion off the record.)

CHAIRMAN GOLDNER: Commissioner Chattopadhyay.

CMSR. CHATTOPADHYAY: This is for Eversource. Was there a CD for Eversource in

Massachusetts?
          MR. HORTON: There was, and I believe
I misspoke. So in Massachusetts, the same
consumer dividend kicks in at 2 percent or
greater, and it's 25 basis points.
          The -- similarly, though, in
Massachusetts, we currently do not have an X
factor, although the evidence suggested that the
X factor would be negative, so the same general
construct, but -- and as I described.
          CMSR. CHATTOPADHYAY: So if the
inflation is -- needs to be more than 2 percent
to allow kicking in of this CD, you know, 15
basis points, a question I have is, have you seen
in other places, like, the CD defers, based on
what the inflation rate is? Do you know anything
about that or not?
          MR. HORTON: I think that was a
similar question. I don't have direct
experience. Why don't you --
          MR. ROS: Yeah, I mean, my experience
is that Massachusetts has it. Public Service of
New Hampshire is proposing it. But I personally

have not seen that in other jurisdictions, that the consumer dividend is a function of the inflation rate. I don't know if you want to --

MR. HORTON: What I think was your question, is it -- is your question, should the consumer dividend -- or would the consumer dividend be different at different levels of inflation?

CMSR. CHATTOPADHYAY: Yes. And then, I'm just asking and trying to understand, what's the record in terms of in the U.S.?

MR. KOLESAR: I think the answer to that is the consumer dividend, which is also the stretch factor, is a function of the level of productivity the Company's expected to be able to achieve. So, ordinarily, your stretch factor is an add-on to your X and doesn't fluctuate with the rate of inflation.

The only wrinkle in this plan that's perhaps different from some other plans, and it's basically adopting what's been done in Massachusetts, is it's having the consumer dividend kick in only when inflation is greater than 2 percent.

But the actual amount of the consumer dividend itself is not a function of the rate of inflation. It's a function of the expected growth in productivity that the Company has to achieve under the PBR plan. So I don't know if that helps answer your question.

CMSR. CHATTOPADHYAY: Yes, it does provide some information that's helpful. I had the -- had the utilities, sort of, in Massachusetts, when they proposed the CD -- I should put it differently.

Did the Utility actually propose a CD in its initial filing in Massachusetts?

MR. HORTON: I believe so. My recollection is we proposed it, just as we have here, that it would kick in when inflation exceeds 2 percent, which was ultimately what was adopted.

CMSR. CHATTOPADHYAY: Was the proposal 25 basis points or 15 basis points?

MR. HORTON: 25 basis points. And similar to what Dr. Ros noted. We had, at that time, produced a cost benchmarking study that supported that. Although there is not -- it's not something, as I understand, that you point to and say, this is the number that it should be. There's ways to confirm that it's a reasonable amount.

But can I just confirm one thing with Dr. Ros? I just wanted to ask him a question.

CMSR. CHATTOPADHYAY: Absolutely.

MS. BOTELHO: And I have an answer to your earlier question. You asked, like, are there different consumer dividends at differing levels of inflation.

Eversource didn't adopt this in Massachusetts, but National Grid did have a consumer dividend that changed, based on the level of inflation. So I believe Mr. Kolesar had in his testimony -- it's Table 8. It's Attachment ESMK-AR-1 on Page 28. I don't have the Bates number, but it's Table 8, that shows a comparison of the X factors adopted for Eversource, NSTAR Electric, National Grid. There's Quebec, Alberta, Ontario, and Hawaii.

There's different comparisons of the stretch factors for consumer dividends in those cases.

CMSR. CHATTOPADHYAY: So were there CDs -- or are there CDs in some jurisdictions where you don't have any such cutoff for inflation?

MR. KOLESAR: Yes. If you go to -- in the joint testimony that Dr. Ros and I provided -- I'm not sure what the exhibit number is. There's probably not an exhibit number. It's 01891. If you go to Page 29, it -- there's a table there that provides the consumer dividends for a number of fairly recent PBR plans.

CMSR. CHATTOPADHYAY: Thank you.

MR. KOLESAR: And in addition to that, there was a recent decision in Massachusetts for Unitil that also adopted a consumer dividend that only kicks in when inflation is greater than 2.

CMSR. CHATTOPADHYAY: Thank you.

MR. HORTON: And if I could just add the -- so the 15 basis points in Massachusetts is in place for the NSTAR gas, not electric Company. And we're just looking up -- just to correct what I had said. We had originally, in the NSTAR Electric case, proposed 15 basis points when inflation was 2 percent or greater, and then, through the course of the proceeding, updated that to 25 basis points. I just don't recollect why.

And the last point I just wanted to -- which I know you'll understand, but we are talking about just the bandwidth between 2 percent and 5 percent. Because in the event that inflation were 10 percent, effectively, by capping inflation, you're giving -- you know, I would say that's an additional consumer dividend of whatever the amount is above the 5 percent cap.

CMSR. CHATTOPADHYAY: Except that -- that 5 percent cap doesn't apply to the K-bar.

MR. HORTON: Correct.

CHAIRMAN GOLDNER: I just need help with some simple math. So I think the effect of the Company's proposal, based on the current revenue requirement, the proposed revenue requirement, would be about $800,000. Is that -- can somebody please check my math. I may have dropped a zero or two. I think I took 15 basis points of 525. I get roughly 800,000, but I just wanted to check to make sure I understand the size of the breadbox here.

MR. HORTON: That's what I'm coming up with as well.

CHAIRMAN GOLDNER: Thank you. Okay. So that's -- in the current proposal, that's, you know, just roughly $800,000. Okay. I'm just trying to track all the numbers.

Okay. I think we can move on to the earnings sharing adjustment factor, if somebody could kind of walk us through how that works and what the max and min is on that.

MR. HORTON: Yeah, I can start.

Mechanically, the way the earnings sharing mechanism is proposed to operate is that, when our actual earned return on equity exceeds the authorized return on equity by 25 basis points or greater, the earnings sharing mechanism would kick in. And for each dollar above that threshold, we would share the earnings above that threshold, 75 percent with customers, 25 percent with the Company.

CHAIRMAN GOLDNER: Okay. Very good. And how does that compare to Mass.?

MR. HORTON: In Massachusetts, it's the same, except that the debt band is 100 basis points. So in Massachusetts, earnings sharing will kick in when earnings have exceeded 100 basis points above the authorized amount.

CHAIRMAN GOLDNER: Okay.

Commissioner Chattopadhyay, any questions on that aspect?

CMSR. CHATTOPADHYAY: No, I think I'm all set.

CHAIRMAN GOLDNER: And there's no -- no max on that. It just goes to infinity. If the Company makes 20 percent, then it's 75/25. It's 20 minus whatever the rate of return was, and then you just -- the Company keeps 25 percent, and the ratepayers get 75 percent. There's no cap?

MR. HORTON: Correct.

CMSR. CHATTOPADHYAY: Just out of curiosity, again, was that -- was what you shared about Massachusetts, that was your initial proposal, or that was --

MR. HORTON: Great question. If memory serves, so the Massachusetts PBR, we're in our second iteration. So the original performance-based ratemaking was in a docket from 2017, which is going back a bit. But if memory serves, we had proposed a larger debt band in tiers in that case, if I recall, which was really a legacy from PBR that had been in place in Massachusetts from decades prior.

So my recollection is, we had proposed to have different tiers of sharing and broader debt bands above the authorized. Ultimately, the Department, in that case, if I recall, established the 100 basis point threshold, and then 75 percent to customers, 25 percent to the Company thereafter, which, in this proceeding, I believe we just proposed to continue.

And it is asymmetrical. There's not a sharing that kicks in if we were to under-earn.

We do have a proposal in the proceeding, only in the event that our PBR is extended to a next term, but we're not proposing that there's an automatic earnings share on the downside here.

CMSR. CHATTOPADHYAY: Do the consultants have anything to say about ESM, how it's used as part of PBR, generally speaking? And I'm looking at -- I'm trying to understand what is the reality in -- in U.S. mostly.

MR. KOLESAR: I'm probably more familiar with the Canadian context. The U.S. context is pretty much limited to Massachusetts, and we pretty much heard that the original plans that were adopted in Canada generally didn't have an earnings sharing, because the expectation was that earnings sharing would blunt the incentives for the Company to find all of the efficiency gains that they could, recognizing that consumers benefitted in two ways.

One, it would benefit by the fact that the prices that they were paying would be capped for the entire term. And then they would ultimately benefit at the end of the PBR term when the costs and revenues were relinked, and at that point, everything would be rebased, and the efficiency gains that the Company would have achieved during the PBR term would then flow through and be accounted for when you reset rates at the commencement of the next PBR term. So those initial plans didn't include any earnings sharing. The most recent plans in Alberta do actually have an earning sharing mechanism.

So, depending on what the Commission wants to achieve -- the Commission, obviously, has latitude with respect to what their objectives are and what kind of a sharing they want to include and when they want that sharing to actually occur.

So, different regulators sometimes take a different approach to whether they're going to put earning sharing into a plan and what the structure of that earning sharing should be, based on what they ultimately want to achieve.

CMSR. CHATTOPADHYAY: If you remember, what is the sharing mechanism in Alberta?

MR. KOLESAR: I have that somewhere.

Just let me find it.
In the current plan, there's a
symmetrical earning sharing mechanism with a debt
band of 200 basis points, so the earning sharing
only kicks in when the ROE is 200 basis points --
200 basis points above the approved ROE. And
then, between 200 basis points and 400 basis
points above the approved ROE, the Utility
retains its 60 percent, and customers receive 40
percent. And above 400 basis points above the
approved ROE, the Utility retains 20 percent and
customers keep 80 percent.
So it's a very different perspective,
and I would suggest that the perspective, at
least in Alberta, leans toward maximizing the
incentives for the Utility to find all the
efficiency gains that it can, so it's going to be
fairly immediately rewarded for that. And then,
of course, when you get to the rebasing, a lot of
those efficiency gains ultimately flow through.
So it's -- it's just a different
perspective on what the Commission's trying to
achieve there with respect to its PBR plan. It's

not what the Company currently proposes here.

CMSR. CHATTOPADHYAY: Thank you. I'm all set.

CHAIRMAN GOLDNER: All right. And then the final variable in the main equation is the exogenous cost adjustment, Z.

MR. HORTON: And so that is a mechanism that is to be rarely used. It would be an adjustment that would need to be based on some, like, discrete triggering event, a change in tax law, a change in regulation that requires us to do something that's not reflected in our cost basis or otherwise, you know, accommodated through the mechanism, so it's not something that we expect to be using frequently. But it would be an event where, if there's a tax change, a federal change in taxes, to me is the perfect case, our rates have been set assuming 21 percent, and if rates -- corporate tax rate is adjusted to something other than that, like it was a few years ago -- it went to 35.1. To me, that would be the prime example of an exogenous event.

Others could be if there's a specific, you know, piece of legislation that requires a pole replacement plan, to a level that doesn't exist today, it would be a discrete triggering event that has a cost associated with it, that exceeds a level of materiality, we would then propose to have an exogenous adjustment.

We determined the level of materiality based on -- there was previously in New Hampshire an exogenous threshold set at a million. We applied inflation to that over the period of time since that was established, which got us to roughly 1.3 million, and then we rounded up. So our exogenous threshold is one and a half million. If we have a triggering event that results in a cost change, up or down, of one and a half million or more, that would then cause us to submit a filing, requesting a cost change, up or down, of the full amount. If it's a $1.8 million item, credit or cost, we would seek to credit or collect that through rates.

CHAIRMAN GOLDNER: Okay. And then, we'll talk more about the inner workings of your

DSP and your Company solar PV, but where can we find that in the equation? Where does that investment show up?

MR. HORTON: Yeah, so it's -- that would simply be if -- and there are -- going back to the K-bar calculation, it would show up there. The way it would show up is, right now, when we talked about the capital forecast of our core investments, we're setting that, not taking into account two general categories of capital, but we're calling grid modernization as one, and then co-optimization is the other.

The grid modernization capital investments, which are outlined in our DSP, are certain resiliency, reliability, enhancements, Company-owned solar.

And then the co-optimization, we have a couple of examples on the horizon. Again, it's not often, but the idea would be that if, through this proceeding, the Commission agrees that we should be pursuing both categories, being the grid modernization, including those Company-owned solar addition and co-optimization, we would simply be adjusting the way the cap is applied to allow for those infrastructure investments to work their way through the K-bar mechanism, just like anything else. Whereas, today, we're not intending to move forward with those and incorporate them into the cap to be calculated. To do so would require an adjustment to the cap. And then they just naturally look through the K-bar piece of this.

CHAIRMAN GOLDNER: Okay. That was complicated, so I'm going to see if I can just make sure I zero in.

So I think that both the DSP and the Company-owned solar and, really, all capital investments, I think what you said, was that's it's all captured in the K-bar -- in the K-bar analysis. So everything is in there. There's nothing that falls outside the K-bar analysis?

MR. HORTON: That's correct. Except that -- well, I'll try to say it more succinctly than I did the first time. I apologize.

So the idea is that we have a base capital expenditure forecast, which does not reflect the grid modernization investments or the co-optimization investments. It's not reflected in the capital forecast that we have based our K-bar calculus on.

CHAIRMAN GOLDNER: But the actual investment would be subject to the same limits of your K-bar calculation, or the K-bar would increase, depending on the Company's investment in those two areas?

MR. HORTON: So if we get the green light through this proceeding; that, yes, we want to move forward with grid modernization investments and the co-optimization investments, which are not currently in our forecasted capital, then we would do that. We would move forward with that -- with those costs, those -- the revenue support would come through the K-bar. There would be no other tracker or other change.

All that I'm saying is that the cap calculation for the K-bar, which is based currently -- and we talked earlier about the fact that our current forecast, we're snapping the chalk line on that right now. It won't change.

But the forecast that we provided in Exhibit ES-DPH-2, that's where we calculate -- you had asked earlier, couldn't you have just given us a straightforward calculation of the cap? We saw -- we actually did that in ES-DPH-2. That doesn't include those two categories of costs.

So the cap right now is set. It's set at a level that doesn't include those. If we were to move forward with these categories of costs, we would simply be adjusting the cap to reflect those categories of cost, so that we wouldn't be, basically, spending above the cap and not have the revenue support for the spending above the cap.

CHAIRMAN GOLDNER: Okay. That's helpful. And then, what would be the process from the Company's point of view of -- for moving forward with any of those projects that are currently outside of the K-bar cap?

MR. HORTON: So for co-optimization investments, again, we see -- we're aware of two opportunities currently. And what we would intend to do is notify the Commission that we have -- because these are customer-driven projects, largely out of our control, requires the customer to engage with us.

CHAIRMAN GOLDNER: Is this, like, Manchester Airport? I kind of remember the filing. Was this one of them, or no?

MR. HORTON: Yes.

CHAIRMAN GOLDNER: Yeah, we're just trying to understand, what is a co-optimization project? And there were two mentioned, and if you could just remind us what they were.

MR. HORTON: So it's the -- Mr. Renaud can --

MR. RENAUD: Yeah, one of them was Manchester Airport. The second was the Northern Reliability Project, which these are associated -- these are projects that are associated with customers who want us to do something, but we can go further and further other objectives and serve better other customers, not just the direct customer that's asking for the service from us.

CHAIRMAN GOLDNER: Okay. So when you say "co-optimization," that means that some of the costs are, sort of, paid for by the customer, and some are paid for by the Company, and, therefore -- but you're not including it in the K-bar, so that would be a separate process that would be pursued in order to move forward with those projects?

MR. HORTON: What we would do is, when one of these projects comes to fruition, and we have a customer-driven request, we look at it and say -- to benefit the overall system, not just for this customer, but there's an opportunity for us to co-optimize investment, which will benefit other customers, and wouldn't be appropriate for us to charge all those costs to a single customers.

The cost of that co-optimized investment isn't currently in our forecast, but it could be material on its own.

CHAIRMAN GOLDNER: It may be a question for Mr. Renaud. The -- so what kinds of costs are paid for by the Company versus what kinds are paid for by the customer? We're just trying to understand what this co-optimization really means from a physical perspective.

MR. RENAUD: We would look at what it would take to fulfill the direct ask of the customer. So in the Northern Reliability, you know, if we had to build a line over to the customer, that would take X amount of dollars. If we built it a little bit bigger, a little farther and served other customers, created a tie, in that case, that would serve other customers, there'd be more capacity built into it that the customer doesn't need, but other customers, including the co-op could use. That would be -- that wouldn't be charged directly to the customer. That wouldn't be right for the customer to pay for that.

CHAIRMAN GOLDNER: I see. So, sort of, the minimum -- what -- the minimum required is paid for by the customer. Anything over that, to enable more opportunities for the Company and more revenue, potentially, would be -- would be in the Company or ratepayer bucket?

MR. HORTON: That's right. And what we would envision is, as this is happening -- again, if it's accepted as proposed -- we would notify the Commission, as one of these customer projects -- customer-initiated project is coming to fruition, that this is now coming, and we expect that we would submit an informational filing with the Commission to notify them as we get more information on the timing, the scope, and all of that.

CHAIRMAN GOLDNER: So would the Company be seeking pre-approval on such a project?

MR. HORTON: So -- no, we're not seeking pre-approval of any of the investment. There's -- all the investment that will flow through the K-bar mechanism will be subject to a prudency review at our next rate case.

All we're asking for here is, although it's complicated, at the end of the day, the K-bar and the I minus X is giving us an envelope of revenues, a budget to run the business.

Right now, that budget is being

capped, because we haven't included these co-optimization expenditures or grid modernization expenditures. So the cap is not contemplating these things happening.

With both of these categories, the grid modernization and co-optimization -- we're talking about just the second right now, co-optimization. If it were to be allowed as proposed, all we are envisioning is that the K-bar cap would be adjusted to basically let the revenues flow through the mechanism -- let the cost, I should say, flow through the mechanism.

We're not looking for pre-authorization to go ahead and do anything. We're saying that we have an opportunity, and it's going to cause us to spend, whatever it is, 30 million more than we thought we would. It's not reflected in our base capital spending plan.

So when we come to do the K-bar calculation based on actuals, we would adjust the cap to reflect that there's $30 million of capital additions that we didn't have in our base plan that we're snapping the chalk line on now.

That's really what we're talking about. All that investment be subject to later -- future prudency review.

CHAIRMAN GOLDNER: Okay. Can we just play that moving forward quickly. So, let's say it was in two years. I think what you're saying is, the Company would come forward in its annual filing, and inside of its PBR annual filing, the Company would -- the Company would ask for -- request an increase in the K-bar, based on the work that it had done to figure out how much the project would cost, and the cost sharing and so forth.

And then -- and then, what would be the review process? Would it be something that the Department and the other parties would review before hearing? Or how would that adjustment in the K-bar actually be made? What would be the process for that?

MR. HORTON: So, great question. I think, if we go back to -- we were trying to work through what the cap is in a given year, and I can remember we said the cap was like 325 million. So in that year, the forecasted expenditure was 295 million. 10 percent above that would say that the K-bar cap was at 325.

So let's say that's the math that we're working with. We come out of this case, and in that year, the K-bar cap would only let 295 million base go through, up to the 10 percent cap, so 325 would be capped out on the K-bar.

And let's say that we had a $50 million co-optimization project come to fruition. As soon as this happens, our plan would be to notify the Commission and, certainly, the docket participants, that this development has happened, and here's -- we have this, now, project that we would like to move forward with, and would be treated under the K-bar, as I'm trying to describe, and it's $50 million.

So, now, we would come in -- and let's say, we all otherwise spent the 295. We were not otherwise over the cap. We were at 295. We spend the $50 million for this co-optimized project, which would put us at 345. So on its own, that would put us above where we had forecast and above the 10 percent cap of 325.

What we would be doing is, we would be having an exception to the cap, to basically say, well, the $40 million co-optimization project put us over the cap, so we're going to exclude that from the cap's component, and then let that 40 million naturally flow through the K-bar calculation, as if there wasn't a cap on that piece.

It doesn't say that we're uncapped and there isn't the rigor or cost control necessary to get recovery, but it would allow for the revenue support, through the K-bar, to recognize that we have an additional $40 million, in this example, of valid capital additions that shouldn't be capped out.

CHAIRMAN GOLDNER: So, I'm not sure I understood the math. Let me see if I can repeat it back, and I think I'm repeating it back wrong.

So the 295, which was your base, and the 325, which was the plus 10 percent, you added 50 to the 295, so you get 345. Would you come in and request 20, the difference between 345 and

325? Or -- I think you might have said there might be some sort of special, off to the side, process as -- I'm just not sure I understood what you were saying.

MR. HORTON: I think -- I don't know the process here, and I know that there's a lot of discussion on that. So I don't want to overstep bound. I think it would really help if we could do an example to show, because what I'm trying to convey is not a separate process or special process.

If the example I'm trying to lay out were to happen and there was no exception, we would have moved forward with this project, not in our plan today, and we would then be over the cap and capped out, is the term I'm using. So the K-bar would provide less revenue support.

And what we're saying is, while we think it makes sense, and we hope the Commission would find value in us moving forward in these projects, but they're not reflected in -- right now, we're snapping the chalk line on the forecast, and these projects aren't in them.

So, really, all we're trying to do is to say, you would do the calculation, so that we wouldn't be capped out on this project. You'd still only reflect, you know, one-third in the K-bar formula, but it's just that the math that would lead you to the K-bar adjustment wouldn't be capped out for that one component.

CHAIRMAN GOLDNER: Yeah, I think it would be very helpful to have an example for that on Tuesday, because I think this is all sort of related.

MR. HORTON: Yes.

CHAIRMAN GOLDNER: Anything that's outside -- so K-bar, the way that we read it the first time, I was thinking, okay, well, there's a fixed number. That's easy to understand what the limit is. Maybe just increase it to the limit instead of having a 10 percent thing. But, in any case, easy enough to understand.

But then, if there's this other process coming on top of it, how exactly does that work? I think it would be probably interesting for everybody, but certainly for the Commission to understand, you know, how the process would work, not only from a numbers perspective, but also from an annual filing and this kind of thing. We would just want to know more about how this -- how the Company is proposing that it works.

Commissioner Chattopadhyay, I think you had a question.

CMSR. CHATTOPADHYAY: Yes. Going back to the discussion on exogenous costs. I'm reading from your testimony, and Bates page 1420, it says: Currently, there are two matters that could trigger the exogenous events recovery mechanism.

And you talk about costs to implement functionality related to the PUC 2200 rules governing municipal aggregation and the New Hampshire statewide data-sharing platform.

I think when you were describing it, you talked about the change in tax codes. You also mentioned something about legislative changes, if I heard it correctly. You're probably describing the legislative changes piece here or -- I want to understand this piece a little bit more. So those two things can potentially be the exogenous cost in the future?

MR. HORTON: Yes. It would be a federal or state tax change or regulation, a change in law that has a cost component to it, or an act of the Commission are, generally, the types of things we're talking about. Things that are discrete events that impose an activity on us that's comes with a cost, that's not reflected in our rate.

So those are examples where there's the potential for us to need to incur additional cost in support of the two examples you mentioned that's not otherwise going to be incurred by us. It's not otherwise reflected in our rates. So if there's a triggering event like that that has a cost component that exceeds the materiality threshold, then we would seek to recover that cost for that activity.

CMSR. CHATTOPADHYAY: And you also have net metering and energy efficiency programs in the same bucket, sort of?

MR. HORTON: Correct. And to be clear on that, because we're proposing to not implement revenue to coupling and proposing to eliminate the loss-based revenue calculation for energy efficiency in net metering, the exogenous trigger for those activities would only be if the programs themselves expanded in scope. So if there were some change in legislation or regulation that changed the size of those programs, that would trigger the need for -- it would trigger -- make the loss-based revenue exceed that threshold, then it would result in us making a proposal, and, again, it would be subject to the scrutiny of the Commission, of other stakeholders.

This isn't to try to be a catchall for things that just happened. It's an isolated event that couldn't be foreseen that would be material. We're trying to just allow for the PBR plan to continue and catch things that would be material on their own.

CMSR. CHATTOPADHYAY: Thank you.

CHAIRMAN GOLDNER: So I want to return -- we didn't quite get all the way through K-bar before the gory details so that we wouldn't want to pass up the opportunity to go through all of that. I'm on 1436. We'll come back to that in a minute, but a couple of other high-level questions.

In the big picture, I think PBR replaces -- my question is, does it replace loss-based revenue in its entirety at the Company, or are there still some pieces of that that remain?

MR. HORTON: So, no, it replaces -- we're proposing to eliminate loss-based revenue with the implementation of this plan. There are times where there's like a lag period, where we need -- the rate may stay in effect longer, because there's a period of recovery that extends -- it's for a prior term, but extends beyond.

So that, I would need to refresh my memory on those specifics. But with the implementation of new rates in this proceeding, we are proposing to eliminate loss-based revenue going forward, again, unless there's an exogenous rate-based event.

CHAIRMAN GOLDNER: Okay. And so, this is just a reconciliation, is what you're saying there might be on that?

MR. HORTON: Correct.

CHAIRMAN GOLDNER: Okay. And the Company never had coupling, so there's -- it's not proposing decoupling. It's eliminating loss-based revenue, and all of that gets replaced with PBR; is that fair?

MR. HORTON: And we have -- as part of our prior Settlement Agreement, there was a commitment to have a decoupling proposal. So we have honored that commitment, but we are proposing to not implement that. But there is a proposal -- in fact, there was an element of our filing that includes decoupling, should the Commission seek to move forward.

CHAIRMAN GOLDNER: Okay. Thank you. And just to summarize this long conversation, before we just go back to finish up on K-bar.

I have tried to add everything up as

we went through this. I believe that in, at least, Year 1, the inflation would be about $10 million. The CD is pretty small, less than a million. The K-bar would be about 20 million, if we average, if we said -- the double is 42, but it's basically 20 million a year, if we even it out.

And so, if we assume no exogenous events, which it sounds like is probably a bad assumption, because there's four projects that the Company has highlighted, but if we assume none, then the increase, sort of, on average over the course of this -- over the course of this, you know, rate case would be about 30 million a year; am I in the right ballpark?

MR. HORTON: Yes.

CHAIRMAN GOLDNER: Okay.

MR. HORTON: The exogenous, I just -- I'm getting fine, though, the -- I mean, I don't have an expectation of exogenous. Again, those are trapdoors. I know I was confusing matters, and I'm talking about the co-optimization. Those wouldn't be an exogenous event, not as we proposed it.

So I think, in the supplement to the response where we provide the example, we can better articulate how we are planning to account for co-optimization and grid modernization. Those wouldn't be in the exogenous category. That would truly be, again, a discrete, unforeseen circumstance that happens at some point in the future.

CHAIRMAN GOLDNER: Okay. So difference -- thank you for that. So exogenous events are things like tax law changes --

MR. HORTON: Right.

CHAIRMAN GOLDNER: -- and changes in the law and so forth. That's -- that's what you're -- that's the category.

These -- let's call them opportunities, for grid modernization, co-optimization, would fit squarely inside the K-bar scheme, though, it's not included in the Company's forecast here.

MR. HORTON: Yes.

CHAIRMAN GOLDNER: Fair enough?

MR. HORTON: Yes.

CHAIRMAN GOLDNER: Okay. Thank you. Okay. And I keep promising to get back to K-bar, but I can't quite get there.

On grid mod, is there anything different about that than what you described in the co-optimization projects and the way that it works inside K-bar and so forth?

MR. HORTON: Effectively, no, except that it's Company driven, rather than customer driven. So the way that we would handle it mechanically would be the same. The way that it would work -- again, we can describe this -- it's not dependent on a customer's decision-making process, so there's -- but, mechanically, it would be the same.

CHAIRMAN GOLDNER: Okay. And then, I'm not quite able to follow, back on Company-owned solar and DSP. Where, again, did that fit in? I must have missed that.

MR. HORTON: Well, simply -- take a step back. You know, you were asking around, well, how do we get into our decision-making

process? How do we ensure we don't
over-engineer?
The DSP -- and the panel that will speak to it more fully, will do much better than I.
But the DSP was our attempt to explain that with our initial filing, so it's a holistic approach to how do we plan for the distribution needs on the system, which all feeds into our capital plan, which is part of the K-bar, right.
CHAIRMAN GOLDNER: So it is -- you said before, and I think I just -- it's getting late in the afternoon. It's embedded in the K-bar, so both community-owned solar and DSP are embedded in your K-bar already?
MR. HORTON: The DSP is a comprehensive document that includes our core capital planning. It references as well the co-optimization investments. It references grid modernization investments. It references Company-owned solar. So all those things are outlined in the DSP, including how we plan for all those things.

The K-bar is fashioned after the capital reflected in the DSP, but only the core capital. We didn't try to -- the K-bar right now -- the cap, effectively, doesn't take into account grid modernization investments, which wouldn't be pursued in the absence of a green light to do that. And the -- including the Company-owned solar. And it also doesn't include and reflect the co-optimization investments.

All this we can better describe in writing, because I know I'm not doing well right now.

CHAIRMAN GOLDNER: No, no. This is actually very helpful.

So, basically, the co-optimization, the grid mod, and the Company-owned solar are subsets of the DSP? The DSP is the overarching --

MR. HORTON: Yes.

CHAIRMAN GOLDNER: Okay. And then, so you've got pieces inside the DSP, these three pieces, and maybe there's some other little chunks in there, that are not part of your currently proposed K-bar, and what you're highlighting to the Commission and the parties is that that's -- that's not in your K-bar, and that that is, you know, a process that needs to be, sort of, fully fleshed out.

MR. HORTON: Exactly. And it's just simply that, in the absence of a K-bar that's adjusted to accommodate those investments -- that's all it would be, is an adjustment to the K-bar. In the absence of those -- that adjustment happening, these projects would be de-prioritized, wouldn't be pursued in the short-term. That's it.

CHAIRMAN GOLDNER: Okay. Okay. Thank you. That's very --

Commissioner Chattopadhyay, any follow-up on those topics?

CMSR. CHATTOPADHYAY: No. Thank you.

CHAIRMAN GOLDNER: Yes, let's take a quick break. We'll come back at 5 till, and then we'll wrap up today somewhere between 4 and 4:30. Off the record.

(Recess taken.)

CHAIRMAN GOLDNER: We'll pick back up -- back on the record -- with, sort of, the rest of the PBR plan. There's a couple of areas that we haven't covered. Some of them might be easier than others, but maybe the Company can just go through the term and stay-out period and the Company's proposal on those.

MR. HORTON: Yes. So, the term would allow for three PBR adjustments, so August 1, 2026, '27, and 2028, so that the earliest we could file for a rate case with new rates effective August 1, 2029.

We did, in response to Puc 3, though, present an alternate framework. Not to get too far, but that framework had a K-bar adjustment taking effect commensurate with affirmative rates in this proceeding in lieu of what we have proposed in our original filing, which was to have permanent rates include 2024 investments as well.

But, effectively, that's the idea, is that you have a PBR framework with a stay-out of four years. Earliest that we could file a rate case, August 1 of 2029.

CHAIRMAN GOLDNER: Thank you. And then, there's the sort of follow-on where there's a proposal for, sort of, a continued -- continued process. How would that work?

MR. HORTON: By December of 2028, we would submit a request to the Commission to extend the PBR term and ask for the Commission to rule on that within 60 days, such that, if the PBR could be extended for another four years, we would then be able to make a subsequent PBR and K-bar filing on August 1, 2029. Or, if not, if it's decided to not extend, that we would be in a position to file a rate case for temporary rates effective August 1, 2029.

CHAIRMAN GOLDNER: So this process, this extension process, would be, sort of, independent of it rate case filing? It would be just a separate -- a separate process?

MR. HORTON: It would be a separate process, and, you know, if the request were made, it would be in lieu of a rate case filing.

CHAIRMAN GOLDNER: I see.

MR. HORTON: It would be essentially saying, we have a four-year term, and from our perspective, it's working. Our revenues are sufficient enough for us to continue with this framework, and so we are asking the Commission to extend it another four years. Or, in the alternative, since the plan would expire and the PBR wouldn't continue, we would be in a position to file a rate case for temporary rates, August 1, '29.

CHAIRMAN GOLDNER: So, really, the Company would inform the Commission, I think you said 2029, whether you were going to -- whether you would request a continuation PBR or not. Either way, I guess you would file. And if you requested -- I guess in both cases, it would follow with a rate case, or how would it work?

MR. HORTON: No, if on the one hand -- if we don't extend, then we would be filing a rate case for rates effective August 1st, 2029. So sometime in early of 2029, we would -- there would not be a PBR filing, because the term will have expired. We will instead file, just like we are today, a rate case for temporary rates effective August 1, 2029. That's one scenario.

If, though, the PBR revenues are keeping pace and we don't see the need or value in filing for a rate case, we would submit a request to the Commission -- after working with the DOE and the OCA, to incorporate any feedback that we can, we would submit a request to the Commission to continue the PBR for four more years.

And that would mean there wouldn't be a rate case filing. It would just mean that on August 1, 2029, no rate case filing. We would propose -- just like we would have for August 1, '28, '27 and '26, we would have a PBR and K-bar adjustment that would go into effect August 1, '29.

CHAIRMAN GOLDNER: Okay. Thank you. All right. That's clear.

All right. Now, at long last, we can go back to K-bar and wrap that up. I know there were a lot of details that were in the middle of the spreadsheet that we were hoping to go through.

And I'm on 1436, and I think that was at least the starting place.

MR. HORTON: Yeah. Do you have a question, or how would you like to proceed?

CHAIRMAN GOLDNER: It was just really -- we went over the big picture, I think, on Lines 12 through 16 and how that was calculated. And then we went to the bottom of the spreadsheet, and we looked at the deltas, and you explained how that worked, on Lines 53 though 56, and that made perfect sense. I'm just trying to understand what's in between, and how should we think about that.

MR. HORTON: Sure. Just one moment.

CMSR. CHATTOPADHYAY: Do mention the worksheet number as well.

MR. HORTON: Yes.

So if we look at Excel Column N, Excel Row 34, which, in the pdf -- sorry, I have to adjust my view again. So pdf Row 20. I'm on the Tab 3, K-bar Detail, in the Excel. It's just 1436 in the pdf.

And we just go to Column N. August 1, 2026. If you look at the K-bar additions, which we walked through, $251 million, so I think we've covered how that line is calculated.

Up top, we're also referencing supporting pages that's calculating cost of removal, retirements, and accumulated deferred income taxes, or ADIT.

And we can go through each of those tables -- tabs. I will probably need some help. But if we just jump down for a moment and stick with additions first to start.

So if you look at Excel Row 41, staying in the August 1, 2026, Column N, which is Line 27 on the pdf, Gross Plant Beginning, that's -- conceptually, that's rolling forward, if you were to look to the left. It's starting with our castoff rate, gross plant. And so, from our rate case, you'd be able to tie out the ending gross plant, per our cost of service, of 2.7 billion -- 2.76 million.

And then it's just adding to it. K-bar additions, as we calculated and we walked through above, right? So it's taking the additions, the three-year average, inflated at GDP-PI, saying here are what the K-bar additions to rate base are, based on the calculation of the K-bar methodology.

So you can see on Excel Row 42, pdf Line 28, the K-bar plant additions of 251 million, that's what's calculated on the line above I was just referencing, the same 251. So that's going through that tab where we walked through. It's showing, how do you derive that 251.

The same thing is happening on the retirements, which is happening on the next line, Line 43, K-bar Retirements. It has its own tab.

CHAIRMAN GOLDNER: What does that mean, K-bar Retirements?

MR. HORTON: Similarly, for the additions, we're also -- when we do the K-bar rate base, we're reflecting in K-bar rate base gross additions, as well as retirements. So it's essentially doing the same K-bar philosophical math to say, what is the theoretical rate base in

the rate year, applying the same concept of
three-year moving average, inflated to the rate
year.
CHAIRMAN GOLDNER: Why doesn't the
K-bar itself include -- or maybe it does --
include the retirement. I would think would be
netted.
MR. HORTON: It is. That's what's
happening here.
CHAIRMAN GOLDNER: Okay.
MR. HORTON: We're netting them here.
Showing the math that nets out retirements,
exactly.
CHAIRMAN GOLDNER: Okay.
MR. HORTON: And that's the negative
36 on the row labeled 29, Excel Row 43, K-bar
Retirements.
All I'm saying is there's a separate
tab showing the calculation. You'll see it looks
just like the additions tab. It's starting with
actuals. It's inflating it by inflation. It's
taking a three-year average. That's where the
36 million deduct comes from for retirements.

CHAIRMAN GOLDNER: Okay. Thank you.

MR. HORTON: So that gets you to -- I'll call it a K-bar gross plant of 3.534 billion, August 1 of 2026. Conceptually, we're starting with the known approved -- as if this rate case was filed and approved as filed, the known approved, you know, rate base, net plant additions, and rolling it forward, based on the K-bar logic, and I'm just zooming in on August of '26, to try to articulate and facilitate the point.

Depreciation is the same. Just give me one moment. I went to make sure.

So I -- depreciation expense is calculated on Excel Line 61 or pdf Line 47. So you can see it's labeled Depreciation Expense on Tab 3, K-bar Detail, and I'm still on Bates 1436.

So you can see, August 1, 2026, there's 114 million of depreciation expense, and that's saying if I take the -- if you're in the Excel, you can perhaps see it better, but the note clarifies how it's done as well. So it takes -- it's essentially saying, based on the

K-bar math of plant additions, what is the depreciation expense that could be expected in that year.

So, mathematically, what's happening is, it's taking the current year's ending balance of plant from Line 30, and the prior year ending balance of plant also from Line 30, or Excel Row 44, and multiplying it by the depreciation expense rate, the composite depreciation rate, also assumed to be approved in this proceeding.

And so that math is simply taking 3.319 billion, which is Column M, plus 3.534 billion in Column N, gross plant ending -- the K-bar calculation of gross plant ending, August 1, 2025, and August 1, 2026, and then multiplying it by the depreciation rate, which is 3.32 percent. So to say, in that rate year, the K-bar depreciation expense will be 114.

That expense is also reflected -- again, the whole idea -- and I think you want me to, but I'm way down in the details, but the idea here is we're trying to get to what is a K-bar rate base. Because the idea we're buying into is that K-bar rate base is a theoretical rate base, not giving us dollar-for-dollar recovery, but saying, this is what, based on PSNH's spending brought -- recent spending trends brought forth to today, we can say that rate-based needs to be. So we're trying to figure out, what is that theoretical rate base.

So we're calculating the gross plant on the first lines that I walked through, including plant additions and retirements. Now we're calculating accumulated depreciation. So that's what's happening here. We're starting with the accumulated depreciation from the cost of service and rolling it forward, for a theoretical K-bar accumulated depreciation. So that's what happening on Excel Lines 46 to 50, or the pdf lines labeled 32 to 36.

And we do the same thing on ADIT or accumulated deferred income taxes. It's the same thing, where you go to -- one second. Yeah, we have an ADIT, Tab 7. I'm not going to go through it. If you look at it, it looks the same as the additions tab, as the cost of removal tab, as the retirements tab. They all look the same, because they're all starting with actuals, inflated based on the PBR, to get to the rate year, and then taking a three-year average. They're all calculated very similarly.

So we're doing the same, sort of, exercise for all components of rate base to get the -- again, the theoretical K-bar rate base.

So ADIT is factored in on Line -- Excel Line 56, labeled 42 in the pdf. And, again, it's doing the same thing. It's starting with the cost of service, ADIT, rolling it forward for the K-bar calculus, like I just said, to get to ADIT, which is an offset to rate base, like accumulated depreciation. The ADIT balance is a deduct of 413 million.

Which all gets us to an ending K-bar rate base, on Line 58 or pdf 44, back on Tab 3, K-bar Detail, of 2.24 -- 2.224 billion for August 1, 2026.

CHAIRMAN GOLDNER: And how do we correlate Line 44 on the pdf, the ending K-bar rate base, to the lines below? How does that --

how do we do the math there? Unfortunately, I have the pdf. Commissioner Chattopadhyay has probably already figured this out.

MR. HORTON: So the depreciation expense, on Line 47 or Excel Line 61, is what I described previously. So it takes the ending plant balance times the approved composite depreciation rates from this proceeding.

Rate base takes the line that you just asked me about. It takes the average rate base for the prior year, so 2.084 billion; in the current year, 2.224 billion, times the pretax return on rate base, which is shown in -- it's -- in Excel, it's Column C, Row 62, 9.482 percent. On the pdf, it's going to be pretax return on rate base, again, as per this proceeding.

Do you see that?

CHAIRMAN GOLDNER: No, I'm actually a little bit lost. So if we just start on depreciation expense, there's a column that shows 3.32 percent.

MR. HORTON: Correct.

CHAIRMAN GOLDNER: And it's 3.32

percent of what number on the spreadsheet?

MR. HORTON: That column is -- 3.32 -- it's taking the average of the -- beginning and ending net plant balance from Line 30, Excel Line 44. The beginning and ending gross plant balance, I should say. I think I said "net plant." Gross plant balance. So it's the K-bar gross plant, calculating depreciation expense, which is calculated on gross plant investments. So it's taking 3.32 percent times the average of Line 30 from the prior year and the current year.

CHAIRMAN GOLDNER: So just to drive it home, it's taking 3194 plus 3534, taking a simple average, and then multiplying that by 3.32 percent?

MR. HORTON: Yes, except it's -- you said 3194. It's 3319.

CHAIRMAN GOLDNER: I'm looking at the wrong line. I was looking at the 2025 line. I assume you're taking the average of '25 and '26 -- oh, I need, probably, August of '26, right?

MR. HORTON: Correct. So it's

taking -- actually, it's the July 26, 3319.

CHAIRMAN GOLDNER: July 26. Huh. Okay. I'm sorry for being lost on a simple thing. So I see the August 1st, 2026. That's 3534. And then where do I go for the August 1st, 2025, number?

MR. HORTON: So the August 1st, 2025, number is the 3194; you're right. The August 1st, 2026, balance -- I'm going to ask for a lifeline here from Jon. (Conferring.)

Yeah, so -- so, the reason that we're taking the beginning balance is -- as of August 1, 2025, is 3319. What the -- 3534 is really the ending balance as of the rate year, which is starting August 1, '26.

So, mathematically, it's saying, what is my beginning balance for that K-bar rate year, starting August 1, 2026. The beginning balance is going to be the balance right before that, which we're calculating in the cells to the left of it.

So the balance right to it is 3319. Mr. Kallen was pointing out a detail that that's saying July 2026. In actuality -- so it probably should be one additional month, but, mechanically, it's not going to make a big deal.

The point is that, for this first year, you have the monthly calculus happening, and it's saying that for the August 1, 2025, beginning balance, it is 3319. The ending balance as of the end of the rate year, starting August 1, 2026, is 3534.

CHAIRMAN GOLDNER: Okay. That makes sense. Otherwise, you added a lot of stuff between the last day of July and the first day of August. So that makes sense, right?

MR. HORTON: Right.

CHAIRMAN GOLDNER: Because it goes from --

MR. HORTON: Right. It was a very busy month.

CHAIRMAN GOLDNER: -- 3319 to 3534. Okay. Thank you for that.

So now we understand how to calculate the depreciation, and then, now it'll probably be easier to follow along.

So how did you calculate the pretax return on rate base? You multiply 9.40 percent times what?

MR. HORTON: Times Row 44 on the pdf, or Excel Row 58, ending K-bar rate base.

So we're doing the same thing. We're taking the average as of the end of that August 1, '26, rate year, 2.224 billion, as the ending. The beginning is 2084 billion.

CHAIRMAN GOLDNER: Okay.

MR. HORTON: Sum, divide by 2, multiply by that composite pretax return on a rate base.

CHAIRMAN GOLDNER: Okay. Very good. And then, the property taxes.

MR. HORTON: Same idea, except multiplying that one by a little bit more complicated math, just to reflect the way that property taxes flow into rates. So it's actually taking the net plant balance as a way to calculate the proxy for property tax expenses, relying on net plan investment. So that's taking 2483, which is on Row -- pdf Row 38, Excel Line

52, for the July 2026 balance. It's taking that, effectively, times the composite property tax expense rate of 1992 percent. But there's some additional math happening, because it's taking -- sorry, hold on. (Conferring.)

Yeah, so it's basically -- it's basically representing the lag in property tax expense billing, is what I would say, and it would probably be easier if we explain that timing in writing.

But basically it's saying, we don't get billed, like, concurrently for property tax expense. It's after the plant is placed into service, and so the property tax expense is incurred and recognized on a lag, and that's what the math is showing there.

CHAIRMAN GOLDNER: Because it looks like that's roughly 50 -- the 59 -- or 55, rather, million dollars a year. So what are we really looking at there? That's a property tax lag. How do I think about that 50 million?

MR. HORTON: Yeah. No, you're right. It's the property tax expense based on the composite property tax expense rate proposed in this proceeding. It's saying that property tax expenses generally increase with investment for utilities.

So we're saying, as our investment base grows, so, too, does property taxes, and we're just calculating a proxy for that based on net plant changes.

CHAIRMAN GOLDNER: Okay. Thank you.

MR. HORTON: And so that gets you to the sum of those three things: depreciation expense of 114, pretax return on rate base of 204, property tax of 49, gets you to a K-bar revenue requirement for the rate year beginning August 1, 2026, of 367, which then carries down to the last thing I'll talk about.

Which is simply to say, the K-bar calculus is saying, we should have 367. The PBR gives you 325, which, when we started the day, is, you know, the 319 million of capital-related revenue requirement, inflated by 2 percent, to get you to 325. So then the K-bar adjustment is the difference between the two, 42 million. The

42 million is in addition to the 10 million, and is large, relative to every other year, because it's reflecting more years of capital. Whereas, once you transition to the K-bar, then every year is only reflecting one year of capital.

CHAIRMAN GOLDNER: And there was something in your filing, I didn't quite follow it. Actually, it was in the Commission's record request, that talked about 31 months versus 24. Can you help us understand what that was all about?

MR. HORTON: Sure. So if we just think about that first K-bar going in August 1, 2026, and we think if we -- if we go back -- which is what the 52 million is based off of. And it's saying that we have plant additions in base rates and the permanent rate that will go into rates August 1, 2025.

In our proposal, we have rolled forward additions through '24 into that August 1, 2025, calculation. There's a natural disconnect from the way rates are set for that permanent castoff rate and the way the K-bar is designed to collect rates -- designed to set rates. Meaning, traditionally, with an historical test year, that castoff rate, August 1, 2025, is reflecting plant additions on a historical basis and the revenue requirement on that going forward.

Now, we're going to be at a point, August 1, 2025, where -- so that means that base rates are set on a cost of service that includes only plant through 2024. Well, we're in 2025 and actively investing in 2025. So, right out of the gate, that castoff rate, temp rate, is lag, and that's just natural. That's how historical test years work.

So the first K-bar adjustment is a transition year, to catch up for multiple years. Base rates are going to reflect investment through 2024.

The K-bar adjustment that goes in August 1, 2026, by its design, is trying to get to a theoretical level of revenue support for investments that will be made and in service in that rate year, August 2026 through July of 2027.

So now, that K-bar adjustment for that

first year has to take into account investments in 2025, because those aren't in base rates, and investments made in 2026. So by the first day, that first K-bar goes into effect, if you just take all of 2025, that's 12 months of investment that's not in the rates. Plus, just to get to the first day of the rate year, August of 2026, you're looking at another seven full months, so 19 months. And I think that's probably the number you were referencing that didn't make sense, because I wrote it. It's 19 months to --

CHAIRMAN GOLDNER: It's -- sorry for interrupting, because you were going to get there. So it was 31, which I couldn't figure out. So 19, I'm with you. How did you get to 31 again?

MR. HORTON: Because by the end of rate year -- by the end of that rate year is another 12 months. So by the start of that rate year, August 1, 2026, we're going to have to catch all '25, seven months of 2026. So by the start of the rate year, we're catching up for 19 months.

By the end of that rate year, that K-bar is designed to give us revenue support for all investments made in '26 as well, so it's 19 to 36 months of the catchup.
CHAIRMAN GOLDNER: Okay. Thank you.
MR. HORTON: Sorry, 19 to 31 months.
CHAIRMAN GOLDNER: Okay. Thank you. And I think the last question, at least that I have, on K-bar is the -- and I think we talked about this earlier, but I'm not sure I completely tracked.
So how can the K-bar -- can you walk us through how the K-bar can become disconnected from your actual investments, your actual capital investments? How would that work?
I think I understand the over -- if you spend over your K-bar, then you have to wait until the next rate case, so that part I understand.
Could it be disconnected on the other side, if you under-spend?
MR. HORTON: It could. It could, mechanically. Either way, because, mechanically,

you're taking your most recent three years of actual additions, inflating them, and then effectively taking the average, so you're getting a third of each year in there.

What we're seeing is that's not -- it's not going to be -- it's not likely to be lower, just based on the demands on the system, but in all scenarios -- well, what we're seeing is -- because of the level of investment that's increasing at a rate greater than inflation, we're showing that, even without having to impose a cap, the K-bar -- and, again, this is part of the design of it. It's supposed to work like this. It's supposed to give us revenue recognition, but not dollar for dollar, and still have lag built in.

That we are seeing rate base greater than what's supported through rates. And that's a function of, like I said, effectively, our capital expenditures are increasing at a rate greater than inflation.

So when you take the two dynamics, you take -- you're only getting your most recent year, the average is only giving you recognition for one-third of that. It takes three years to catch up to your most recent years of investment in the K-bar. So if you're consistently increasing your investment, you're never -- the K-bar is never keeping up. So you're constantly going to be under, as long as that increase is greater than inflation, and in our experience it is.

CHAIRMAN GOLDNER: So, really, I think that the K-bar becomes disconnected from your actual capital investments unless the capital investments exactly equal K-bar. So you're always going to have some kind of disconnect in there. And then, I think we said earlier is, any disconnect gets trued up at the next rate case, and that's the thinking behind the -- dealing with any disconnect.

MR. HORTON: Yeah. In all cases, that's right. A rate case would be where you would bring rates back in alignment with costs, yeah.

CHAIRMAN GOLDNER: And what -- what

does the Company propose those carrying costs are?

MR. HORTON: There wouldn't be, so -- and I just want to make this point clear. The K-bar is just giving revenues to operate the business in any year. When we come in for a rate case in the future, there's gonna be prospective reviews. There's going to be reviews to say, okay, now our new cost of service is X, based on our actual expense and our actual additions.

We're not clawing back whether -- if an investment is found to be imprudent, the K-bar wouldn't be retroactively adjusted. And, similarly, since we have regulatory lag, where we have greater rate base than what the K-bar is giving us revenue support for, there's no request to go back and say, we're going to go get that dollar we didn't collect, with carrying charges today. It's going to be on a prospective basis.

CHAIRMAN GOLDNER: Okay.

MR. HORTON: All the K-bar is trying to do -- sorry -- it's just -- it's giving us a budget, an envelope of revenues, that's going to more closely track with our costs over time, but still preserve the incentives that we would have -- it's all just to -- to not just file a rate case, to not just come in and say, hey, let's increase our revenues. It's designed -- PBR generally, all of it, it's trying to say, give the Company the incentive so they try to maximize their cost savings, they bring out any efficiency they can that helps customers.

That's all PBR is trying to do, because the idea of the theory is, if you don't have -- if you can just file a rate case, you will, and then the Company's agenda becomes, let's gear up for rate cases. Let's just get this machine working. And that's the idea. The theory is that's not in the best interests of customers.

CHAIRMAN GOLDNER: Okay. Thank you. All right. Anything else you want to ask about, Commissioner?

CMSR. CHATTOPADHYAY: No.

CHAIRMAN GOLDNER: There's a section called Minimum Return on Equity Trigger. Can the

Company walk us through what that means? Is that different than something we've already talked about? It's page 22, Section K, Roman VIII.

MR. HORTON: Okay. So that would simply be -- that would only come into play in the scenario where we've extended the PBR. So we've said it's working, and we want to extend it for another four years, and the Commission approves that.

What we're looking for there is an off-ramp, because now we're into the second four years. It's eight years from today. Something could go awry, even after having extended it. So this would be an off-ramp to say that, only in that second extended term, if we earn an authorized ROE at 7 percent or below for two consecutive quarters, it would be a signal to us that something has gone awry, and we now need to file a rate case.

CHAIRMAN GOLDNER: All right. And then, can you -- can you, at a high-level picture, what is the trigger? How does the trigger work? I mean, what is it? Mathematical?

I read the section a few days ago, and now I can't remember how the trigger worked.

MR. HORTON: It would be mathematical, so we submit our quarterly distribution returns on equity. So if the actual ROE were to, in that second period, dip below 7 percent, that would allow us to file a rate case, without recourse, if you will. We would simply be able to file for a rate adjustment, go through this process that we're going through now, and start the process to reset rates.

CHAIRMAN GOLDNER: And when is the first opportunity to file for that trigger?

MR. HORTON: That would be only after we -- so December 2028 would be when we would submit a request of the Commission to extend. Then we would, in this scenario, get that extension and file for a PBR August 1, 2029.

So, you know, I guess, technically, it's any point after that. But I would think, if we're making that request of the Commission December of 2028, we're certainly not triggering it in 2029, and I would think it would be unlikely to be triggered in 2030. It would really just be if we're in 2030, 2031, something substantial has happened to us that we didn't know about, you know, basically two years before when we asked to extend this PBR.

It would just be an off-ramp in that scenario, in the latter half of that second PBR term, to say, we just can't make it the rest of the way; we need to come in.

CHAIRMAN GOLDNER: Because if that happened, you probably wouldn't file on December 28, because you probably file a new rate case, right?

MR. HORTON: Correct. Yes, we would.

CHAIRMAN GOLDNER: Okay. Thank you.

CMSR. CHATTOPADHYAY: Related question?

CHAIRMAN GOLDNER: Please.

CMSR. CHATTOPADHYAY: So, talking about the off-ramp. The way I look at the rate cases in New Hampshire, it's based on test years. So let's say beyond 2029, there's a particular year where you have two consecutive quarters that are producing returns that are below 7 percent, but it turns out it's happening in the first and the second quarter, and the third quarter and the fourth quarter turns out to be you made 25 percent return, both of them, hypothetical. So overall, for that particular year, you're still fine, but because you had two consecutive quarters below 7 percent, would you come back with a rate case?

MR. HORTON: I mean, that's a great question. I think it's hard in a hypothetical. It's a trigger to say we would have the ability to. Our corporate philosophy is, we would prefer to not have rate cases. So I would think, if we could see that we met this trigger and chose to file a rate case, it would be because whatever has happened is permanent. It's where we would need a rate case to fix it.

If it was some temporary blip that would -- essentially, the scenario turned around even before we filed the rate case, because we would have experienced the pain first. Then, as we're preparing the rate case, in this example, it will have already corrected itself. We wouldn't be filing a rate adjustment. We would ride it out. It would really be -- it's an off-ramp, that if something has gone awry and we pick two consecutive quarters -- I was trying to indicate that now, this is -- this is consistent. It's here to stay. And we would have to believe that, too, because a historical test year is still subject to normalization. If there's something that happened that was anomalistic, it would be found through this process, if we didn't find it on our own, so --

I know that, mechanically, we have the ability to do it. I think, in reality, that scenario wouldn't result in a rate case to be filed.

CMSR. CHATTOPADHYAY: And it could be that in the first quarter, you had an excellent result, second and third quarters were really bad, and the fourth quarter was excellent, and overall for that year, you were still making enough money. So that's why I'm asking. So at that time, you won't come back?

MR. HORTON: That's right. That's right. I mean, there's so many hypotheticals that we, generally, would like to use a calendar test year. So if there's quarterly things, like, we're generally going to -- because it's cleaner to use a calendar, so --

CMSR. CHATTOPADHYAY: That's where I was going, when it's better to have a look at the entire year. Thank you.

CHAIRMAN GOLDNER: And then last part of it, I guess this section of the discussion, there's reliability and performance metrics listed in two of the testimonies. Perhaps you could walk us through how -- how those -- how those work as well. Yes, let's talk about that.

MR. HORTON: And we do have the metrics panel here, so good news for all, I will probably not be the one speaking a lot on this.

CHAIRMAN GOLDNER: You'll get a free dinner tonight, though, from your colleagues.

So we can maybe just start off with a high-level view, maybe orient us to where in the testimony we should be looking, and then maybe

just help us understand how the reliability
metrics work and the motivation behind the
particular metrics that were chosen.
MS. GAGNON: Good afternoon. This is
Sandra Gagnon with Eversource, Manager of
Regulatory Affairs.
I will point you to the testimony, and
Bates page 1912 is the testimony of Bob Coates,
Paul Renaud, Brian Dickie, Warren Boutin, Shamus
O'Brien, and Amy Findlay.
CHAIRMAN GOLDNER: All right. And
it's in the testimony as opposed to the
attachments?
MS. GAGNON: Oh, you had just
mentioned the testimony, but there is two
components. So there's the testimony, which I
just mentioned, as well as the attachments, which
includes the actual table of the metrics.
CHAIRMAN GOLDNER: All right. And
should we go to the attachments to start or --
MS. GAGNON: Sure. So the attachment
is Bates 1944.
CHAIRMAN GOLDNER: All right. Not the

best Bates marking of all time, but I can find it. It's in the middle of the table, I think. So the administrative staff might get a B minus for that one.

All right. We can -- Commissioner Chattopadhyay, have you found the table? I'll wait until you're there.

CMSR. CHATTOPADHYAY: Can you repeat the names of the witnesses?

MS. GAGNON: Sure. So the subject matter experts who participated in the development of the metrics that are proposed as part of the PBR metrics include -- there's really five overarching categories associated with the metrics, with seven metrics themselves, so the first being the service quality metrics, and that includes Paul Renaud, who's our Vice President of Distribution Engineering; and Brian Dickie, our Vice Present of Electric System Operations.

Then we have -- the next category is customer satisfaction. Our subject matter expert is Shamus O'Brien, the Director of Voice of the Customer and Customer Experience Strategy.

Next we have the solar generator metric, and our subject matter expert for that metric is Warren Boutin, the Vice President of Customer Grid Electrification Solutions and Experience.

Then we have a metric -- or a category. The next category is operations customer work requests, and that is co-sponsored by Warren Boutin as well as Paul Renaud.

And, finally, the last metric is the advanced demand response metric, and that is -- the subject matter expert is Amy Findlay, the Manager of Emergency -- of Energy Efficiency; and Marc Lemenager, Supervisor of Regulatory, Planning and Evaluation, is here as well, to assist with questions on that.

CMSR. CHATTOPADHYAY: Thank you.

CHAIRMAN GOLDNER: All right. Yeah, perhaps just start at the beginning -- start at the top, and maybe just walk us through the metric, how it works, why you chose it. That would be helpful.

MS. GAGNON: Sure. So why don't we

start from the beginning. The first metric in the table includes the customer satisfaction metric, so I will hand it off to Shamus O'Brien.

MR. O'BRIEN: Good afternoon. My name is Shamus O'Brien. I'm the Director or our Voice of the Customer and Customer Experience Strategy.

We have chosen two metrics under our customer satisfaction section, the first being number of customer complaints reported to the DOE, New Hampshire DOE. More specifically, we're focused on reverse complaints, and those are the complaints that -- where the Company is making an error or we are at fault. So those are complaints that would be justified from our customers.

We are proposing to calculate that by standardizing the metric and using a number of complaints by 10,000 customers that standardizes the metric, so as our population grows, we're still getting the same similar rate of comparable rate, and it also allow us to benchmark with some of our peers.

We're looking -- as far as setting a

target, whenever we're looking at customer basing metrics, we try to align the baseline with the plan period. So we are looking to set a baseline with years -- counter years, 2022 through 2024, so we will -- at the end of 2024, we will determine a baseline using the averages of those three years. And through the plan, we intend to perform better than that baseline each year.

The second metric is a transactional customer satisfaction metric. This is where we're measuring the transactional or interaction experience with five of our key or major touch points with our customers, the first being our outage experience, our power restoration with BlueSky events -- and by "BlueSky events," we mean routine events during our routine business days that excludes our significant events.

Satisfaction with our phone experience, whether it's through a live agent or our automated system.

Satisfaction with our solar installation process. This one particularly aligns with some of our other operational metrics in here, and this focuses on the experience with working with Eversource through the interconnection process.

Fourth is our new connect -- new service connect with our construction customer -- new construction to the grid.

And then, lastly, satisfaction with our website experience.

Again, these are our five major touch points, and we will be looking to set a baseline from year -- counter years 2022 through 2024.

For each of the metrics, we will determine a baseline and then multiply those by 25 percent each, so they each have an equal weight in the index for a composite score of all five.

CHAIRMAN GOLDNER: And does the -- do the metrics target some kind of -- I'm not sure I'm quite following the formula, but are the metrics driving for some improvement or status quo, or how does -- how are the goals derived for the metrics?

MR. O'BRIEN: So once we determine a

baseline, we will be looking to make sure that we maintain performance within a margin of error from those results. Of course, we're always driving for improvement in those. Currently, in a few of those metrics, we are performing slightly better than our peers, so we'll definitely be looking to maintain that as we go forward.

Again, these are hard to maintain if you're not doing anything because, as you know, technology evolves, so we need to make sure that we're doing -- making the right investment, making the right process improvements, to make sure that we're keeping up with our customers' expectations.

CHAIRMAN GOLDNER: Okay. And then, I'm sorry, Mr. Horton, back to you.

How do these metrics roll into the equations that we were talking about? Where does it show up?

MR. HORTON: So these metrics are designed in a couple of ways. Many of them are reporting metrics to -- as Mr. O'Brien mentioned, although they don't have a direct financial tie, whether it be an incentive or a penalty, our goal with these metrics is to show transparency and accountability. So, although not a direct tie, our intention and objective in establishing them is to hold ourselves accountable and have others see our progress.

In terms of actual firm penalty exposure, there is, but for the reliability-related metrics for MBI and SAIDI, so that -- and Mr. Dickie or Mr. Coates can speak to that better than I, but, effectively, we have a financial penalty exposure for degradation of performance for the reliability category, and I can ask Mr. Dickie to speak about it.

CHAIRMAN GOLDNER: I think, for SAIDI and for MBI, it was something like a million and a half dollars, plus or minus, depending on the performance. Am I remembering that correctly?

MR. HORTON: That's right, except it's that it's a penalty exposure. We're not proposing to have recovery of the one and a half if we were to exceed our performance benchmark.

In the event that we exceed our performance benchmark, what we're proposing is to, essentially, allow for a going-forward credit to offset a future penalty. So if we have a solid year of performance where we outperform, we wouldn't collect a penny. We would put that in the bank, if you will, and then, in a subsequent year, if something were to happen where we showed the opposite, we would offset that future penalty.

CHAIRMAN GOLDNER: Okay. Thank you. It's good to understand how that works.

All right. So I think we understand customer satisfaction.

Commissioner Chattopadhyay.

CMSR. CHATTOPADHYAY: On the customer satisfaction reporting metrics, you're just calculating the baseline using PSNH data, or you're looking at industry-wide?

MR. O'BRIEN: So our baseline will be based -- it's Shamus O'Brien again.

Our baseline will be based on our performance over the calendar years '22 through

'24.

CMSR. CHATTOPADHYAY: Are those, like, standard measures?

MR. O'BRIEN: So we chose the customer satisfaction and transactional customer satisfaction index, because we're focused on -- those are our five key areas. I would say that our number of customer complaints is an industry metric. And if it helps, those are metrics that we have either agreed to or proposed in other states as well, or were already reporting.

CMSR. CHATTOPADHYAY: Okay. But the baselines would be based on --

MR. O'BRIEN: New Hampshire results.

CMSR. CHATTOPADHYAY: Thank you.

CHAIRMAN GOLDNER: And maybe just follow up with one last question on customer satisfaction.

Were these -- it sounds like these were developed by the Company previously and in other states, probably, and then your -- have these been something that you measured in New Hampshire for a while, or is this something that you're proposing that you move into the New Hampshire paradigm?

MR. O'BRIEN: That was a good question. Thank you.

These metrics, specifically the transactional customer satisfaction index, each of those surveys have existed, and we measure them. The customer experience in New Hampshire, we've been doing that for quite a while. The newest being our solar connectivity satisfaction. That survey began in 2022.

CHAIRMAN GOLDNER: Okay. Thank you.

Commissioner Chattopadhyay, anything else on customer satisfaction?

CMSR. CHATTOPADHYAY: No, I just wanted to understand how the baseline was set.

CHAIRMAN GOLDNER: Thank you. Yeah, I think the reason you're probably getting some questions is, I guess, that I'm accustomed, at least, to seeing improvement in a metric. You know, you have a baseline, and then you look to improve. So whenever you see status quo, you kind of wonder if that's aggressive enough, but that's -- that's the reason for the questioning. When it was status quo, it -- it evolved into some more questions.

Okay. So we can move to the next category, which I think was called solar generator.

MR. BOUTIN: Thank you. My name is Warren Boutin. I'm the Vice President of Customer Grid Solutions here at Eversource.

So, solar generation, again, that's a reporting metric. Shamus talked about customer sat. metrics, where this is different. This measures ourselves. Okay? So the customer sat. measures, we go out and measure satisfaction with customers. This is more of an internal metric to make sure we meet baselines.

So, again, we look at three simple baselines that we're establishing. One is called simple service, which is your typical residential service. That's for 100 KW or below.

The second measurement that we're going to look at is for what we call standard projects. Those are for 100 KW and above, not requiring a system impact study. Okay? So these are projects that do not require a system impact study.

And then three is for standard projects, again, 100 KW and above, that do require a system impact study, but are small enough, such that, they don't require an ISO study. An ISO study is typically 500 KW or one megawatt and above.

So the target -- these are new metrics that we're looking at. Again, these are internal metrics. We're looking to establish baselines on this. We've just rolled out our customer portal called PowerClerk in September of 2023. What that does, it time stamps customer applications, when they come in, and allows us to do the measurements. So it allow us to measure the timeframe it takes us, once we have a completed an application, to ensure that application is complete; you know, the load information is there, the solar information is there, the account number is there. And it allows us to review that, and then allow the developer, the issuer of permission, to interconnect.

So, again, that's the front end of the interconnection. We review it. We allow the customer to build the system.

Now, that can take, you know, as long as -- as long as the developer takes. In some instances, like, they have up to a year to do it to maximize their incentives. Sometimes they oversell. There's a lot of differences on the customer side of the house. So that end, we don't measure.

So we measure ourselves on the front end. We don't measure the customer timeline. But once the project is complete and all those customer obligations are met, including a formal wire inspection, then we measure the time it takes us to actually issue a permission to operate. That allows the customer to come online. So that's what we're measuring, too.

So, again, with the rollout of PowerClerk for those three categories, what we went to do is start establishing baselines on how long it takes us to do each of those steps that

Eversource owns.

CHAIRMAN GOLDNER: What does it mean? In the final box, it says: Percentage of solar applications meeting performance targets.

Who sets those performance targets, and what are those?

MR. BOUTIN: That's what we're going to establish as a baseline. So we were looking at three years to establish a baseline. Again, PowerClerk was just rolled out September 2023, so we're going to have all of 2024 data, and then we're going to be able to establish baselines for those three categories. And then we're looking to measure, like, probably within, like, plus or minus one standard deviation of that baseline.

CHAIRMAN GOLDNER: And I guess where I was going was, it's a performance target on the solar array itself? It's a performance target of how quickly the Company responds to the initial outreach? What do you mean by "performance target"?

MR. BOUTIN: Response in how the Company performs, so yes. How long it takes us to issue the permission to install from that initial outreach from the customer. And then once that final closing documentation is received, how long it takes the Company to actually issue the permission to operate.

CHAIRMAN GOLDNER: Thank you. And then a final question from me, and I'll turn to Commissioner Chattopadhyay.

On your baseline one, two, and three, if you were to snap it off today over the last 12 months or something, how many would fall into one versus two versus three? I would imagine that 95 percent of them are in category one, or is that not true?

MR. BOUTIN: That's true. Yes, sir.

CHAIRMAN GOLDNER: And two and three would be very small, I guess?

MR. BOUTIN: Smaller, yes. So typically, we're looking to probably do about 5,000 applications in New Hampshire. I would say between 90, 95 percent of those would be category ones. The rest would be fall in category two and three.

CHAIRMAN GOLDNER: And it might be not much of a distinction, but would you expect more in category two or more in category three?

MR. BOUTIN: More in category two.

CHAIRMAN GOLDNER: Okay. Thank you.

Commissioner Chattopadhyay.

CMSR. CHATTOPADHYAY: Going to the last box. Again, the performance targets would be based on PSNH data?

MR. BOUTIN: Correct, strictly PSNH -- PSNH's.

CMSR. CHATTOPADHYAY: Are you tracking anything in the other states already?

MR. BOUTIN: Yes. We're tracking very similar metrics in the other states as well.

CMSR. CHATTOPADHYAY: Have you already introduced performance targets in the other states?

MR. BOUTIN: I would have to check on that, to be quite honest with you. I know we did introduce them as a performance metric for Massachusetts. I do not think it was considered a performance metric. I believe they came back

to us and said it needs to be a reporting metric,
but I'll verify that.
CMSR. CHATTOPADHYAY: Okay.
MR. BOUTIN: Again, the distinction
performance is tied into incentives and
penalties. Reporting was just reporting.
CMSR. CHATTOPADHYAY: Even then, I
mean, there may not be any financial impact,
but --
MR. BOUTIN: We are reporting them out
in Massachusetts, yes.
CMSR. CHATTOPADHYAY: -- to understand
whether you're doing good or not. When you're
talking about performance targets, I'm just
curious whether you already have something in
place in other states, and if -- even otherwise,
if it's -- if this is a standard way of doing
things, then are there other states already
implementing some measures that are pretty
standard, so there's -- have you looked at it --
MR. BOUTIN: Yes. Yes.
CMSR. CHATTOPADHYAY: -- and maybe you
already know what the targets should be.

MR. BOUTIN: We have rolled them -- we are looking at them in both Connecticut and Massachusetts. We are starting -- we have the same, similar-type metrics, different -- slightly different categories, and we're using the same, you know, three years to establish a baseline.

CMSR. CHATTOPADHYAY: I would -- this is just, again, out of curiosity.

MR. BOUTIN: Yeah.

CMSR. CHATTOPADHYAY: If there are standard measures already out there, you really need to wait for more than, you know, one year. Maybe just collect data for one year and, sort of, have a sense of where you are, really, to where things should be. And then, if there is some adjustment needed, you should be able to put that in place sooner. Purely, I'm just asking, why do you have to wait three years?

MR. BOUTIN: So what we would do is we'll be reporting these metrics to the Department each year, so we will know. What we're looking to do, in case there was, like, you know, something that was, like, out of whack in one year, we would look to average the three years, but we're reporting out -- you know, '24, '25, and '26. So you will see those numbers. Again, we're just using the three years to establish, like, an average, just in case, again, one year was like, you know, way different, whether it's a COVID year, whether it's a supply chain issue, something like that that was out of our hands.

CMSR. CHATTOPADHYAY: Okay. We can move on.

CHAIRMAN GOLDNER: And just to wrap up on solar, but actually, it's larger. I'll look at the front table for the answer to this question.

So I assume the reason the Company is suggesting these reporting metrics in the PBR section is that, perhaps in a future filing, the reporting metrics would turn into penalty or perhaps even reward areas, similar to MBI and SAIDI.

MR. HORTON: I think that's fair, and I think that's what Mr. Coates was about to say.

And some of these -- certainly, MBI, SAIDI, reliability, these are things that we track, report. It's our bread and butter and, for us, is right for right-out-of-the gate inclusion as a penalty measure.

Some of these other things -- you know, we're trying to find the right area of focus for New Hampshire, and we don't feel it's appropriate today to come out with a direct financial tie incentive or penalty. We do think eventually and over time, though, they could lend themselves to it. But we wanted to start slow and to start the process and kind of prime the pump. I could definitely see, you know, at least maybe some, not all, evolving into a future penalty, like, with a direct financial tie, I guess.

CHAIRMAN GOLDNER: All right. Thank you.

MR. COATES: The only caveat I'd add to that is that, while we're in that journey, we are going to be driving continuous improvement. We don't just set metrics to set status quo.

Like Doug -- Mr. Horton highlighted, Regulatory, we've got decades of industry-wide experience with that. Some of the regulatory constructs are slightly different for these -- these elements, so that's why we wanted to do the level set, set a baseline, continuously grow, and then understand where that is before we introduce it as a credit or penalty.

CHAIRMAN GOLDNER: Okay. Thank you.

MR. HORTON: I don't want to derail us, but I just -- I think it's a healthy debate that happens anytime we talk about PBR metrics, and I just wanted to offer some recent experience where we have PBR in Massachusetts. Just in the last week, we have -- NSTAR Gas has the same dynamic, which we're talking about here with reporting metrics. In fact, I'm not aware that there's a financial tie in any of the metrics.

So there are no reporting metrics that we submit to the Mass. DPU. And we just had a filing this past week, where we had to provide a comprehensive update. We're in the middle of a long-term PBR plan, and there were reporting metrics, you know, that we had to report on, some of which had shown we hadn't been meeting our target or our baseline. So we had to explain why that was; how do we get back on track, was there a discrete reason as to why.

My point is, with all this, and to Mr. Coates's point, we feel that with PBR, with the transparency it brings, even if there's not a direct tie, and this is -- again, it takes a level of trust in knowing that this is how it will work, but the idea is that we're presenting information in a -- in a way that we haven't before and providing focus and accountability. Even if there's not a direct tie, if we're showing you performance that's degrading and just holding status quo, that's not in the spirit of PBR. So that would be, you know, a future consequence, whether PBR will continue, or can we ask for -- we'd lose credibility with our regulator, with the regulatory stakeholders.

To us, those are real. And so that's part of what we're trying to do, though, is to start with these. We're trying to increase the level of transparency. But over time, we'd see a direct financial tie or an ancillary financial tie, if we show a degradation of performance of these other areas.

CHAIRMAN GOLDNER: Thank you. And then, a final question before we move on the next category.

Would any Company-owned solar show up here, or would that be a separate thing?

MR. O'BRIEN: No, this is just customer. Customer solar.

CHAIRMAN GOLDNER: Okay. Thank you.

Okay. Let's move on to the operations category.

MR. BOUTIN: Sure. So Warren Boutin again from Eversource.

So operations are through customer work, so that's customer-requested work, such as if you're building a residential home, if you're being a new office building, or even like a sky-rise, so that would be new customer work.

So, very similar to what we're doing with solar, we're looking at establishing baselines. We're looking at four separate baselines. Again, simple service, which is your typical residential hookup, single span, or a connection in the underground, what we call customer requested. So that's customer-requested work, so that could be a, you know, disconnect/ reconnect. It could be cover the wire with rubber if they're doing painting. You know, that type of service.

And then the third category is developments, so that's your typical residential development, which could be 10 or 15 homes in a development. This would be the backbone for that development.

And then complex services. Complex services are services that could require detailed engineering. We need to send an engineer out to the site, who needs to work with that customer, talk about the best approach and the most cost-effective approach. Okay?

We do have data on those four. We have a work management system that has been in place for a few years, unlike the PowerClerk system I talked about in solar. So we do have baselines that we have established. So for the simple service, we're looking at eight business days or less, and, again, that's depending on final customer obligations. So that customer has to have made all payments, has to have that the wiring inspection called in. Once the final obligation is met, we're looking to do service within eight business days.

If the customer requested work that I described earlier, again, cover wires, etcetera, we're looking to have that work done within 11 business days. Okay?

A disconnect/reconnect may require a wiring permit, so, again, once that final customer obligation is made. Okay?

The developments, we're looking to establish a baseline. We've established a baseline of 90 days.

And for the complex services, 43 days.

So any questions on that? Again, very similar to what we did for the solar. Again, we have a work management system, so we've established baseline targets that we're working towards.

CHAIRMAN GOLDNER: Thank you. Commissioner Chattopadhyay, any questions?

CMSR. CHATTOPADHYAY: So these numbers are averages, right?

MR. BOUTIN: These numbers are averages based on 2023 data, yes.

CMSR. CHATTOPADHYAY: Do you have data for 2022, 2021?

MR. BOUTIN: So we have partial data for 2022. No data for 2021. Again, what we did with our work management system, we switched over to a new work management system called Maximo. So, again, we don't have all that data.

CMSR. CHATTOPADHYAY: So, going to the point of one year may not be representative, should these -- if I understood you right, you're already using these standards?

MR. BOUTIN: Yes. So, but '22 and '23, we're going to use the two-years standards, yes.

CMSR. CHATTOPADHYAY: But you may not have enough sample points here to actually get to something that is truly representative of what would be a nice cutoff, for example, for complex services. I'm just curious whether you have enough trust in just one year's data or even one and a half year's data.

MR. BOUTIN: So, again, with the work management system, we have trust in that data. But, again, this is a reporting metric, not a Venn metric. So, again, we're going to strive to meet these dates. But based on the data we have and the experience we have, we do feel that we can make these target dates. But that's why it's a reporting metric, not a Venn. Does that make sense?

CMSR. CHATTOPADHYAY: It does. But when you're trying to calculate a percentage, you know, that's sort of explained in the last box, giving 25 percent advantage to each of these -- what I'm trying to get at is, yeah, it's important, but maybe -- when you talk about the baseline, the baseline probably hasn't been properly identified yet, even though you're -- because you're just using one-year data, that's

my point, or one, one-and-a-half-year data.
MR. BOUTIN: Just to close this one out. So we do about 16,000 new customer work orders per year, where we do 5,000 solar applications per year.
CHAIRMAN GOLDNER: Thank you. That's good to know, how big it is.
Okay. So let's move to peak demand reduction.
MR. LEMENAGER: Marc Lemenager. I'm Supervisor with Energy Efficiency. With me as well is Amy Findlay, Manager with Energy Efficiency as well.
We're proposing this metric as a reporting metric. As you are probably aware, we have the active demand response, the ADR programs, as part of our energy efficiency programs, and they currently reside within there and contribute towards the performance incentive within those programs. That's why we're proposing this as a reporting metric within this framework.
However, we do recognize the value

that these programs have been able to demonstrate, and we are cognizant as well for the ability of these programs to help customers realize reduced costs due to activating these programs during times of system stress.

We also recognize that forecasts for ISO New England predict a doubling of the load over the next ten years and a shift from a summer peaking system to a winter peaking system --

CHAIRMAN GOLDNER: I'm just going to pause you there, sir. This is what's baffling.

So there's a doubling of demand on the one hand, and then there's an one percent increase on the other hand, and I'm not able to track what's going on here. So, like, which way is it?

MR. LEMENAGER: Yeah, this is for ISO New England. This is not strictly PSNH territory.

CHAIRMAN GOLDNER: But how could it be so different? Like, if ISO New England is going to double over the next ten years, but Eversource's own forecasts show basically a flat load, like, what am I missing? Where's the disconnect?

MR. LEMENAGER: I believe the idea might be behind the electrification that is expected to happen, through electric vehicles and electrification efforts in other states.

CHAIRMAN GOLDNER: But wouldn't the Eversource load reflect that? That's what we're -- in the rate case, we're looking at the forecast, which says, basically, a flat load. So I don't understand why there's such a disconnect.

MR. LEMENAGER: And I did not develop the ISO New England forecast, but my understanding is that it's the projections for electrification, as well as electric vehicle adoption, so -- as a primary purpose.

CHAIRMAN GOLDNER: Behind you there's a --

MR. DICKIE: Yeah, I think it's the time period we're taking about, right? So how long is this, sort of, one percent flat? We usually use a longer time period, electric vehicles, swapping over to heat pumps in the climate areas where you can. That, to me, is --

CHAIRMAN GOLDNER: Yeah, it would just be quite a hockey stick if, for the next five years, it a was flat one percent growth, and then in ten years, it was 100 percent growth. That would be quite a difference

MR. DICKIE: That's what they're forecasting.

CHAIRMAN GOLDNER: Somebody is wrong, either Eversource or ISO New England.

MR. DICKIE: So in the short term, you know, one hour, one percent, right, which real load projected out over a short period of time. But the long-term projection are much higher.

CHAIRMAN GOLDNER: My encouragement would just be for the Company to align, for the Commission, in terms of what it believes is going to happen, and then have the metrics and so forth align, because it's kind to hard to correlate. We listen for the first seven or eight hours, do a one percent increase, and then at the end, we're talking about a doubling. And I understand it's ten years versus five years, but that means the load would double over the five years from 2029 to 2034, so that doesn't really -- one of those don't make any sense.

MR. HORTON: And if I could add -- and, you know, we can do what he just said. We'll do that for -- but another aspect of this is kilowatt hour sales versus kilowatt demand. We do expect kilowatt demand to go up, but as more renewables are put on the system, solar -- customer solar, those kilowatt hours that will be generated, hopefully we'll never see. So that's part of the equation that we'll have to spell out for you.

CHAIRMAN GOLDNER: Okay. Thank you for that offer. We'll take you up on that.

MR. COATES: And we will have more tomorrow on this. We can answer it tomorrow.

CHAIRMAN GOLDNER: Okay. Yeah, thank you. It's very confusing from our point of view.

MR. COATES: Yes.

CHAIRMAN GOLDNER: At least my point of view.

Okay. Yeah, please proceed. I just

wanted to stop and pause on that disconnect.

MR. LEMENAGER: It was a great question.

And one of the reasons why we're proposing this as a reporting metric as well is, as cleaner technologies are adopted in increasing numbers, we believe that active demand response has a role to play in that.

So we propose, for a baseline, is the average over the past three years of the programs, just Eversource's New Hampshire programs.

For the target, we're proposing the average of Eversource's programs over the course of the '24 to '26 GD plan, and then that will be the target for the timeline during this PBR timeframe.

CHAIRMAN GOLDNER: And the reason that -- one of the reasons why it's a reporting metric proposed from the Company is you would -- it would be effectively a double count inside energy efficiency, right?

MR. LEMENAGER: Correct.

CHAIRMAN GOLDNER: Okay. Okay, thank you. But it's good your making it visible, so that's encouraging.

Okay. Any questions on that one, Commissioner Chattopadhyay?

CMSR. CHATTOPADHYAY: No. Thank you.

CHAIRMAN GOLDNER: All right. So let's go to the service quality.

Now, here's where we do get into the penalty incentive portions, so that's helpful to have that on the chart. I didn't see that the first time. So SAIDI and MBI.

MR. DICKIE: Yup, so Brian Dickie, Vice President of Operations.

So the first measure, SAIDI, which is the penalty or incentive, is a typical reliability measure for a utility. It's System Average Interruption Duration Index, which is a measure of the customer -- what an average customer can expect to be without power for a given year. So it's calculated by taking each outage event, number of customers, times the time -- the amount of time it was out, adding all those for a given year, and that's -- that's customer minutes interrupted, dividing that by the total customer service, so that's a -- what we're proposing is a five-year rolling average on our SAIDI, and bounding that with two standard deviations on the real data to set the upper and lower bounds. Are you good there?

CHAIRMAN GOLDNER: Good there.

MR. DICKIE: All right. Next one is MBI, Months Between Interruptions. So this is a more intuitive way of taking SAIFI, which SAIFI is just an average interruption frequency index. This is just 12 months divided by SAIFI, which gives you an MBI number, which is months between interruption. Just a more intuitive way of...

So same thing. We're talking a five-year rolling average, two standard deviations from that rolling average, to come up with the --

CHAIRMAN GOLDNER: Okay. Thank you. And then just to clarify, I might have misunderstood Mr. Horton before. Is this plus or minus 1.5 million or only minus 1.5 million, in terms to what the Company is proposing?

MR. HORTON: It would be a minus 1.5 million. Our proposal is that if we have a year where we exceed -- instead of collecting one and a half million from anybody, we would just, sort of, put that in a bank, to offset a potential future penalty. Trying to say that if something anomalous happens, we've had a really good year, we're not asking to collect that one and a half. We're simply saying, allow us to offset, potentially, a future penalty.

CHAIRMAN GOLDNER: So if in a year -- in the first year, if the Company were not to achieve this metric, that 1.5 million would be subtracted from the PBR?

MR. HORTON: Yeah.

CHAIRMAN GOLDNER: And that would be, effectively, collected by ratepayers. But if it was a year in which the Company achieved the metric, then the Company wouldn't collect that; it would just roll to the next year.

MR. HORTON: Yes. If we -- if it happens, the order is that we have poor performance in one year, first, you would give customers that credit. And then, in the following year, if we had good performance, we wouldn't collect anything. We would just hold it for the next time.

CHAIRMAN GOLDNER: And then it would true-up at the next rate case, or how would it -- if it needed to be trued up -- if you were continuing to hold money, how would that get trued up?

MR. HORTON: That's a great question. I would think that, as part of it, if we were to roll it forward, it would just continue if the PBR plan were to extend. Our proposal, at this point, is not to -- so, if we're continuing to bank one and a half million a year, we just keep performing well, we wouldn't seek to collect that in the future. If the metric were to continue, the bank would continue.

CHAIRMAN GOLDNER: And there would be no carrying costs on this one either?

MR. HORTON: No.

CHAIRMAN GOLDNER: Okay. And then, is

it 1.5 for both SAIDI and MBI, or 1.5 total?

MR. DICKIE: I believe it's both.

CHAIRMAN GOLDNER: So one point -- so three total?

MR. DICKIE: Yes.

CHAIRMAN GOLDNER: Okay. Thank you.

Yeah, my encouragement would be just to include that in the equation, while we have this -- the equation that we've been talking about all day, and it doesn't -- at least I don't think it shows up in your equation, so it's confusing when not everything is in one place.

Have we missed anything in terms of the equation? Is there anything that we haven't talked about today that the Company would collect or give back to ratepayers in PBR? Have we missed anything, or did we -- did we capture everything today?

MR. DICKIE: I think we captured everything.

MR. HORTON: I do too.

CHAIRMAN GOLDNER: Okay. Commissioner Chattopadhyay.

CMSR. CHATTOPADHYAY: On the last two, the service quality metrics, do you have that in place in Massachusetts already?

MR. HORTON: We do have service quality metrics and reporting in place in Massachusetts, yes.

CMSR. CHATTOPADHYAY: Is it just reporting, or do you have penalties?

MR. HORTON: There are penalties for -- there are penalties, yes. It's not part of the PBR. It was set up -- I believe set up at the time PBR was first established, but it's not, I guess, similar to this. It's not directly tied to the performance-based ratemaking framework. But we have annual service quality metrics that are penalty only.

CMSR. CHATTOPADHYAY: Is it similar to what you have represented here, which is two standard deviations as upper and lower bounds?

MR. HORTON: Yes.

CMSR. CHATTOPADHYAY: Are you aware of any jurisdiction where, instead of two standard deviations, it's something else?

MR. DICKIE: So the purpose of this standard, right, was to provide assurance to our customers, our regulators, that we would maintain first-quartile and second-quartile performance.

So in our -- one of the questions that was asked by PUC, we did say that if that standard deviation, which would, you know, change over time, if you wanted, you know, set targets, we could also, you know, look at that as well.

CMSR. CHATTOPADHYAY: Okay. Yeah, just -- just, obviously, this is -- I'm just trying to understand. That's all. But, to me, it might seem that -- it may be, again, a gradient test, like, what kind of penalties are going to be put in place, depending on how far away you are from the mean. So, you know, I'll leave it at that. Thank you.

CHAIRMAN GOLDNER: And just returning briefly to the Company's PowerPoint, Page 3, where it talks about customer reliability improving due to system investments, and it says in the slide: Investing more than 765 million in New Hampshire electric distribution system over the last five years and remain focused on improving the reliability of service for customers.

And then on the right side of the PowerPoint, it has a chart that shows the percentage of customers restored within five minutes, which I think is your metric, and then it shows the metric improving from -- I think I'm doing the math right -- from 2019 to 2023, going from 40 to 52 percent.

And so, I just wanted to get the Company's thinking on -- 765 million is a large number, and then the percent increase seems relatively small. And I just wanted to understand, kind of, the Company's thinking on the slide or how that pieces together. I didn't quite understand.

MR. DICKIE: So the under five-minute switching was pretty much related to DA, distribution automation and circuit ties.

So I don't know the component that makes up the 765 million. I think that's the total. There's a subcomponent of DA and circuit ties.

CHAIRMAN GOLDNER: Okay. I just think that would be something over time; that if there's a correlation between a particular investment and a particular outcome, that's always very interesting to know.

I think the person who made the slide was probably trying to say, hey, we're investing a lot of money and we're getting good results. But one could read it as, we're investing a lot of money and getting a fairly small result.

So I don't think that's what the Company meant, but I would just encourage a correlation between the investment and the outcome, as opposed to -- this looks like maybe a mixing of data.

MR. COATES: Yeah, your assessment is absolutely correct. The right side of the chart is really about, as Brian highlighted, switching to restore customers in less than five minutes. That's an indicator or a precursor of good reliability, but the investment has much more of a perspective on SAIDI and SAIFI frequency that we can provide.

CHAIRMAN GOLDNER: Thank you. Okay. It just seemed like the two were -- the slide was meant to say, here's what we got for investment, and it wasn't what was intended. So that's helpful.

MR. COATES: But to this point, the distribution and automation is embedded in the 765, but the distribution and automation did not cause the 765.

CHAIRMAN GOLDNER: Any idea if it was -- is it a $10 million investment or a hundred million? Any idea on that, just roughly?

MR. DICKIE: It was significant, but I don't know the exact number.

CHAIRMAN GOLDNER: Okay. It wasn't 750 or something; it was 765?

MR. COATES: No.

CHAIRMAN GOLDNER: Okay. So the hearing continues tomorrow. It's 4:20, so -- just a moment.

Sorry, the technical session -- So the technical session is ending here. The PHC technical session, 4:20. We'll continue tomorrow. And today's session is adjourned, and we'll see you tomorrow at 9:00 a.m. Thank you.

(Whereupon, the proceeding was adjourned at 4:20 p.m.)

C E R T I F I C A T E

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