ORIGINAL

RE: DE 24-070

PUC HEARING

October 03, 2024

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STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

October 3, 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 Session, Day 2)

PRESENT: Chairman Daniel C. Goldner, Presiding
Commissioner Pradip K. Chattopadhyay
Alex Speidel, Legal Advisor
Doreen Borden, 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:

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

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

APPEARANCES - (Continued)

Reptg. New Hampshire Dept. of Energy:

Office of Administrative Support

Paul B. Dexter, Esq.
Elizabeth Nixon, Utility Analyst
Jay Dudley, Utility Analyst
Jacqueline Trottier, Utility Analyst

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, New Hampshire Legal Assistance

ALSO PRESENT:

PSNH, d/b/a Eversource Energy:

Doug Horton
Robert Coates
Ashley Botelho
Jonathan Kallen
Dominick Brescia
Brian Dickie
Paul Renaud

APPEARANCES - (Continued)

PSNH, d/b/a Eversource Energy:

Marc Lemenager
Sandra Gagnon
Shamus O'Brien
Warren Boutin
Mark Kolesar
Augustin Ros

NH Department of Energy (Remotely)

Nicholas Crowley
Donna Mullinax

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P R O C E E D I N G

CHAIRMAN GOLDNER: Okay. Good morning. I'm Chairman Dan Goldner. I'm here with Pradip Chattopadhyay. This is day 2 of the Prehearing Technical Conference attended and presided over by the Commission regarding the Eversource Performance-based Ratemaking, or PBR proposal, and presented to the Commission in its Distribution Rate Case Docket DE 24-070.

At the outset of today's session, we'd like to respond to the inquiries regarding the purpose of the court reporter transcript that were voiced yesterday by certain parties.

This transcript is meant to be a courtesy to the parties and interested members of the public, insofar as it will be publicly available on the PUC docket, and may be a handy reference to the analytical personnel and consultants for the parties to review as a part of their efforts to develop written testimony and tech section preparation in the future.

The Commission will also be able to provide the transcript to its own consultants, Daymark Advisors, for their review and reference.

We acknowledge that these Commission-presided technical sessions are not depositions or hearings or sworn testimony, but there's an embedded expectation of the duty of candor to the Commission in all responses.

Okay. We'll now take a roll call, beginning with the Company, acknowledging that certain parties will not -- or did not respond yesterday.

MS. CHIAVARA: Good morning, Commission. Jessica Chiavara on behalf of Public Service Company of New Hampshire, doing business as Eversource Energy, and with me is co-counsel, Jonathan Goldberg, senior counsel at Keegan Werlin.

CHAIRMAN GOLDNER: Very good.

AARP. (No response.)

Alexander Cook. (No response.)

Clean Energy New Hampshire. (No response.)

Community Power Coalition of New Hampshire. (No response.)

Conservation Law Foundation.

MR. KRAKOFF: Nick Krakoff of Conservation Law Foundation. Thank you.

CHAIRMAN GOLDNER: Rate LG Customer Consortium. (No response.)

Mary Ellen O'Brien Kramer. (No response.)

New England Connectivity and Telecommunications Association. (No response.)

The New Hampshire Department of Energy.

MR. DEXTER: Good morning, Mr. Chairman, Commissioner. Paul Dexter, Legal Director of the Department of Energy.

I'm joined today by Jay Dudley, Jacqueline Trottier, and Elizabeth Nixon from the Regulatory Division.

CHAIRMAN GOLDNER: Thank you.

The Office of the Consumer Advocate.

MR. KREIS: Good morning, Mr. Chairman. I'm Donald Kreis, the Consumer Advocate. With me today is our staff attorney, Michael Crouse; the Assistant Consumer Advocate, Matthew Fossum; and our Director of Rates and Markets, Charles Underhill.

CHAIRMAN GOLDNER: Thank you.

Standard Power of America. (No response.)

And Walmart, Incorporated. (No response.)

Okay. So I'm just going to repeat back who's here today. I have Eversource, the Conservation Law Foundation, the New Hampshire Department of Energy, the Office of the Consumer Advocate. Did I miss anyone?

Okay. Seeing none. Okay. Thank you. We --

MR. DEXTER: Excuse me, Mr. Chairman. Paul Dexter. I neglected to mention that on the camera, on behalf on the Department of Energy are Nick Crowley, Christiansen Associates, and Donna Mullinax from Blue Ridge Consultants, both consultants to the Department of Energy. And I apologize -- my apologies for interrupting and not remembering that earlier.

CHAIRMAN GOLDNER: Thank you, Attorney

Dexter.

Okay. We intend to continue with Commissioner questions of the Company, including the Company's Massachusetts implementation of PBR and the Company's record request answers.

We plan to have scope today for the questioning by the Department of Energy, and appreciate the Department's offer to help the Commission's understanding of the Company's proposal.

In this PUC technical session, if other parties have questions for the Company that can help the Company's understanding of PBR, we welcome them as well. At the outset, however, the Commission wants to communicate that the Q and A should only be about the mechanics of PBR and the PBR proposal from Eversource.

As a reminder, all parties to this proceeding have the opportunity for discovery and to provide direct testimony in the hearings that will be held next year.

As for -- as with yesterday's session, we intend to have regular short breaks, with a one-hour lunch break at noon, and to be completed no later than 4:30 p.m.

Attorney Chiavara, I can see you would like to say something.

MS. CHIAVARA: Thank you, Chairman. Yes, Mr. Lemenager has a brief statement he wanted to say about clearing up something that he said yesterday about the ISO New England forecast.

CHAIRMAN GOLDNER: And I notice, because I was here all day yesterday, that Mr. Horton is not here?

MS. CHIAVARA: Yes. We mentioned yesterday, he's not available this morning. He will be here in the afternoon.

CHAIRMAN GOLDNER: In the afternoon. So you would expect him to be available beginning what time?

MS. CHIAVARA: That's an excellent question. We will nail that down.

CHAIRMAN GOLDNER: 12:01 sounds like your first answer.

Okay. Very good. Mr. -- I'm sorry.

I always say it wrong. Can you say your last name, please, again.

MR. LEMENAGER: Lemenager.

CHAIRMAN GOLDNER: Lemenager. Thank you. Please proceed.

MR. LEMENAGER: So yesterday I mentioned ISO New England's forecast was 2035 for both a winter peaking system and a doubling of the peak demand on the system. I was incorrect at mentioning ISO New England's date for the doubling of the peak load -- excuse me. They're currently forecasting winter peaking system, 2035, as I mentioned yesterday. However, the forecast is 2045 for the doubling of the peak demand on the system.

So despite that, or even with that clarification, we're still proposing to have a reporting metric for ADR as demand continues to grow on the system and we transition to a winter peaking system, so that way, when policy changes happen or regulatory changes happen, we have more information on hand to make an educated decision at that time.

CHAIRMAN GOLDNER: Okay. Thank you for the clarification.

Okay. So with no other preliminaries, let us begin. And just give me a moment, please, to open up my laptop.

I actually had that reversed, Attorney Chiavara. I thought you said Mr. Horton would not be here in the afternoon, so that was -- that was why I was surprised, because I must have misheard you.

Okay. So I'd like to begin -- I just have a few questions on the record responses, and much of it was answered yesterday, particularly by Mr. Horton, but I do have a few follow-up questions.

And if we need to wait for Mr. Horton, that would be unfortunate. Hopefully, someone on the Eversource team can answer -- answer the questions, at least to the first order.

So the first is Record Request 1-003, and the Company talked about not having time to fully include the 2024 capital additions and suggest some alternatives. And so my first question is, what if the hearings aren't until late March, early April -- and I assume the Company closes its books in January. Why wouldn't -- wouldn't the capital additions be available?

MS. BOTELHO: Hi, I'm Ashley Botelho, Director of Revenue Requirements.

So I can address a lot of the PBR questions today in the absence of Doug, and if there's anything that you would like further clarity on, we can wait for Mr. Horton later.

But I do have that answer. So we have -- typically, we do have to wait for year-end close for the final calendar year numbers, which would happen -- usually by the end of January, we have final capital in-service numbers. And then we start the preparation of the capital project documentation, which entails pulling all the final closing reports, which include transactional information on the dollars placed in service. It provides information -- like, for each project we submit a project authorization form or any supplemental authorization forms. So that is a level of effort that does take time, typically following year-end close.

So we -- we did want to make sure the parties in the proceeding had the opportunity to review that documentation, and with the new schedule, it does not look like that would be able to happen. Typically, the project documentation takes a couple months to finalize, and that overlaps with the hearing dates and the proceeding.

CHAIRMAN GOLDNER: Okay. So just -- just to line up on some of the specifics. When close -- when does the Company close its books at year-end, end of January probably?

MS. BOTELHO: End of January, we would have final numbers, typically.

CHAIRMAN GOLDNER: And then, after that you have to go through the documentation and line everything up, and I understand that that takes some time.

If the Company went into overdrive to provide that information as quickly as possible, still, of course, wanting to do a quality job, could the Company do that in, say, a month's time, or what would be the -- what would be, sort of, an estimate for how quickly the Company could come up with it?

MS. BOTELHO: I -- so I'm not the capital project documentation witness, but from my experience, that -- it would be challenging to produce the documentation within one month's time, because of the volume of information we typically provide, the number of projects. But I can take that back and -- and see if -- if we could accelerate the project documentation for 2024.

CHAIRMAN GOLDNER: And in the normal course, you're saying it would be about two months?

MS. BOTELHO: Yes.

CHAIRMAN GOLDNER: Since I didn't see Attorney Chiavara take a note yet, I'll -- thank you. If we could understand what the -- what that looks like, because the timing does matter.

And then in 1-003, there was some

discussion about a smoothing mechanism. And given, obviously, what some might call re-chalk in the company's current proposal, how would that smoothing mechanism work in 1-003?

MS. BOTELHO: Sure. So our alternative proposal, in light of the schedule in this proceeding, and the fact that we -- we realize the challenges with reviewing the 2024 capital additions and documentation for inclusion in permanent rates, we would remove the 2024 capital additions out of our permanent base rate requests, so that would be step 1.

Alternatively, in place of that, on the same day, our alternative proposal would include a first K-bar adjustment that would take effect on August 1st, 2025, similar to the step adjustment framework that's in place today, where you would have a step adjustment take place on the same date as permanent rates.

Where, in the alternative, because of challenges with the 2024 documentation, we are proposing to lower our permanent rate request and start -- and include K-bar adjustment on August

1st, 2025. That wouldn't include an adjustment for PBR, an inflation adjustment, because our cost of service or our castoff rates coming out of the proceeding would already account for inflation -- or changes through the rate year. That's the point of our post-year changes that we make to our revenue requirement -- our test year revenue requirement. So it would be a K-bar adjustment that would take effect on August 1st, 2025. We wouldn't be implementing the inflation adjustment on that date.

CHAIRMAN GOLDNER: Okay. Thank you. And, normally, I like charts and tables a lot. It helps to understand what's going on. I admit to being confused by the table in the filing. I think what it's saying is that the -- the smoothing -- the smoothing proposal would shift the dollar recovery from, you know, time period zero to time period one. The total recovery wouldn't change. It's just, you know, a shift out. The Company is sort of suggesting to the parties that it -- it -- it could shift out the -- sort of, let's call it, the K-bar recovery.

MS. BOTELHO: Yeah, so what would happen is on August 1st, 2025, our permanent rate request would go down, which is not shown in the chart. It would go down by 24 million, which is the equivalent -- what we're estimating for the revenue requirement impact on 2024 capital adds.

So our permanent rate request would go down. Our K-bar adjustment would take place in that first year. It is typically higher. Mr. Horton referenced the first K-bar adjustment is typically higher in the first year, because it's catching up between the lag from the end of the test year to the rate year.

But then the subsequent K-bar adjustment that would take effect on August 1st, 2026, would otherwise be lower than what it would have been.

So the chart shows, on August 1st, 2025, the K-bar adjustment would be 44 million. For August 1st, 2026, that K-bar adjustment would be around 30 million. Our initial proposal had K-bar -- the first K-bar adjustment at 52 million. So it's -- you asked the question, how is this a smoothing -- how does this proposal provide a smoothing effect for customers. So the totals does not -- do not change, but the timing of those rates are what's changing here. And it provides -- in place of reflecting the 2024 rate base in the permanent rate proceeding, in the alternative, it would provide a K-bar adjustment that would be consistent with, like, what we would typically do with the first step adjustment. So we found it to be consistent with that.

CHAIRMAN GOLDNER: I thought I remembered from our discussion yesterday, in looking at that -- that table, I think it was on 1436, I thought I remembered 42 million for the K-bar adjustment. Why does it show 52 here, and then -- I think it was 42 on the other slide.

MS. BOTELHO: Oh, the PBR in -- so 52 here includes the --

CHAIRMAN GOLDNER: Inflation.

MS. BOTELHO: -- inflation adjustment plus K-bar.

CHAIRMAN GOLDNER: Okay.

MS. BOTELHO: So this is K-bar plus PBR. But this first adjustment that we're showing in the blue bar is only a K-bar adjustment. It does not include an inflation adjustment. I just want to make that clear.

CHAIRMAN GOLDNER: Okay. That is a faulty table. I would say, then, we would want an apples-to-apples comparison of inflation, K-bar, the whole thing.

MS. BOTELHO: So separating out K-bar from inflation.

CHAIRMAN GOLDNER: I think so. I think so. I'm sure that the parties would find that helpful. Certainly, the Commission would find it helpful.

And, as I was doing yesterday, I was writing down the impacts for each of the factors in the PBR to understand what the impact would be, which is sort of the attempt here. But I think it would be very helpful for folks to understand -- at least the Commission to understand the impact of each of the factors in a stacked bar in each year. This would make it much clearer in terms of what's going on. And if there's an alternative proposal, great. Then we can look -- everyone can look at both of those. But it's a little bit hard from this chart to understand what's going on, so I would -- I'm watching Attorney Chiavara at all times --

MS. CHIAVARA: Got it.

CHAIRMAN GOLDNER: -- to -- to see if that's something that we can -- we can get, to see what the Company's proposal is a little bit more clearly. Okay. Thank you.

So moving on to 1-005. The Company had clarified yesterday that it's proposing a three-year rolling average for K-bar. I think that's -- that's well understood.

Did the Company consider a fixed three-year average? And the reason I ask that is that, in a fixed three-year average, everything would be known, and there's no issues, as we talked about yesterday, with having to -- having that extra year of making estimates and so forth.

Did the Company consider sort of a

fixed, as opposed to a rolling, average? And if so, can you maybe walk us through tradeoffs between the two from the Company's point of view.

MS. BOTELHO: Yeah, that's a great question.

So when we -- when we looked at the rolling average, the time period for the rolling average, there's a lot of considerations to that. So, typically -- so we're proposing a four-year stay-out in this case. That four-year stay-out will -- we will be experiencing capital investment over that timeframe.

The -- when we looked at the fixed average -- so back to the discussion yesterday. Mr. Horton -- the lag we would have, using a fixed average, would create a deficiency in the PBR plans, such that -- like, at the time of the next rate proceeding, we could have a material revenue deficiency coming out of the PBR plan, because that K-bar adjustment is not keeping up with the level of capital investment through the K-bar averaging.

So with a rolling average, you're able

to reflect the most recent experience for the Company, as it relates to the capital investments. So we're making the commitment to stay out over that timeframe. We would want to make sure that there would be the appropriate level of support during that timeframe based on the forecast -- based on the capital forecasts.

And I just want to be clear, that doesn't provide -- the use of a rolling average does not provide a dollar-for-dollar recovery of our rate base in any given year. So the average in itself is -- is -- creates regulatory lag. And I think Mr. Horton referenced that yesterday.

So if we used a fixed average, there would be greater regulatory lag for what could be incorporated through the K-bar adjustment. At the time of the next rate proceeding, you would see a larger deficiency.

So we're looking to balance those components with -- with considerations for customers on bill impacts over that timeframe and also bill impacts at the time of our next rate proceedings, so we are not in the same situation that we are today with the level of the rate increase that we have in front of -- in front of you.

CHAIRMAN GOLDNER: Okay. The challenge with the moving average is that it's -- it's kind of a self-perpetuating machine. And with a fixed, anyone could apply a factor to it, some sort of inflation factor or something like that, to achieve the same result.

So we were just kind of wondering -- one could use the fixed to establish a clear baseline, knowing exactly what the numbers were, and then apply some kind of factor to it. Or one could use a rolling average. But with a rolling average, the more you spend, the higher the budget, and so you -- you know, it can be perpetuating if one is not watching it carefully.

So we were just wondering about the Company's logic in terms of choosing the moving average versus fixed, which I think you have answered. I was just trying to understand the "why" part.

MS. BOTELHO: That is an important

point. So in that design of K-bar, there is a protection in the sense that we're locking in our five-year capital forecast. We presented that in this proceeding. Our four-year capital forecast and the term of the stay-out.

We've applied a constraint for the additions that can flow through the K-bar based on that capital forecast, so there is a protection for customers in that way, that the K-bar is maxed out at 10 percent over our current forecast. So we have to work within those bounds during the stay-out period.

CHAIRMAN GOLDNER: Okay. Thank you.

So Mr. Horton may have answered this question yesterday, or attempted to answer this question yesterday, but if he did, I didn't understand.

So if the Company were to come in the next rate case and, let's say, the next rate case was in -- the first opportunity, I think, is 2029, and there's the usual prudency review and so forth, and let's just say a sizeable chunk of capital was ruled as imprudent. How would -- how would that work? How does that correct itself with the K-bar and all -- how does that work?

MS. BOTELHO: That's such a fair question.

So Mr. Horton yesterday explained that the K-bar -- the K-bar along with the PBR provides a level of revenue support between rate cases. So it's not intended to be a capital tracker. It's not intended to recover any single investment over that timeframe.

So there would -- my opinion, the term you used was, like, a major finding of imprudence, right, where half of our capital plan was disallowed at the next rate case.

CHAIRMAN GOLDNER: Let's just say 50 million.

MS. BOTELHO: Extreme.

CHAIRMAN GOLDNER: Yeah, let's just say it was 50 million.

MS. BOTELHO: So that would say, in this hypothetical, that likely we're not meeting our service quality metrics or performance, right? There's likely been a degradation in service, because we wouldn't -- wouldn't necessarily -- like, that was -- it was a very unlikely outcome.

So one thing that Mr. Horton referenced yesterday is that, it's not a capital tracker. It's not meant for dollar-for-dollar recovery. If any singular investment was found imprudent at the time of the next rate case, it likely wouldn't be material in relation to the adjustments you're getting under K-bar and PBR. So --

CHAIRMAN GOLDNER: And I will just interrupt you real quick. And that's really the conundrum, because it's already been used in the calculation to determine the K-bar, because you're using a rolling average as opposed to fixing it based on capital that's known to be prudent, used, and useful.

So now -- so now you've got this calculation that could be incorporating imprudent capital that provides the budget that you're spending against, so --

MS. BOTELHO: So the other important

point -- that is a critical point. The other important point is that the K-bar is not providing dollar-for-dollar recovery of our rate base in any given year. So there's already -- who's to say which project is included in that average, right? So, there's -- I'm sorry, were you --

MR. GOLDBERG: Just Mark --

MS. BOTELHO: Oh, sorry, Mark.

It's not -- it's not considering any singular project. So it's a fair point. There would have to be a major finding of imprudence, I think, in your scenario for a retroactive adjustment.

CHAIRMAN GOLDNER: Okay.

MS. BOTELHO: Which we would not -- we do not agree that -- that would be retroactive ratemaking -- we agree that that would be retroactive ratemaking. We wouldn't support that. That's not our -- I just think that scenario is very unlikely, but I'll let Mark weigh in on that.

MR. KOLESAR: Yeah. So the point I

think -- or one of the points that needs to be made clear here is, whether you have a fixed period for your K-bar or a rolling average, you'd still run into the same outcome if it turned out that, at the end of the PBR term, you end up with a significant disallowance of any capital. It isn't going to matter whether it's fixed or it's rolling, you still have the same issue.

So, I don't think it -- it would help to solve that issue if you went with the fixed as opposed to a rolling. You've -- you've still -- through the K factor, you've still provided a degree of revenue support, and the Company has chosen then to use some of that revenue support to invest in a particular capital project, and if there's then a determination that that project was imprudent in any way, I think you have the same issue: How do you deal with it at the end of the PBR term?

And I think the only way that you can deal with it at the end of the PBR term, if you make a determination that it's been imprudent, then it comes out of rate base, and you make the adjustment on a going-forward basis as opposed to retroactively.

It isn't, in my mind, any different than if you're under cost of service, and you get to the end of your cost-of-service term, and you now true-up the capital rate base for the Company. If, at that point in time, you make a determination that there's been an imprudent capital investment, you'd make the adjustment in exactly the same way. You'd say that was imprudent on a go-forward basis. We're going to take it out of the rate base, because -- and I'll leave this to legal counsel -- to do it retroactively would constitute retroactive ratemaking.

But that's not an issue I'm going to get into, because I'm not a lawyer. But I think it's exactly the same situation. It's just, how would you deal with it? You deal with it at the end of the PBR term.

CHAIRMAN GOLDNER: Okay. And let me see if I can repeat that back.

So in -- what I understood yesterday

was that the K-bar would actually be set at the outset, so there would be a castoff. Let's call it a baseline or castoff number. There would be a K-bar for each year as you go through time, and that those would be set in the rate case.

And so let me stop there and see, did I get that part right? Is there any -- could there be any variation in the K-bar through the period of the rate case?

MS. BOTELHO: So coming out of the rate case, whatever is approved in this proceeding for cost-of-service revenue requirement is our starting point. Doug walked you through some adjustments to that, but, yes. So coming out of this rate case, our castoff is the approved revenue requirement in this case.

The adjustments to that would be the inflation adjustment, so the first part of PBR, and then the K-bar adjustment. The K-bar adjustment takes the plant balance and factors in the annual activity, the plant activity that has occurred. So in the prior year, we would be showing you what we've made for investments from that prior year and including that in the K-bar adjustment. So the three prior years would be finalized. There would be actuals. We'd be able to tie that out per published financials or Form 1s, so that will be known.

The -- what -- and that's an average. It's a three-year average. It's -- the K-bar's capped. We talked about that, right? So that -- that is known at that point in time.

The prudency review of those investments would come in at the time of the next rate case. If you found any investments to be imprudent, the disallowance would happen at that time. Say we were proposing an extension of PBR or proposing PBR Generation 2, our castoff rates in that proceeding would be set at a level excluding that imprudent investment.

So I guess my point is, the timeframe between rate cases, K-bar and PBR is meant to provide a level of revenue support. That revenue support is not intended to provide recovery of any singular investment. It's not intended to cover dollar for dollar of what our investments are on our system.

So we have an inherent gap in between rate cases that -- we'll be working really hard to manage the business. There's inherent cost-control incentives that Mark and Augie can talk about in the PBR, and we are incented to do that.

But during that timeframe -- and Jon made a good point to me earlier, while we were going through this conversation, is it would be the same case as if we were applying just I minus X in this proceeding, and we had an X factor that was non-zero, right?

So that is a level of revenue support that is being acknowledged as necessary for the Company to execute its capital plan over that stay-out period. We're making a commitment to stay out of a rate case during that period.

So in -- in an I minus X scenario, you're providing -- you would be approving a level of revenue support and acknowledging that's appropriate in relation to the capital needs of the Company during that timeframe.

I don't see -- I don't agree with the fact that if there -- one singular investment that was found imprudent at the time of the next rate case, that that can be retroactively adjusted through the prior PBR adjustments.

I think your alternative scenario was the extreme; whereas, if you found a major founding of imprudence, it would mean something is materially going wrong at the Company, which we've provided, through our performance measures, transparency around that, transparency around our capital plan as well, so the investments we expect to make, and we've capped ourselves on what can flow through the K-bar during that period.

CHAIRMAN GOLDNER: Can you remind me what table we were looking at yesterday that had the K-bar calculation by year that we went through with Mr. Horton? I'm trying to find the -- I'm trying to -- I thought it was around 1434, but --

MS. BOTELHO: 1436.

CHAIRMAN GOLDNER: 1436. Oh, here it

is. Actually, 1437 is the one I'm looking for.

So I just want to pause here for a moment, because this is important in terms of the Commission's understanding of how this works.

So when I look at 1437 -- 1437, and I'll wait for you to get there.

MS. BOTELHO: I'm there.

CHAIRMAN GOLDNER: So what I understood yesterday from the Company is, for each vintage year, 2021 through 2027, there were plant additions, nominal, that were calculated in the next column over, 138 through 303, and then, on top of that, the Company has a -- is requesting a 10 percent, sort of, buffer on top of that so that the capital spending could be as much as 10 percent higher than each of those numbers. So far, so good?

MS. BOTELHO: So these are the plant additions. We also provide -- I know Mr. Horton committed yesterday to provide -- you had specifically asked, like, at what level of revenue would the Company be allowed to flow through K-bar plant additions through the calculations.

So we provided that calculation in DPU -- DPH-2, and that shows the way the calculation works. You asked about cap calculation. We have a five-year forecast, a capital spend forecast, and our cap would allow 10 percent over that forecast.

So I just want to be clear that we provided the calculation and the revenue totals in that schedule, but, essentially, yes, like 10 percent over our forecasted plan is in consideration for the cap -- for being eligible to flow through K-bar.

CHAIRMAN GOLDNER: Thank you. Okay. So -- so if I look at that column entitled Plant Additions Nominal, I can add 10 percent to that each year to see what the max is -- maybe the Company spends max, maybe they don't, but that's what the max is.

And my question is, really, how fixed is that column of nominal? Is that something that changes over the course, from between now and 2029? Is that something that the Company is suggesting is locked in for that period?

And I'm just trying to understand, from a ratepayer point of view, what people can expect, if this is going to be something that can vary or if it's something that's fixed.

MS. BOTELHO: Yeah, that's such a great question, and I don't know if this was clear yesterday, when Mr. Horton was going through it.

The five-year -- that four-year -- I think we presented five years, but that four-year capital forecast is locked in today.

CHAIRMAN GOLDNER: That's what I thought.

MS. BOTELHO: Yeah, so the cap that we are establishing -- establishing as part of this proceeding, the 10 percent over that capital forecast, is locked in today. That's our commitment. So over that timeframe, we have a level -- what we know today, we have a level of capital investment that we're planning to meet during that timeframe. 10 percent beyond that is what would be eligible to flow through K-bar.

It doesn't mean that we would necessarily spend above that or would be subject -- if we had to, we'd be subject to prudency review on those investments at a later time in the rate case. But that's what -- we would be capping our K-bar adjustment or the additions that could flow through the K-bar adjustment at that level, so that is known today. That is fixed. That wouldn't change.

And there's a supporting schedule, it's DPH-2, I can get the Bates number, that shows you at what level of revenues would be eligible to pass through the K-bar.

CHAIRMAN GOLDNER: Okay. So let's just use a specific example that confirms the Commission's understanding.

If I look at Line 12 on the pdf, which is 2027 -- pardon me -- there's the plant addition of 303, so the -- if the Company's proposal is -- as stated here, was approved, then the Company would be able to spend a maximum of -- I'm going to add 30 percent to 303, which is about 333, so that would be in the rate case.

That wouldn't change. The max that the Company would spend would be 333, period. There would be -- and I understand --

MS. BOTELHO: The limit doesn't change.

CHAIRMAN GOLDNER: That's the limit.

MS. BOTELHO: The limit doesn't change.

CHAIRMAN GOLDNER: Of the core investment. And I understand we're going to talk Tuesday about things that could be outside the core investment, but that would be the Company's commitment for maximum spending during the rate case period for -- well, in this case, for 2027.

MS. BOTELHO: Yes. Maximum spending is eligible to be adjusted through this mechanism.

So it -- it could be that we need to spend more than we know today during this -- for this period of time that we have a forecast in front of you. But, yes, so we would not be flowing through actual additions that would be exceeding the cap based on that forecast.

CHAIRMAN GOLDNER: So I like to use examples. So let's say the Company -- let's say the cap is 333 -- roughly 333 is the cap, and the Company spends 340; just that's what it happened to spend. The -- only 333 would go into the K-bar calculation. The rest would be subject to review in the next rate case.

MS. BOTELHO: Correct. And subject to the regulatory lag, subject to the prudency review as well, as would all other investments that we would -- we made during that time frame.

CHAIRMAN GOLDNER: Perfect. Thank you. Mr. Kolesar.

MR. KOLESAR: Yes, sir. I just wanted to make the point that that's the maximum that they would be able to pass through. The entire objective of PBR is to encourage them to not even get to the maximum. It would be to spend less, which is kind of what the objective of PBR is. So that might be where they max out, and they might end up having to spend more, but they're hopefully being provided, through the PBR plan, with an incentive to actually spend less, which is why they want to go to performance-based regulation.

CHAIRMAN GOLDNER: And I'm glad you paused on that point, because that was another thing I didn't fully comprehend yesterday.

So -- so let's -- let's use 2027 as an example, that 333 max. I don't understand yet the motivation for the Company to spend less.

MR. KOLESAR: So at the 10,000-foot level, the motivation for the Company to spend less is, in that given year, their return on equity would, in fact, exceed the allowed return. And through the earnings sharing mechanism, they would then share that additional earnings with ratepayers, so they would keep -- I forget what the number is --

CHAIRMAN GOLDNER: 25 percent.

MR. KOLESAR: -- 25 percent, and all the rest of it would be paid back. So they -- they have a profit-driven incentive to be as efficient as they can and to, in effect, spend less than what the formula would allow them to spend. And if they can do that, they actually end up with some upside, which they then share -- still the -- the whole objective of the PBR formula is to provide them with a spending envelope, a maximum revenue requirement in any given year, and if they spend less, they get to keep 25 percent of the upside, and the rest of it gets paid back to consumers. At the kind of 10,000-foot level, that's what the objective of this exercise is.

MR. COATES: And balanced against performance, still taking care of the customers, providing safe, reliable service to the customers.

MR. KOLESAR: Yes, which is why you have all the performance metrics that we spent a good chunk of the day yesterday talking about, to make sure that the Company is living up to its commitments while it's under the constraints of the PBR plan.

That's a very good point, sir.

CHAIRMAN GOLDNER: Understand, and thank you for that.

And I just -- I just want to sort of

finish with maybe just a pure numerical analysis, motivation as driven by numbers, and I realize that there's other factors, but let's stick with numbers.

So if the Company spends -- if the Company spends 300 million instead of 330 million, then they would get, if I'm not wrong, a weighted average cost of capital on that capital investment. Alternatively, they would, if they -- if they spent the -- if they spent the 300, they would get the 25 percent.

And what I was trying to ask yesterday is, I haven't put pencil to paper on that, but which one is better? Would you -- would the Company receive more money by spending 300 or spending 330? Just -- again, this is just pure numbers, and I realize there's other factors involved, but has anyone done that calculation, which one returns more money to the Company?

MS. BOTELHO: So this is where the context is important, because at the level of investment that we're forecasting -- excuse me -- the earnings sharing -- we're not forecasting that we would be actually triggering earning sharing in any given year of the plan, so that's an important context to this discussion, meaning, like, the level of investment is outpacing what we can --

CHAIRMAN GOLDNER: That's a good point.

MS. BOTELHO: -- even feasibly put in rates to collect revenues, even with the design of this mechanism.

So really important -- like, Bob's point is very important. We are looking at -- and we have designed this plan based on the capital investment needs of the system. And we're looking at what we think is the best option for -- for customer -- our customers, as far as, how can we achieve all the necessary investments during this timeframe and provide a level of rate stability for customers so that, at the time of the next rate proceeding, they're not experiencing rate shock. We're able to smooth those over time, still make the necessary investments, and the team will go through all of the ways that we plan and how we develop that plan and why they are necessary.

But we are, essentially, trying to solve -- create a rate solution with that in mind. So we've seen in Massachusetts, in our experience, we're in a second-generation PBR plan today -- now, currently, so we executed the first generation. It was a five-year rate plan. Over that timeframe, NSTAR Electric customers experienced about 1 percent increases in their total -- total bill. I can get the distribution number, but total bill over that timeframe, very modest.

At the time that the Company went into the next rate case, even in light of all the storm activity, which NSTAR Electric experienced similar to what we're seeing here in New Hampshire, that rate increase on a total basis -- and a little bit of a different dynamic in Massachusetts. There's not a temp and permanent rate increase. It's all lumped into one rate increase. We experienced only a 4 -- customers experienced only a 4 percent increase at the time of the rate case following PBR.

That, to me, is providing rate stability to customers, right? Modest rate increases, we're able to commit to a level of investment, achieve those investments, and provide that stability for customers.

So we've done analysis on those benefits that we see are easily transferrable, and what we see is a good thing for customers in New Hampshire.

I think that analysis is important, because we have experience -- we executed it as a Company, and going into the second-generation rate plan, we're seeing those same -- with K-bar. We didn't have K-bar in the first generation. We're seeing those same modest increases.

So, hopeful, at the time of the next NSTAR Electric rate case, we would have even more evidence to show that the rate increases, when you come in and you rebase that -- the revenue requirement is otherwise lower than it would have been under PBR versus traditional cost-of-service ratemaking.

So I know I threw out some numbers there, but really, we're working off of the known mean on the system to design the rate -- the appropriate rate plan for the customers over this timeframe. When we look at the forecast, it's not feasible to file rate cases every two years. That -- that is what the alternative would be, because the current step adjustment framework would not work at the level of capital investment that we're seeing.

So we have a lot of analysis on that. Happy to provide it. But I do think that's a critical aspect of why we're here and why we proposed this plan.

CHAIRMAN GOLDNER: And I guess my encouragement would be to -- for the Company to really put its, sort of, formal thoughts together on why the benefits to PBR -- understanding some of them are softer metrics, and it's the Company's reputation and brand and so forth, and I totally understand that, and service metrics, and I totally understand that.

But the other piece of it is the

numerical piece, and in the end, shareholders do care about brand, and they care about the Company's reputation, and so those are real factors.

But the numerical piece is also a real thing. Like, does the Company benefit from spending more or not benefit from spending more?

So I think the Commission would be very interested in -- in understanding that a little bit better over time, but I appreciate the perspective on that, and that's -- it's rounded out the picture, so thank you.

I just want to briefly return to the original question, which was if -- if there's -- if there's a prudency review that -- where the capital is ruled imprudent. I think I understand. I just want to repeat it back.

So the Company, because it's fixing the K-bar, and that's fixed in the rate case, then -- then the Company's sort of -- that -- there's an intentional disconnect between the Company's actual capital investment, and what it's -- I will call it its budget is for capital investment.

In any case, regardless of how much the Company spends in the next rate case, let's call it 2029, there's a prudency review of all that capital in the normal way -- in the normal -- I'll call it the normal cost-of-service way, and that's when the true-up happens.

Did I describe that more or less accurately?

MS. BOTELHO: On a prospective basis. So, essentially, if a finding of imprudence happened at the time of the next rate case, it adjusts rates going forward. It would factor into any K-bar analysis going forward.

CHAIRMAN GOLDNER: Right.

MS. BOTELHO: But there wouldn't be a credit owed to customer for the period.

CHAIRMAN GOLDNER: Right. Which makes sense, because you're fixing the K-bar, which was ostensibly agreed to by all the parties upfront, so that's just the budget, so -- to me, that makes sense, so no problem. I just wanted to make sure I understood how that worked. Okay.

CMSR. CHATTOPADHYAY: Dan?

CHAIRMAN GOLDNER: Yes.

CMSR. CHATTOPADHYAY: Can I just --

CHAIRMAN GOLDNER: Commissioner Chattopadhyay, please.

CMSR. CHATTOPADHYAY: I just want to understand mathematically what's going on. So let's say -- so we're going to go back to the plant additions worksheet, okay?

Let's say nothing else changed, except, like Chairman Goldner indicated, let's say 2027e, that that number, what transpires then becomes 333, okay?

What I understood yesterday -- and 12 hours or 16 hours is a long time when you sleep. I certainly may not have gotten everything, you know, correctly. But the K-bar is being -- is based on actual numbers --

MS. BOTELHO: Correct.

CMSR. CHATTOPADHYAY: -- ultimately? So at 301, that is happening for 2028, okay? Which is pdf Row 17?

MS. BOTELHO: Yes.

CMSR. CHATTOPADHYAY: If everything else remains unchanged, except for the thought experiment that we are doing, then that number, 301, will be not 300 and -- so the 903 that comes above that, right, the number that goes into that would be 333 for the year 2027, correct?

MS. BOTELHO: Yes.

CMSR. CHATTOPADHYAY: And because you're still doing divided by 3, you're only picking up one-third of those 30 million?

MS. BOTELHO: Correct.

CMSR. CHATTOPADHYAY: I just wanted to make sure I understand.

MS. BOTELHO: That's right. And that would inform -- so your higher level of investment in that year would inform the average over the next three years.

So when we talk about an increase in any singular year, you're not getting a full -- the full amount over that cap, so the 3 -- the 30, I think, is the difference between the 303 and, you said, 333 is what you're working with in '27, right?

CMSR. CHATTOPADHYAY: So -- so, basically, the 301 will go up to 311?

MS. BOTELHO: Yes.

CMSR. CHATTOPADHYAY: Thank you.

Okay. I think we can move on to the next topic.

In 1-009, the question is, does the Company have an obligation to file an exogenous event that's to the benefit of ratepayers?

So, let's say, for example -- well, I guess in either direction, so if taxes went up or down -- if there was some kind of change at the federal level that taxes went up or down, does the Company have to file if it meets the threshold in either direction?

MS. BOTELHO: Yes. If it's a benefit to customers or a cost to customers, right?

So if the tax rate went down, we would owe customers money, because rates wouldn't be reflective of that lower tax rate. We would consider that an exogenous event.

CHAIRMAN GOLDNER: Okay. And can you remind me what the threshold was for determining an exogenous event.

MS. BOTELHO: Yes, it's 1.5 million, and the way that we arrived at the number, so I believe it was a 2000 --

CHAIRMAN GOLDNER: It was the one million, plus inflation thing --

MS. BOTELHO: And then rounding up.

CHAIRMAN GOLDNER: Yes. I didn't point out that you could have rounded down yesterday, but that's -- that was obvious.

MS. BOTELHO: We wanted to take a conservative approach.

CHAIRMAN GOLDNER: And, at one point, I mean -- I guess my reaction to the 1.5 yesterday was that it's -- it seems like a very small number for a Company the size of Eversource. So I understand you went back to the last rate case, and you used inflation, and I get how you got there, but it doesn't sort of -- it doesn't make a lot of common sense, given the size of Eversource. And I just wanted to sort of ask if the Company had considered another point of view, given the size of the number and the size of the Company.

MS. BOTELHO: We did look at the exogenous levels or thresholds we have in other jurisdictions, and it's comparable to the size, so we have analysis on that that we could provide. So we did test --

CHAIRMAN GOLDNER: We're keeping Attorney Chiavara busy over there.

MS. BOTELHO: Yes. I'm sorry. If Mr. Horton were here, he would just know off the top of his head, so --

CHAIRMAN GOLDNER: That would be helpful for the parties and for the Commission, because you're talking about within the Eversource jurisdictions, you have --

MS. BOTELHO: Correct.

CHAIRMAN GOLDNER: -- similar -- and would that be just Mass., or would there be other jurisdictions where you have exogenous events?

MS. BOTELHO: I believe it's just Mass. for both electric and gas. I don't believe -- I don't handle Connecticut. I don't believe we have an exogenous provision in Connecticut.

CHAIRMAN GOLDNER: Okay. Do you have PBR in Connecticut?

MS. BOTELHO: No.

CHAIRMAN GOLDNER: Okay. That's why. That's why.

MS. BOTELHO: I mean, but we have entered into settlements where exogenous provisions are part of that. So, for instance, in Massachusetts, we have Eversource Gas in Massachusetts. There's an exogenous provision based on a Settlement Agreement that was a settled result, but we have other litigated results as well.

CHAIRMAN GOLDNER: And in some of your testimony, I noticed that there is a fair amount of competitive analysis on different aspects, which the Commission appreciates, and it is encouraged in all respects, so -- and that includes -- I'm not sure what to do with Canadian data. You know, no offense, it's just -- it's just a different, you know, country.

(Indiscernible comment from the floor.)

CHAIRMAN GOLDNER: It was -- but it's

appreciated, because I think an international view is a view that is helpful. It's just, I'm not sure how to translate it into the U.S. data. But -- and I know Eversource doesn't operate in Nevada or in Iowa or whatever, but it is -- it's helpful to have other points of view across the country that's balanced, some good, some bad, but just throw it out there for the parties to consider, and, ultimately, for the Commission to consider. Competitive data is helpful.

So we appreciate what's already been done, and the encouragement would just be the more, the merrier, with respect to competitive data, in all the different aspects, including exogenous events.

So the last thing I'll ask before I turn it over to Commissioner Chattopadhyay is just to really follow up on the prior line of questioning, which is, where the Company operates PBR plans, for how long have they operated those PBR plans? And then, how do these -- how does what the Company -- I know that there's a PBR in Massachusetts. It sounds like there's a couple of iterations there. What did the Company propose there? What was approved the first time? What was put second time -- what was approved the second time? How does that relate to New Hampshire? If you could just give us some perspective on your experience with these in Massachusetts. And it sounds like in Connecticut, it's not going in that direction, and why.

MS. BOTELHO: I'm a little less -- Doug would probably be better to speak to the direction in Connecticut. I'm not as involved.

But I have been involved in implementation of the PBRs in Massachusetts. And it's been a journey, so at least -- so I started in Revenue Requirements in 2011. The first PBR plan that I was involved with was in 2017 for NSTAR Electric Company. So I do know -- and I am aware, prior to that point in 2017, Massachusetts had had other PBR plans dating back to the nineties as a result of settlements and whatnot. So I'm a little less familiar with those, but I can walk through those I've had direct experience with, and we could have a follow-up on the prior PBR plans.

CHAIRMAN GOLDNER: Those would be perfect, so thank you.

MS. BOTELHO: Okay. Perfect. So 2017, NSTAR Electric made the first proposal for PBR. It was a traditional PBR, I minus X. We had a productivity factor. Had a consultant, similar to Augie and Mr. Kolesar, come in to run a TFP study that produced an X factor.

The impetus for proposing PBR was much like why we're here today. So we had an increasing capital investment need on our system. The current framework was not sustainable. We were forecasting that we would be filing rate cases every two years at the time, at the level of capital investment that we were seeing and the need on the system, so we started to look at alternatives.

And for Massachusetts, the alternatives were a capital cost recovery mechanism, a capital tracker or PBR, were the two mechanisms that were employed in

Massachusetts at that time.

So for -- and we did a lot of analysis. The capital trackers were, at that time, limiting in the way that the -- the way the calculation worked, where it resulted in a severe lag in when you were allowed to recover the revenues associated with historical maintenance service.

So that approach still would have resulted in frequent rate cases because of the inherent lag that we were forecasting at that time.

So we looked at PBR. We proposed a traditional PBR, but it's been a journey that -- I would say that PBR, for that time and the capital forecast and what we were able to achieve during that time, was appropriate, and it worked at that time. We talked about the modest increases for customers resulting from PBR and then in other --

CHAIRMAN GOLDNER: I'm sorry for interrupting. Just on your journey, what I'd like to sort of start with is, like, where did you have flat tires on your journey? Like, what didn't work? When did you discover, boy, that just didn't work and we're going to change direction? Please.

MS. BOTELHO: Sure. Good question. If I could just confer.

CHAIRMAN GOLDNER: Oh, sure, Of course.

(Conferring.)

MS. BOTELHO: I just needed to check, so -- and why I checked. So we had -- at that time, that level of capital investment and the needs of the system, the I minus X proposal worked for that forecast. It provided a level of revenue support that was able -- we were able to sustain a stay-out commitment, so we -- we stayed out for that period of time. It was a five-year stay-out during that time. And we were able to invest in the system. We had maintained our commitment at the level that we forecasted at that time.

So there are a lot of factors going into the proposals. You look at it the -- the way we look at it in the finance organization is we look at, what are the needs over the next five years; what is the rate plan that's best suited to those needs, right? So every time that we have gone in for a rate case, we do that exercise and thought analysis, and it's not a one size fits all, right?

So first gen -- I would say first-generation PBR, it was a traditional PBR. It was what we needed for that time frame, the capital investment levels, and the associated revenue support.

Coming out of that rate plan, what we saw for NSTAR Electric -- and it happened during the proceedings, so our next rate case after that was 2022. So the 2022 rate case was the start of where we were proposing to extend PBR. We found it to be really successful, both from the customer perspective and our ability to stay out of a rate case and maintain our level of investment. We also saw opportunities and efficiency gains as well. And we have done -- we did analysis on that.

So 2022 rate case, our initial proposal was to continue that framework, so the I minus X framework. We proposed a productivity framework at that time.

During the course of the proceeding, we found, I would say -- we presented an alternative proposal, because we found our capital investment during the course of the proceeding -- it's a 10-month proceeding. Our capital forecast for the next five years was going significantly up. So what we had initially proposed in 2022 wasn't where we landed, ultimately, in the proceeding and on that journey.

So we looked at -- in light of the capital investment needs for the next five years, we realized that the traditional I minus X formula wouldn't allow us to stay out of a rate case for the period of the stay-out commitment. So --

CHAIRMAN GOLDNER: And that's when you invented K-bar, or like, why did that happen?

MS. BOTELHO: We didn't invent it. So

our consultants at the time --

CHAIRMAN GOLDNER: They invented it.

MS. BOTELHO: He did.

CHAIRMAN GOLDNER: I knew somebody invented it somewhere in there.

MS. BOTELHO: So we consulted our consultant at the time. So we had this problem -- we had a problem. Our business is telling us -- our operations are telling us that we have a significant increase in our forecasted capital. How are we able -- now we're in the middle of a rate case. How are we able to commit to a stay-out, achieve the -- achieve the inherent benefits that we see in PBR by staying out of a rate case.

And Doug mentioned yesterday, we prefer not to file rate cases, right? We don't -- they're an administrative burden on all parties. So how do we design a rate plan that holds the inherent incentives that PBR has, and then also allow us to commit to that stay-out period.

So we proposed K-bar. I would say --

CHAIRMAN GOLDNER: I'm sorry. This is NSTAR 2022?

MS. BOTELHO: NSTAR 2022.

CHAIRMAN GOLDMAN: And that is the first implementation of K-bar anywhere in the world that you are aware of?

MS. BOTELHO: First implementation in the U.S.

CHAIRMAN GOLDNER: I think in the telecom space, you might have had it for longer.

MR. KOLESAR: No. The very first time it showed up was in the PBR-2 regime in Alberta.

CHAIRMAN GOLDNER: Okay. Okay. What was the first time it was implemented in the U.S.?

MR. KOLESAR: I think it was NSTAR, was the first time it was implemented in the U.S. The first time it was implemented in Canada was -- I think it's 2020 -- 2018. I can't recall the exact year, but --

CHAIRMAN GOLDNER: Close enough.

MR. ROS: I'd just like to add also, telecom, they didn't have K-bar necessarily. The

I minus X was usually sufficient.

CHAIRMAN GOLDNER: Okay. Okay. And that's -- and maybe not to -- maybe I'm just restating the obvious here, but the I minus X mechanism, it sounds like, was used for a long time in the telecommunications space. I think your testimony might have said the nineties.

And then, when it was deemed insufficient, this K-bar mechanism came into place, it sounds like, 2018 in Alberta, followed by NSTAR in 2022, and that's kind of the short history of how PBR got to this place; is that roughly what's happened?

MR. ROS: Yes. I would say that's just generally correct. In telecom at the time, you had fast-growing services, you had price gaps, you had competition, so PBR was used also as -- not only to provide additional incentives to the telecommunication companies, but also as a bridge to more competitive markets, because the price gaps allow the companies to engage in more efficient pricing to meet competition.

So my recollection is the conflict of

a K-bar just never came up in telecom, because the revenues produced from a good I minus X was sufficient. When they first implemented this in electricity, I think they came to the realization that there's a risk if you rely entirely on I minus X, given the capital requirement and needs in the electricity industry and given the lack of output growth that's comparable to the telecom.

So there may have been a couple of jurisdictions that did PBR without a K-bar in electricity or a capital tracker, but it was very rare. Most of them have developed that. You need something in addition to the regular I minus X in the electricity sector.

CHAIRMAN GOLDNER: So if you're in a growing business, this is some -- sort of unnecessary. And I think Mr. Horton might have said yesterday something to the effect of, you know, conventional ratemaking can still make sense in some environments.

But given the -- in the short term -- it sounds like maybe in the longer term, there is growth again. But at least in the short term, meaning the next five years, there's no -- there's no load growth, so one has to figure out how to build the capital that needs to be built, and so this inflationary plus K-bar is the mechanism that's being recommended to deal with the specific environment; is that -- is that right?

MS. BOTELHO: Yes.

CHAIRMAN GOLDNER: Okay. Thank you.

Okay. It's good just for the Commission to understand the big picture, so I appreciate patience walking us through something you guys already probably knew.

MS. BOTELHO: No, this is good. This is a great conversation.

So where was I on the 2022 journey?

CHAIRMAN GOLDNER: It was complicated. I remember that part.

MS. BOTELHO: Yeah, it was complicated. I've lived it, if it's any consolation.

MR. KOLESAR: Rebuttal testimony.

MS. BOTELHO: Rebuttal testimony. Oh,

yeah, so we -- in the course of that proceeding, we realized the capital investment needs were growing, not necessarily all due to load growth, but also, like, aging infrastructure. We saw --

CHAIRMAN GOLDNER: NSTAR is the same environment? I assume, that growth -- I don't know. I'm just asking, are they also flat?

MS. BOTELHO: No. I would say, like, there's a different approach in Massachusetts that you may be familiar with, but there's a -- there's a forecast of the growing demand on the system due to electrification, and there's been policy that aligns with that in Massachusetts, so I don't know -- I --

CHAIRMAN GOLDNER: So then, why would you need K-bar then if you're growing?

MS. BOTELHO: I think you're -- I heard you with -- struggle with this yesterday, and my take on this was that, not all investment equals load growth on the system.

So New Hampshire's unique. We have -- and the DSP -- and Bob can talk to this. But we have specific needs in New Hampshire, aging infrastructure, that is not all translatable to load growth on the system, right? So although our investment -- capital investment needs are growing, that doesn't necessarily mean our load is growing and equates to revenue growth during that timeframe that could be used to fund capital investment in the -- in that period between rate cases, right?

CHAIRMAN GOLDNER: Am I -- I'm sorry, just real quick. My question around NSTAR is, if NSTAR is projected to grow, then why wouldn't an I minus X be sufficient?

(Conferring.)

MS. BOTELHO: Yeah, so, Jon, you can weigh in as well. So Jon Kallen.

But he reminded me that, like, the level of sales growth is not growing at the pace of -- not even near the pace of the capital investment needs.

CHAIRMAN GOLDNER: Okay. So it's really the same problem. It's just your capital needs are growing at a faster rate than our load growth. And so, just because it's flat in New

Hampshire, it's not -- it's the -- it's the relative pieces that matter. It's the relativity of the two factors.

MS. BOTELHO: Exactly. Exactly.

Like the annual expense that the capital plan needed, the depreciation expense associated with that capital investment, is far outpacing anything we would get through organic load growth.

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

MS. BOTELHO: And that dynamic exists in Massachusetts as well, currently. During the terms of the first-generation and second-generation PBR plans, we had minimal load growth, if -- less than one percent load growth. So virtually, no revenues to support investment between rate cases, and even more, in the context of the level of investment we needed to employ during that time frame.

And I don't -- Mr. Coates, I don't know if you want to weigh in on investment, but it's an important --

MR. COATES: Just a comment, you know, correlating load growth to capital growth, and they're not linear.

When I was the VP of Western Mass. Electric, back then, we had the same challenge. It was, in fact, negative load growth. But aging infrastructure -- we still had customers coming on, but it didn't represent a revenue increase -- drives this need for investment.

And the capital tracker -- programmatic capital tracker became very much onerous. We had to find a different solution. Otherwise, we would be going in for rate cases in a very lumpy fashion, having -- to use your words, you know, adverse customer reaction to this.

So I think that's one of the journeys that drove us to say, all right, we did X minus 1. Now we need to say, how do we account for and address this capital challenge that we're facing in funding the capital challenge, and that's the journey that we have been on.

CHAIRMAN GOLDNER: Okay. That's very

helpful. I mean, just in the big picture, at least my understanding, after a day and an hour of testimony -- not testimony -- of discussion, is -- not testimony; not testimony -- is that the Company has -- understands what it believes it needs to spend, and it's come up with a mechanism, inflation plus K-bar mainly, that -- having scoped the Company's core investments. It's been used in NSTAR, it sounds like, beginning in 2022. And so I'll just return to that.

So now you've had a couple of years of NSTAR -- it sounds like that's the only implementation, but how is it working?

MS. BOTELHO: Yeah. So we would have just filed for our second PBR increase, and I would say it has been right in line with our forecast that we had for the rate case. So forecasts from a billing cap perspective and the revenue increases --

CHAIRMAN GOLDNER: Are you at the ceiling? Are you at the plus-10 percent, or are you operating at the nominal?

MS. BOTELHO: No. We have not exceeded the cap in those two years.

CHAIRMAN GOLDNER: Are you operating at the nominal or at the plus-10 percent? I know you haven't exceeded it, but which zone are you operating in; do you know?

MR. KALLEN: Relative to the cap, I would say we're -- we're not really anywhere near. We're not really anywhere near. So if the cap, let's say, was, say, 700 million or 600, we're at, like, 550 or 500. We're on the same --

CHAIRMAN GOLDNER: You're really nominal.

MR. KALLEN: We are on the same trajectory. Yeah, we're on the same trajectory, but not at the cap.

CHAIRMAN GOLDNER: Okay. I don't want to put words in your mouth here, but it sounds -- the math in my head says you're operating roughly at nominal, as opposed to roughly the 10 percent cap; is that a fair summary?

MS. BOTELHO: Yes.

CHAIRMAN GOLDNER: Okay. Good to know

the history.

MS. BOTELHO: Yeah, so -- and so we have only had two adjustments. The adjustments have been about a little less than what we had originally forecast, because we have not been at the nominal level. We have been slightly below and definitely not exceeding the cap, as Mr. Kallen had mentioned.

So overall, again, it -- it aligned -- the rate impacts that customers are seeing during that timeframe are pretty consistent with what we had proposed in the initial filing as well. I would say they're even a little less. I had information, like, for instance, from the beginning of 2017, what the rate impacts have looked like for customers under PBR, both first generation and second generation with K-bar. Similar dynamic to what we're proposing here. That first adjustment is typically larger than the following investments in the later years.

CHAIRMAN GOLDNER: Have you -- sorry for interrupting. Have you received any feedback from the Mass. regulators on how this is going?

Are they satisfied? Are they unsatisfied?
What's their -- what's their feedback to you in terms of how this regulatory framework is working?

MS. BOTELHO: Great question.

We have -- so you're asking about feedback on K-bar, correct?

CHAIRMAN GOLDNER: PBR -- PBR at large, but, for sure, including K-bar.

MS. BOTELHO: They weighed in on our first-generation PBR plan through the order and through the extension of the new plan.

I would say it's been favorable, from what I've seen out of the first -- the first phase, the first generation when we came in from the second -- gaining approval from the Commission.

One thing that I -- I think why they liked K-bar is because it was more directly tied to the performance of the Company and what we were able to achieve, meaning they're able to see -- as opposed to an X factor, they're able to see what our capital investment commitment was during the rate case, as well as how we performed against that investment level, right?

So K-bar is more directly tied to our specific performance. If we -- meaning, on our specific investments that we make on the system. So they're able to see and monitor from that perspective.

And I don't want to pontificate on how the Commission viewed our case, but this is my interpretation, so just so you know, is that it's more easily transparent and more directly aligned to the Company's own investments that we've been able to put in service, that's what's flowing through the K-bar, and then as compared to the commitment we made at the time of the rate case at the capital -- with the capital forecast that was fixed at the time.

So similar dynamics to what we have here. We had presented a capital forecast that was fixed, and we're being measured against that forecast. Our cap is based on that forecast as well, so they'll be able to monitor, through an annual filing that we make and we provide.

Similar to the exhibits that we've walked through between yesterday and today, those are the exact schedules we provide to the regulators in Massachusetts, so there's visibility around how we're performing against what we forecasted at the time of the rate case.

So, in that way, like, the K-bar adjustment is more directly able to be monitored as compared to the commitments in the rate case.

CHAIRMAN GOLDNER: Do you operate in other jurisdictions in Massachusetts, or is it just NSTAR?

MS. BOTELHO: Yeah. So we have NSTAR Electric Company, Eversource Gas in Massachusetts, and NSTAR Gas Company.

CHAIRMAN GOLDNER: But no other electric?

MS. BOTELHO: No other electric. NSTAR Electric Company -- just to be clear, Western Mass. Electric Company merged into NSTAR Electric Company, so we have both the legacy --

(Conferring.)

MS. BOTELHO: That's when I first met

Bob.

CHAIRMAN GOLDNER: Okay. All right. It's starting to come together.

And then you suggested that nobody here could comment on Massachusetts -- I'm sorry -- Connecticut, where you also operate, of course.

Is there -- is there any way they could comment on that, or must we wait for Mr. Horton?

MS. BOTELHO: If you could give me a moment?

CHAIRMAN GOLDNER: Oh, sure.

MS. BOTELHO: Okay. So I think we have Paul, who's been involved in the Connecticut proceeding, likely from a metric perspective. And then Doug has been in attendance at the technical sessions in Connecticut related to PBR, so I would prefer, on the rate side, to wait for Doug. But if you have any questions on the metrics piece of it.

CHAIRMAN GOLDNER: You know, we can wait. I suppose the reason I'm asking is obvious, but you -- it sounds like the Company's position is you have had a good experience with NSTAR in Massachusetts. You brought -- you imported that over, more or less, to New Hampshire. I didn't detect any significant differences in the proposal. But in your large Connecticut operation, there's -- there's no PBR.

So that is just good for the Commission to understand what's happening; why are you presenting it here. It sounds like you have been working in Connecticut for a longer period of time, and it's -- it's not -- not going as it did with NSTAR in Massachusetts. So the Commission is just trying to understand what's going on.

MS. BOTELHO: Yeah. It's a great question. Different -- different framework -- different regulatory frameworks. And I know, in Connecticut, they have a capital tracker, and, typically, they employ, like, a forecasted test year for their -- at the time of their rate plans and rate cases. So we haven't -- I'd have to look back at the dates, but I don't know that we have filed a CL&P -- a Connecticut Light and Power rate case or Yankee Gas rate case prior to -- or following the -- the Massachusetts rate cases where we've proposed PBR, so --

CHAIRMAN GOLDNER: So you have not proposed PBR in Connecticut?

MS. BOTELHO: We're not in front of the Commission on any rate cases for either Company, which is where we --

CHAIRMAN GOLDNER: In the past, you haven't either, so no PBR proposals were ever made in Connecticut; is that right?

MS. BOTELHO: No, but I think it's a function of the timing. So we haven't filed in Connecticut.

MR. KALLEN: In Connecticut, the precedent is three -- they have -- they do have a forecasted rate year, and then they have basically -- it's basically three forecasted rate years of all capital.

And then, I think, like Ashley was saying, they have a capital tracker to handle the uncertainty -- the uncertainty between what really happens and what they knew at the time of the rate case.

So PBR didn't really, at the time -- which would have been, I think, '17, '18 and -- sorry -- '19, '20 and -- ending in '20. I think PBR -- like she was saying, the timing for PBR didn't align with Connecticut, and, plus, their framework -- their precedent kind of dictated a different -- a different approach.

MR. COATES: Yeah, I just want to comment just from the perspective of Eversource. Please don't infer that it was not adopted or submitted or approved in Connecticut as a strategy, that -- that we didn't believe in the process. It's a very different regulatory environment.

And to the point of timing. In that timing, the pandemic, a lot of other concerns arose in Connecticut that have kind of taken the Company in a different direction.

So I just wanted the Commissioners to recognize that it's not for the lack of belief in PBR. It was just the timing and different regulatory and, frankly, legislative situation in Connecticut.

CHAIRMAN GOLDNER: Okay. Because the obvious question is, you proposed a Massachusetts model here in New Hampshire. I understand that. You did not propose the Connecticut model here in New Hampshire. I don't understand that.

So what's -- why would you -- why did you propose the Massachusetts model as opposed to the Connecticut model, I guess is the question? And I know you operate in other jurisdictions, as well, so just trying to understand the Company's point of view.

MS. BOTELHO: So I would say New Hampshire, from a ratemaking perspective, is more in alignment with the historical Massachusetts rate plans that have been in place.

So in New Hampshire, you've taken a historical ratemaking approach to resetting your -- the revenue requirement in -- for base rates. You've allowed a framework of -- we have a framework of step adjustments on an annual basis, which provides some level of revenue support.

Massachusetts is similar in the sense that, it's a historical rate setting at the time of a rate case. They do allow revenue support between rate cases through the form of PBR. Alternatively, in Massachusetts, there's been capital cost recovery mechanisms as well between rate cases.

In Connecticut, it's going back to what Jon said, a little different of a framework. Typically, when filing a rate case in Connecticut, they use -- they have employed, in the past, forecasted test years. So when they're setting their base rates, they set their rates for a three-year outlook in time, which is very different than an historical ratemaking context.

And that's what, in Connecticut in the past, has been employed. Whether that will be employed in the future is yet to be determined. I think Doug can probably speak to the direction of -- of -- in Connecticut of PURA on that, but a very different, in my mind, framework that has been employed, historically.

So when we go in for each jurisdiction, we look at that jurisdiction, not only the investment needs for that jurisdiction, the customer rates that would result out of those decisions, and that specific jurisdiction's needs. So they can all be sized for the policies in the state, as well as put in the historical policies of the state as well. And that's how we've approached our proposal.

Here in New Hampshire, we see the benefits of PBR. We see greater rate stability for customers. There's inherent cost controls in the PBR. I do think that's in alignment with -- I won't pontificate. I think -- I think it is a good thing for customers and why we have made the proposal here.

CHAIRMAN GOLDNER: Okay. Thank you very much. I see it's 10:30. Let's take a break, returning at -- it's a little bit past 10:30, so let's break, returning at a quarter of, and we'll pick up with Commissioner Chattopadhyay.

Attorney Dexter, I'm not sure if we'll

get to your questions before or after lunch, but it could be either way. So if you could be prepared for either, we would appreciate that.

MR. DEXTER: Yes.

CHAIRMAN GOLDNER: Thank you. Okay. Off the record.

(Recess taken.)

CHAIRMAN GOLDNER: Back on the record.

We'll move over to Commissioner Chattopadhyay's questions.

CMSR. CHATTOPADHYAY: Just give me a minute. I'm going to open the files.

Okay. Let's go back to K-bar for just a few minutes. As I understand K-bar in Massachusetts, the 2017 PBR approach didn't have a K-bar.

MS. BOTELHO: Correct.

CMSR. CHATTOPADHYAY: It was first introduced in 2022?

MS. BOTELHO: Correct.

CMSR. CHATTOPADHYAY: And was that filed right at the beginning, you know, when the original filing had the K-bar in it?

MS. BOTELHO: It did not. So our initial filing was an extension of the traditional I minus X formula. In the travel of the case -- we run our capital forecast, our five-year capital forecast, every year, and Jon can speak to this process.

We received a new capital forecast from the business, where they were forecasting substantial increase in investment, where we looked at our proposal that we had in front of the Department, and presented an alternative because of that forecast. Because we had realized that the traditional I minus X was not going to be sufficient for us to commit to a stay-out of five years.

CMSR. CHATTOPADHYAY: This is a question for the Company as well as the consultants.

So in the original filing, there was no K-bar, and then you all sat down and figured out that was, within quotes, needed. Was the K-bar in Alberta introduced after that, or did you -- did the consultants already have the idea of K-bar at that point in time?

MS. BOTELHO: I can answer this. I don't think -- we didn't have the same consultants for the 2022 rate case as those present today.

So during the proceeding, we presented evidence of, within those jurisdictions, the alternative -- you might remember this -- the alternative approaches that have been adopted or additional factors for PBR in other jurisdictions, so we had -- I recall two scenarios. One was a K-factor or a K-bar that had been implemented in Alberta. The alternative is not coming to memory. I only remember the acronym, ICM. And one was implemented in Ontario. It was the ICM.

I don't have -- I don't know -- I only know the acronym. I'm not sure -- we didn't end up recommending that approach. (Conferring.)

Incremental Capital Model, so it was an approach that was adopted in Ontario.

So we presented evidence on what those approaches were in the proceeding. We explained those two approaches as proposed and implemented in Alberta and Ontario. Ultimately, we had proposed, in the travel of the proceeding, to go with the K-bar approach, but we did analysis for both scenarios.

MR. KALLEN: If memory serves, I think the Ontario one was more -- more -- you're paying more attention to individual projects, so I would say it was kind of closer -- it resembled more a capital tracker, sort of, because it identified individual pieces of capital that would flow through rates; whereas, K-bar was more attempting to establish a revenue requirement based on a reasonable level of capital investment that we can expect for the Company; whereas, ICM was more -- more like a step increase, I would say.

That's my perspective. I'm not sure if they would --

MR. KOLESAR: Yes, that's pretty much it. That's a pretty reasonable explanation of how the Ontario ICM worked.

CMSR. CHATTOPADHYAY: So can you confirm, then, that K-bar has only been

implemented by Eversource Company in the U.S.?
MS. BOTELHO: In the U.S. only. I believe it has only been implemented by Eversource in the U.S.
MR. KOLESAR: No, that's not true. It's also been implemented by Unitil --
MS. BOTELHO: Oh.
MR. KOLESAR: -- in Massachusetts.
MS. BOTELHO: So we have -- so, sorry I wasn't thinking outside. The other companies in Massachusetts, there have been forms of K-bar adopted in Massachusetts for another utility, Unitil.
CMSR. CHATTOPADHYAY: So would it be fair to say that K-bar has been implemented only in Massachusetts as far as the U.S. is concerned?
MS. BOTELHO: Yes. And I'll just -- yes.
CMSR. CHATTOPADHYAY: So, and the K-bar concept is a Canadian export?
MS. BOTELHO: Yes, it was -- we -- when we researched it to propose the 2022 rate case, it was adopted in Alberta, and we relied on

the calculations in that proceeding for how we modeled it here today and in Massachusetts.

MR. ROS: Can I add a point? The sample size in the U.S. is extremely small in terms of PBR examples. There's Massachusetts and Hawaii.

MR. KOLESAR: That's about it, yeah.

CMSR. CHATTOPADHYAY: And that's good to know, informationally speaking.

Okay. I heard that for the 2017 NSTAR PBR, the stay-out period was five years?

MS. BOTELHO: Correct.

CMSR. CHATTOPADHYAY: What is the stay-out period now for the 2022 implementation?

MS. BOTELHO: Sure. It's five years, but we anticipated an ability to potentially extend the term by another five years. We have an option to do that at the end of this term. We would make that assessment, if the Company could commit to a further stay-out, but the initial stay-out period is five years for the current 2022 rate case.

CMSR. CHATTOPADHYAY: Was the original

filing also with a stay-out period of five years or --

MS. BOTELHO: Yes. And, typically in Massachusetts, there's a legal requirement. There's a law that electric companies must file every five years, so that was the reason for a five-year stay-out, is that there's a law in place.

CMSR. CHATTOPADHYAY: Okay. I'm going to change topics a little bit.

Throughout the filing, I see that the term "balanced PBR" has been used. And I, having spent time on PBR myself as an economist, I know a little bit about -- for example, there's something called comprehensive PBR.

Okay. I'm just trying to understand, what does the Company really mean by "balanced PBR"? Is that a term that is used, you know, commonly, or it's just -- what do you really mean by "balanced PBR"?

MS. BOTELHO: I don't know the context you're raising in relation to comprehensive PBR. I don't know if Mark or Augie can weigh in here.

But from my perspective, the balanced PBR is an appropriate level of revenue support that allows us to make a commitment to stay out of a rate case for a period of time, and it would maintain inherent incentives for that stay-out period within PBR, so the stay-out needs to be an appropriate length of time for us to realize the cost-control incentives with PBR.

But a balanced plan not only, in my mind, and I think in the Company's proposal, provides benefits for customers in the form of rate stability inherent -- it maintains the inherent incentives as part of the PBR science, right? It also serves to alleviate the administrative burdens on the parties, as well as prescribed transparency to our performance in areas that we propose.

So we propose performance metrics in areas we think that are of interest to parties and for New Hampshire -- and provide -- to provide a level of transparency on -- during the stay-out period; what are the types of investments we're making, what's the investment need that we're committing -- the investment plan that we're committing to in this proceeding, and that requisite need. So I think a balanced PBR has all of those components.

I don't know if Mark or Augie have anything to add, but, in my mind, when we talk about a balanced PBR, it means to have a sufficient -- it needs to be designed in a way that allows us to commit to that stay-out period for us to realize those benefits that I just stated.

CMSR. CHATTOPADHYAY: So is it fair for me to conclude that, when you're talking about balanced PBR, you're not simply looking at the I minus X piece, but you're also considering the other elements, including K-bar --

MS. BOTELHO: Yes.

CMSR. CHATTOPADHYAY: -- in that assessment?

MS. BOTELHO: That's right.

CMSR. CHATTOPADHYAY: Okay.

MR. ROS: If I could add a couple points to that?

CMSR. CHATTOPADHYAY: Yes.

MR. ROS: The term "balanced" or "comprehensive" is not, kind of, found in the academic, kind of, literature of PBR. I think it reflects the fact that no two PBR plans are the same. Every PBR plan has all of these different components and parameters that affect the magnitude of the efficiency effects.

And so, a balance is more, given a particular Company's unique needs, whether you're in Massachusetts or Hawaii or wherever, how to structure, from a public policy perspective, a balanced plan that gets the incentives, different than under cost of service, because that's the fundamental reason we're here, but, at the same time, meets the needs of the Company to make its investments going forward.

And so, there's many different parameters. The sharing mechanism can exist or it cannot exist. If it does exist, how do you share the benefits with consumers? What is the -- the dead band weight upon which you start sharing? Here, it's 25 basis points above the return on equity. In other places, it's much higher.

This particular plan, although there's a negative X-factor, it's coming in within an X-factor of zero. It has a K-bar. So all of these parameters affect the incentive effects and the plan in general.

I think any PBR plan that we've looked at in Canada, in Massachusetts, Hawaii, have different elements of those aspects that, from the policymakers' perspective, balance the needs of the Company and the consumers at that particular point in time.

CMSR. CHATTOPADHYAY: Can you remind me again, when was K-bar introduced in Alberta?

MR. KOLESAR: It was introduced in 2018.

CMSR. CHATTOPADHYAY: We'll now change topics quite a bit, and I would ask you to go to Bates page 1817, which is really -- just a moment. It's the principal report, okay? If you go to -- I already forgot what I said. 1817 or 1818?

COURT REPORTER: 1817.

MS. BOTELHO: Not only -- the principal report I have only goes through 1797. Is it the --

MR. ROS: Is that my report? Oh.

CMSR. CHATTOPADHYAY: Yeah. I mean, it's -- it says there, you discuss -- let me just -- I'm also confused.

There, you discuss the X-factor in the I minus X PBR formula, derivation of the X-factor?

MR. ROS: Yes.

CMSR. CHATTOPADHYAY: Okay. So I'm going to go to Bates page 1817, and at the end, you have a formula there that's P-dot equal to W-dot minus D-dot. And you're essentially saying -- we start initially by setting revenue equal to cost.

MR. ROS: Correct.

CMSR. CHATTOPADHYAY: And then you sort of -- if you have a change in the rates that is exactly W-dot by T-dot, then you would maintain a situation with zero economic profits, correct?

MR. ROS: That's correct. If you start off with just and reasonable rates, correct.

CMSR. CHATTOPADHYAY: And -- so that is something that -- essentially, you can assume that most electric utilities that -- you know, when distribution utilities, when they're regulated, that is a constant that we all live in, so that sort of makes sense to me.

But then you go to the next page.

MR. ROS: Yes.

CMSR. CHATTOPADHYAY: And it's 1818. You say that, for Equation 12 --

MR. ROS: Yes.

CMSR. CHATTOPADHYAY: -- which forms the basis for using the GDPPI inflation in the equation --

MR. ROS: Correct.

CMSR. CHATTOPADHYAY: -- that you're still assuming that the economic profits are zero. And I'm assuming the assumption is that the revenue is equal to cost, so that's also true for the entire U.S. economy.

MR. ROS: Correct. That the -- you know, the economy also has this condition of zero economic profit. It doesn't mean zero accounting profits, but zero economic profits, and so you have this similar, same relationship that you would have for the earlier equation.

CMSR. CHATTOPADHYAY: U.S. economy-wide or even with the -- with the Equation 11, what you're looking at is sort of trying to mimic perfect competition, right?

MR. ROS: Yes. I mean, in the long run. Perfect competition allows economic profits in the short run, so it's short run versus long run. In the long run, we're at equilibrium, and there's no monopoly profits in the U.S. economy.

CMSR. CHATTOPADHYAY: Do you know how much of the economic activity in the U.S. GDP represents activity that happens in perfectly competitive markets?

MR. ROS: So perfectly competitive markets are rare. In terms of infinite number of sellers, perfect information, that doesn't exist.

Very, very rarely.

But in terms of workably competitive markets, the U.S. economy -- in those industries where there's not -- they're not regulated -- like, public utilities are a natural monopoly -- represent the vast majority of economic activity in the United States.

CMSR. CHATTOPADHYAY: Would you agree that most of the economic activity happens through markets that are sort of oligopolistic in the U.S.?

MR. ROS: I don't know about "most." I don't know exactly what number that they would represent oligopolistic markets, but there's some amount that's -- that would be fair. I would agree with that.

CMSR. CHATTOPADHYAY: Since you're using GDPPI, you know, you're using annual data. Whereas, for me, I'm not sure why what you see is going to be mimicking perfect competition, okay?

So if that -- if this condition didn't hold, is there -- is there another way to do this, instead of sort of what you have proposed for Eversource?

MR. ROS: Sure. So the use of GDPPI is commonly used in PBR plans. GDPPI has been used as the "I" going back to the 1990s in telecommunications. So it is a commonly accepted inflation index to use for the "I."

At the same time, one can -- instead of using an economy-wide measure of inflation, one can go directly to look at and develop an inflation measure of the industry. So -- and this is done in some of the Canadian jurisdictions. It's done in Alberta.

So, for example, in Alberta, instead of using GDPPI, they develop an inflation index specific to the electricity and gas sector in Alberta by looking at the wages in the Alberta area and CPI in the Alberta area.

And so, one can do that directly and not use GDPPI. And if one does that, then the X-factor is calculated a little bit differently than when the X is GDPPI.

CMSR. CHATTOPADHYAY: Agreed. And really, that's where I was going. I can't speak for the Canadian economy, but I have enough knowledge about the U.S. economy to sort of worry about how this has been proposed, where you're making an assumption that is kind of farfetched, that you have -- you know, that -- even though you talk about the long run, but, in reality, you're using annual numbers from recent years. So I -- I feel a little, sort of, uneasy about using the GDPPI approach.

So that's why I was asking these questions. So then -- and what I'm trying to get at is -- and you already responded -- is there an alternative way to do this, and you suggested it.

So I think I'm going to stop there. Thank you.

CHAIRMAN GOLDNER: Okay. Thank you, Commissioner Chattopadhyay.

So we'll now turn to the Department of Energy. And, again, appreciate the Department's offer to help the Commission's understanding of the Company's proposal.

Attorney Dexter.

MR. DEXTER: Thank you, Commissioner.

As I said, the Department of Energy consultant, Nick Crowley, who is participating remotely, has a few questions about the mechanism that we've been talking about the last couple of days. So I would ask Nick to go ahead with his questions.

MR. CROWLEY: Thanks, Paul.

So just to confirm, can the people in the room hear me?

CHAIRMAN GOLDNER: We can. Although, if you could increase the volume just a little bit, that would be helpful.

MR. CROWLEY: Okay. I'm not sure if I can do that.

CHAIRMAN GOLDNER: You just did -- you just did.

MR. CROWLEY: Hopefully that helps.

CHAIRMAN GOLDNER: You're perfectly clear now. Thank you.

MR. CROWLEY: Okay. Great.

So thank you for giving me some time to ask a few questions. Really, the purpose of my questions today are just to understand some of the mechanics of how the revenue cap will work.

So the goal is really just -- I'm going to go through a series of questions, and the purpose of the series of questions is to understand how the rates for customers will change year to year under the proposed revenue cap, so if you can bear with me. Some of these questions seem really small, but they all fit together in the end, and they're all kind of aiming towards that goal.

So the first question that I have -- and this is just a clarification question, which you can correct me on -- is, as I understand it, the Company is currently -- as it currently operates, has some costs that are tracked, like, with cost trackers. And then in this PBR proposal, if it's approved, those costs would instead be rolled into base revenue requirements and no longer be tracked separately.

So, for example, the things I'm thinking of are spending categories, like property taxes, vegetation management, storm costs, rate case expenses.

Am I correct in understanding that

those items will no longer be tracked and, instead, be contained within the revenue requirement that's going to be adjusted by GDPPI?

MS. BOTELHO: It's different, based on the components, so I can walk through -- and just to be clear, there's no mechanism in which we are recovering any capital-related costs, outside of base distribution rates. So the mechanism that would be impacted by the Company's proposal are limited to the regulatory reconciliation mechanism, the RRA, as well as the PPAM, the Pole Purchase Adjustment Mechanism.

So there's different components included in both of those two mechanisms, in which we have proposals on each component of that. Doug referenced yesterday, specific to LBR, we proposed for both net metering and energy efficiency, which I know is through the SBC. Those are not reflected in base distribution rates or have been transferred into base distribution rates.

So it's really dependant on the component. For -- I would say for vegetation management today, the way the mechanism works is that we had set a level in base rates at the time of Docket DE 19-057, the Company's last rate case, and the reconciliation that happens through the mechanism is a reconciliation between the actual vegetation management expense in that year, as compared to the baseline established from the test year.

So it's really a component-by-component analysis. If the Company hasn't separately adjusted for those components and base rates, meaning specific to vegetation management, we have proposed -- in this case, we have a level of expense, or vegetation management budget, that we're anticipating into the future. We have a post-test-year adjustment. We have not inflated that by GDPPI.

So there are categories of costs, when you develop the revenue requirement in the cost of service, that are not specifically adjusted that do get an inflation adjustment. We categorize those as residual costs.

So I would say not -- not in all

instances of what you're referencing, as far as what is getting transferred into base rates, would we be applying a GDPPI inflation adjustment to it.

I know that was pretty longwinded. I can go through each component, but I don't want to derail your questions.

MR. CROWLEY: Yeah, so I think maybe in the future technical conference, we can go through some of the details. But I guess what I'm hearing is, there still will be some components of the Company's overall revenue that is collected outside of I minus X; is that right?

MS. BOTELHO: No. So we are proposing an elimination of the PPAM for cost --

MR. CROWLEY: Okay.

MR. BOTELHO: -- after August 1st, 2024. That would be all components, so -- for the RRA, it's the same proposal. I could go through each component. But for certain aspects, we had proposed a reconciliation at the time of the next rate case.

So I have a summary of each of those

components. I do think it would be helpful to go through, but -- no, so full elimination of the RRA, full elimination of the PPAM, and the LBR.

MR. CROWLEY: Okay. All right. Thank you. That's helpful.

So in other words, the Company's revenue requirement that's adjusted by the GDPPI is really containing just about everything that the Company had. So the Company incurs these costs. Those costs are part of its revenue requirement, and, basically, the revenue requirement is going to contain more of the costs -- the base revenue requirement is going to contain basically all of the customer -- of the Company's revenues; is that right?

MS. BOTELHO: It's not correct. So we still have costs that are recovered. So this was your initial question. So only for those two mechanisms, there's costs we're proposing to transfer into base rates. We have the Transmission Cost Adjustment Mechanism. We have the SBC, which recovers energy efficiency costs, and there's -- sorry -- I'm not the witness on all of these programs. The SCRC.

MR. CROWLEY: That's all right. We can get into those at another time. Really, I'm just trying to understand, kind of like, that there are or are not elements that are in the base revenue requirement so that -- I'm starting to understand, from just talking to you right now, that there are a bunch of costs that used to be tracked that are now going into base revenue requirements, but then there still will be some things that are outside of that.

MS. BOTELHO: That's correct. And things like energy supply costs, so the Stranded Cost Recovery Mechanism, that's proposed to continue. Energy efficiency program costs are proposed to continue outside of base rates.

MR. CROWLEY: Okay. Okay. So let's move on to the next question, which is getting more, again, at how rates are going to change year to year.

So let's start with Year 1. So if I recall correctly, the new rates for Eversource in New Hampshire will be in effect August 2025, right?

MS. BOTELHO: Correct.

MR. CROWLEY: So those August 2025 rates are going to be based on the test year revenue requirement divided by -- and I know that there's different rate classes and different elements of each rate, but, in a general sense, the test year revenue requirement will be divided by the Company's test year billing determinants; is that right?

MS. BOTELHO: Yes.

MR. CROWLEY: Okay. Let's think about Year 2. So ignoring whatever elements are tracked outside of the revenue cap. In Year 2, the Company's revenue requirement from Year 1 is adjusted by two things. One of them is GDPPI, which I would usually think of as being the I minus X formula, but really it's just "I" because there's no "X."

MS. BOTELHO: Correct.

MR. CROWLEY: "X" is zero.

And then, the other thing is K-bar. So you have these two elements, the revenue requirements, adjusted by GDPPI. And then, in addition to that, there's revenue provided by K-bar.

MS. BOTELHO: That's right. And we walked through yesterday -- Doug walked through yesterday the adjustments. There's certain categories of costs or revenues that don't get the inflation adjustment, like historical storm costs, our storm reserve proposed in the proceeding, as well as other revenue.

So, absent those adjustments out of the calculation, yes, that -- the revenue requirement, as approved coming out of this proceeding, would -- would receive the inflation adjustment.

MR. CROWLEY: Okay. So we have this -- I like Mr. Kolesar's characterization or this term, the "spending envelope." So the spending envelope is adjusted from Year 1 to Year 2 by I minus X, or just "I" and K-bar. And then what I'm -- the thing that I really would like to understand is, once you have this Year 2 spending envelope, does the Company take this updated Year

2 spending envelope and divide it by an updated set of billing determinants? Or are the billing determinants set at the test year billing determinants, and then the test year billing determinants are just the same every year because you've got the Year 1 billing determinants, and you're just -- you're adjusting revenues each year, but not the billing determinants? That's my question.

MS. BOTELHO: Give me one moment. I'm going to pull up our tariff. I don't have our rates person here today, but I think I can answer this, so if you just give me one moment.

(Conferring.) So I was able to confirm -- I think we have an outstanding discovery request on this. It's the test year -- the test year billing determinants stay as is, so they don't get updated --

MR. CROWLEY: Yeah. Okay.

MS. BOTELHO: -- each year. Yeah.

MR. CROWLEY: Okay. So that's really helpful. So thinking about the mechanics of the proposed revenue cap here relative to

Massachusetts. My understanding of -- and you can correct me here, if I'm mistaken, but my understanding of how it's done in Massachusetts is that, it's basically the same, where you have an updated, allowed revenue, and the billing determinants stay the same as they were in the test year, when you set rates during each year of the PBR term; is that right?

MS. BOTELHO: That is correct.

MR. CROWLEY: But there is a difference that's related to this between your proposed plan in New Hampshire relative to Massachusetts -- and, again, you can correct me if I'm mistaken on this. But in Massachusetts, the Company does operate under revenue decoupling; is that right?

MS. BOTELHO: That's correct.

MR. CROWLEY: So everything is basically similar to Massachusetts, but the difference -- there's a difference in that you -- the Company doesn't have revenue decoupling here in the proposed PBR plan?

MS. BOTELHO: You're correct, yeah.

That is the difference.

MR. CROWLEY: Okay. Those -- that's really all the questions that I have right now. I have other questions related, potentially, to PIMs, but I'm not sure if we want to go there right now, because we're sort of in the world of rates. I will pause there.

CHAIRMAN GOLDNER: Attorney Dexter, would you like to proceed with any other topics as this time, or would you like to end it there?

MR. DEXTER: I'd just like to confer with Mr. Dudley for a minute.

CHAIRMAN GOLDNER: Of course.

(Conferring.)

MR. DEXTER: To the extent we have any questions, they would be for Mr. Horton. So if we could come back to that in the afternoon, we appreciate it.

CHAIRMAN GOLDNER: Okay.

MS. CHIAVARA: Mr. Chairman, Mr. Horton should be here by 12:30, so by the time we come back from lunch, he should be here.

CHAIRMAN GOLDNER: So first, thank you

to Mr. Crowley. That was -- that was very helpful.

And perhaps this is happening in discovery or something, but in -- for the Commission's benefit, it would be nice to have a succinct and simple summary, as Mr. Crowley said, basically, what's in and what's out. That's not clear to me. And so that line of questioning was extremely helpful, because that's a little fuzzy and foggy, at least for me, so that's -- that would be -- that would be good to know.

MR. DEXTER: Mr. Chairman, after further consultation with Mr. Dudley, we did have a question on the 2024 capital additions and how they might be reviewed under the proposals set forth by Eversource. So if we could -- if Mr. Dudley could ask a couple of questions, we'd appreciate it.

CHAIRMAN GOLDNER: Please proceed. Thank you.

MR. DUDLEY: Thank you, Mr. Chairman.

You had a discussion earlier with the Eversource witnesses regarding the proposal to include the 2024 capital investments, and -- and there was some questioning by you regarding the timing of the documentation.

And so, my question to Eversource, is that, given the schedule in this proceeding, how would Eversource anticipate the Department and other parties reviewing project documentation, that we probably will not receive until sometime in late February or March?

MS. BOTELHO: Yes. So, at the time we had initially filed the case, we thought that we would -- there would be ample time in the procedural schedule for that review.

Upon -- I know we're closer to finalizing the procedural schedule. Looking at the most recent dates, we realized that that would present a challenge for the parties in this proceeding, the review -- the prudency review of the 2024 documentation.

So in our response -- and this is where the line of questioning came from the bench. In our response to PUC 1-003, we had shown what an alternative to the 2024 rate base update would be in the context of the K-bar adjustment and PBR framework.

So, alternatively, I was describing that, in place of the 2024 rate base update that we had initially planned as part of the initial filing and requested for approval in this proceeding, that we would be eliminating that, so reducing that request out of -- out of the permanent rate request and asking, instead, three K-bar adjustments that would begin on August 1st, 2026, an additional K-bar adjustment that would take place on August 1st, 2025, in place of an update for a 2024 rate base.

So our response is outlined in PUC 1-003 that walks through what the differences between those two proposals are and the revenues that would be allowed under those two scenarios as our -- as compared to our initial proposal.

MR. DUDLEY: Okay. Just to be clear, I first encountered this proposal in Mr. [Sic] Landry's testimony, but you're saying that has now changed, and the DOE and the parties will not be in receipt of any information?

MS. BOTELHO: If I could have a moment. (Conferring.)

So I do believe that the bench requested us to take back, if we could accelerate the production of the capital project documentation, so I will take that back with Ms. Landry, on the timing of when we would be able to do that.

But it will -- it does present challenges as it relates to the procedural schedule, which prompted our discussion in PUC 1-003, so -- I don't know what more to say there beyond the follow-up that we agreed to.

MR. DUDLEY: My only concern, Mr. Chairman -- if I may address the Commission on this issue. My only concern is that if Eversource does wind up filing that documentation, which I'm sure would be copious, as you're aware, we have about 17,000 pages of project documentation filed in a rate case now. So if Eversource does decide to file it and enter it into the record, what exactly are we supposed to do with it? I mean, the period for discovery by then will have long since passed. We won't be able to conduct discovery. We, essentially, won't be able to conduct any real kind of investigation into that, so I guess the question is, what do we do with it if it's entered into evidence? How do we challenge it?

CHAIRMAN GOLDNER: Yeah, it's a -- it's a good question, and I appreciate the line of questioning.

My current thought process, which is incomplete, is that the test year is 2023, correct?

MR. DUDLEY: Yes.

CHAIRMAN GOLDNER: So -- so, a complete examination of 2023 could be done in the usual way with a very complete and thorough analysis by -- by all the parties, and that would give us a baseline. That feels right.

I believe the need for 2024 stems from the K-bar piece of the analysis, and so that would be the estimate, I think, that the Company was talking about yesterday, which would be incomplete and maybe a little bit -- a little bit wiggly, so -- so that was the way I was thinking of it.

MR. DUDLEY: Yeah, that's kind of my understanding, too, Mr. Chairman. But in that case, we're just dealing with numbers, not really every shred of project documentation that they have. I was just trying to get -- I'm just trying to understand the proposal itself.

CHAIRMAN GOLDNER: Yeah. Yeah, me too. So I think -- and it's worthy of further discussion, for sure, and I apologize, I'm about to repeat myself -- not on purpose, but just as I'm processing information. The Department and the parties and the Commission would -- are, of course, very interested in having this rock-solid launching point if PBR is the proposal and is eventually approved, and naturally has to be based on 2023. Even with two- or three- or four-week push-out of the current schedule, that wouldn't help with 2024. So that's really important.

And then 2024, we would collectively rely on some estimates and analysis, but -- but nothing -- an order of magnitude less than 2023 would just be more cursory, I would think.

MR. DUDLEY: Okay. Yeah.

MS. BOTELHO: And just to clarify. In the alternative proposal that we put forth for the K-bar adjustment on August 1st, 2025, we were not anticipating a prudency review would be necessary, as would any other year of the -- for the K-bar PBR adjustments, there wouldn't be annual reviews of capital project documentation, which is an administrative benefit that -- that would be there.

CHAIRMAN GOLDNER: And I would think -- and I'm just thinking out loud, and I guess I'm looking at Mr. Dudley and Mr. Dexter, if -- if -- if the parties came forward in some kind of settlement down the road and needed a number for 2024 for PBR, that would, effectively, be a negotiated number. There would be some facts available and some questions, and that would just be -- if it went to settlement, I suppose that would be some kind of negotiation in the end, because the numbers wouldn't be fixed.

Is that the way the Department is thinking of it, or have I misapprehended what's going on?

MR. DEXTER: I think you're way ahead of the Department on what might or might not be a settlement.

I will say that this has been a concern from the moment we opened the case, the notion that we would get 2024 information for plant adjustments and essentially no time to review it.

CHAIRMAN GOLDNER: And that's always the case, right, Mr. Dexter?

MR. DEXTER: No, I don't think it has been. I think what's happened in recent times is that the step adjustments -- and I'm not sure what happened for Eversource in 19-057, but in cases since then, the step adjustment -- the first step adjustment has not taken place on the same date as the rates. We've been through settlement, negotiating 90- and 120-day time periods to review those capital additions. So the step adjustment would take place sometime in

September, October, November, if the underlying rate change took place in June or July.

And that's been the case for several rate cases. Again, I didn't go back and check Eversource's -- how it was handled in 19-057. Mr. Dudley is telling me that that also took place in 19-057.

The other thing that concerns the Department, as long as we're talking here, we've heard a lot about the normal prudence review. And as I'm sitting here, I'm having concerns that the normal prudence review, when the next case comes in 2029, is going to encompass about five or six years, and it looks like we may be adding another year of prudence review. I wouldn't put that in the light of normal prudence review. That strikes me as an awful lot of work to be done many years after the fact.

And, you know, people leave. People that produced project authorizations and change order forms and things like that have moved on to other positions and are not necessarily available. It's very hard to investigate decision-making, because the prudence standard is -- you know, the decision was made at the time.

And so that's a concern that's -- that's out there for the Department. I'll leave it at that.

CHAIRMAN GOLDNER: Okay. And just maybe a final question, and then we'll go to lunch.

How did the Department deal with this in 19-057? Because I think that was about 10 years since the prior rate case, and that must have been a bundle of activity there.

MR. DUDLEY: Yes. Indeed, it was, Mr. Chairman.

CHAIRMAN GOLDNER: It sounds like you have firsthand knowledge, Mr. Dudley --

MR. DUDLEY: I do, yes.

CHAIRMAN GOLDNER: -- on the situation. And that's what you're representing here, is that six or ten years is an awful lot of data to go through at a single time?

MR. DUDLEY: Correct.

CHAIRMAN GOLDNER: Okay. Well, that was very helpful, Mr. Dexter. That was extremely helpful for the Commission on both lines of questioning.

Let's take a one-hour lunch, returning at quarter of 1:00. And we'll begin with Mr. Horton, any questions from the Commission, and then I know the Department had some additional questions for Mr. Horton.

Off the record, returning at a quarter of 1:00.

(Luncheon recess taken.)

CHAIRMAN GOLDNER: Okay. Back on the record.

So just a question for Mr. Horton. Welcome back. Will you be here on Tuesday next week, or should we ask any further questions of you today?

MR. HORTON: I think I will be here the rest of the way. I plan to be.

CHAIRMAN GOLDNER: All right. That sounds good. And, Attorney Chiavara, if something changes, please notify us, because we do have questions relative to DSP and so forth that would be tailored for Mr. Horton.

Okay. So we'll turn now to the Department of Energy. I think you had some questions for Mr. Horton.

MR. DEXTER: Yes. Thank you, Mr. Chairman. Mr. Dudley has a few questions following up on what we heard yesterday.

MR. DUDLEY: Thanks again, Mr. Chairman, for your indulgence.

Mr. Horton, yesterday you had a fairly lengthy discussion with the Chairman regarding the issue of gold-plating, overspending, and earnings attrition. And there were a few missing pieces there, I thought, and I'm just trying to connect the dots here.

So in terms of the impact of overspending on the equity side of PSNH's capital structure, it was your opinion that -- that it would have a diminishing impact -- any overspending or excessive spending would have a diminishing impact on the equity side; am I remembering that correctly?

MR. HORTON: If we -- if we are investing in the system at any level -- but in this scenario, we were discussing spending more than we need to in order to drive earnings up. I was trying to describe the simple mathematical equation of what is the return on equity in that -- yes, if you're investing in the system, because we need to draw capital into the system to enable that investment, that the equity balance will increase commensurate with that investment.

And when you do that, all else equal, the equity balance increasing as being the denominator, that the return on equity -- again, it's just net income divided by equity -- the return on equity will decline. So on that equity side, that was the point I was trying to make.

MR. DUDLEY: And I guess the missing piece for me is -- so PSNH is not -- you don't go to Wall Street for equity issuance, correct?

MR. HORTON: The parent Company does. That's correct.

MR. DUDLEY: Right. So the parent

Company provided equity infusions to PSNH on an annual basis, correct?

MR. HORTON: Yes, it does, and dividends go from PSNH to the parent Company, and earnings are retained by the parent Company. That's -- those are generally the largest moving factors of PSNH's equity balances. That's right.

MR. DUDLEY: And, essentially, Eversource, the parent, does that to cover investment, but they also do it in order to -- in order for PSNH to maintain its capital structure, correct?

MR. HORTON: Correct.

MR. DUDLEY: All right. So -- so there's -- technically speaking, in a perfect world, there's really no shortage, in terms of PSNH's access to equity funding, correct?

MR. HORTON: Oh, there's certainly limitations. I'm not sure -- I want to be responsive. I mean, no shortage of capital is not how I would frame it. There are absolutely shortages of capital, for sure.

MR. DUDLEY: Ultimately, it's up to

the parent Company, correct?

MR. HORTON: It's up to the parent company's ability to provide investment.

What I was trying to convey is the parent Company, I think, is an unnecessary complication. And the point I'm trying to make, which is that, the parent Company invests in the subsidiaries, and the parent Company is the entity that issues equity. All I was trying to convey is, if you take that parent Company out of the equation, that operates, in my mind, in very simplistic terms, similar to if it were an equity investor, often investing directly in PSNH.

In my mind, the same principles would be true. You end up getting to the -- getting to the notion of gold-plating or investing more than we need to as a way to drive up earnings. That was the conversation that I was engaged in yesterday, what I was trying to put my context to, which is -- which is the point I'm making, is that, if you -- whether or not your equity investor is the parent Company or the equity investor is an equity investor external to

Eversource, then the act of increasing investment at PSNH, all else equal, will drive down the return to the equity investor. Because you're investing more, the denominator has to increase, and that will cause the earnings attrition that we were talking about in context yesterday, on just that one side of the equation.

MR. DUDLEY: So let's say just, hypothetically, Eversource rebuilds a substation, and the -- the cost -- the budgeted cost, the projected cost, is 20 million, and it winds up costing 45 million. And, yes, it'll -- it'll have some impact on PSNH's earnings, as you point out, but don't you get all that back in the next rate case? I mean, all of that goes into rate base in the next rate case; does it not?

MR. HORTON: There's a few things to take into account -- and, again, in the conversation yesterday, the way I was understanding the question framed was, what is to stop you from continuously investing more than you need to? Or under PBR, why wouldn't you simply gold-plate to invest more?

So if we take that example that you're -- you're presenting here, we have an investment that was -- we thought, was going to cost 20 million. It cost 45 or -- if we're talking about gold-plating, I think that dynamic would be that we made it cost 45, and it only had to cost 20.

And the financial incentive that I'm only trying to describe in terms of the math is simply that, in that scenario, we've spent 45 more than -- we have spent 45 more, 25 more than we would need in the non-gold-plated solution. Unless we have revenues to support the 45, we're not going to actually earn on that investment. And even if we come to our next rate-setting interval, if, at that point in time at our next rate case, you set rates based on a historical test year, as we do here in New Hampshire, meaning investments are reflected in rates prospectively starting August 1st, 2025, based on investments that have been made through 2024 or 2023, depending on how this plays out. We will then get investment, in rates, the return on those investments based on that historical basis.

So, two things are important. One is that, that $45 million investment will be subject to intense scrutiny to confirm that we had to spend every penny of it, and if it's determined that we spent more than we needed to, that would be ripe for disallowance. We would never earn on that, and that's a very big concern for utilities.

And then the second piece is, in an environment where we're spending more -- or in a scenario where we're spending more than we need to because we're trying to gold-plate to drive up earnings, when we get to that next rate case, where we're reflecting that investment in the rate base and continuing to spend more, my point is that the math would just show -- it is simple math -- that the return on equity will not be authorized, because you're spending more than the revenues are giving you.

So, yes, that $45 million investment would get reflected in rate base, but if the idea or concept is you're always going to be incentivized to spend more, I'm just -- I -- we aren't, because if we continue to do that, even having that historical $45 million in plant, the fact that in that current year -- in the rate year in that future scenario, in this hypothetical, if we're continuing to spend beyond our means and to spend money that's not necessary, we're going to continue to degrade the earned ROE, such that, the amount that is actually left for shareholders is not going to be the -- the amount that they would need, that 9.3 percent, or whatever it is. Because you will have put the investment into rates, on a historical basis, all else equal, you will have then inflated your denominator again, from what's allowed in rates, so your actual earned return on equity is going to be considerably less than your authorized ROE.

And the investor doesn't get what's authorized. The investors are -- they get what is left. That net income is what the investors get for the use of their capital. So if every year our net income is not commensurate with the equity, because of the scenario that you're describing, that's the -- that's the point I'm trying to make.

MR. DUDLEY: Well, the investors don't get it over the PBR period, but, ultimately, they do, right? At the time of the next rate case, all of that, the 20 million plus the 25 million goes into rate base?

MR. HORTON: Again, it -- so there's two points that I'm trying to make, and I don't want to belabor it. I think I agree with you. That if that plant is found to be prudent, that plant will go into rate base and be reflected in rates, so that the authorized -- the authorized rate structure and cost of service will be reflecting a return on that investment. That's true. There's no argument from me.

What I'm pointing out, though, is that in -- in reality, in that year -- pick a year that this would happen, so we come into -- let's just try to use this year, this case. That's the timing I'm trying to convey.

So let's say this dynamic has happened in the past, right? So now we're sitting here asking for rates prospectively August 1, 2025. Theoretically, I agree with you. The rates that will be set in this proceeding will be set to reflect a cost of service that includes a return at whatever that percentage is. I'm just going to say 9.3. That was the last one. Different parameters will be here.

So 9.3 percent. But starting August 1, 2026, if we're continuing to invest, which we are, to significant amounts between now and then, the actual earned return for that rate year cannot, and would not, be 9.3 percent, because between now and then, our equity balance is going to have grown. And if it's growing faster than the revenue support provided through any other mechanism that's put into place at that point in time, the actual earned return will be less than 9.3. And that dynamic will -- will exist during the course of the PBR term as well.

Again, I was reacting to the notion of, well, why won't you just, in the PBR term, invest more to gold-plate, because you earn it if you do that. My only point is, if an entity does that, the math just proves that that's possible. You would not ever actually earn -- the equity would never -- the equity investor would never actually earn a commensurate amount based on that investment, because you're going to have to continue to flow equity into the system and never be able to earn on that equity at the authorized return level.

MR. DUDLEY: Okay. Thank you, Mr. Horton.

MR. HORTON: Thank you.

MR. DUDLEY: Thank you, Mr. Chairman.

CHAIRMAN GOLDNER: Thank you, Mr. Dudley. That was helpful.

Okay. So we'll now turn to any other parties who would like to ask the Company questions about PBR mechanics that would help the Commission's understanding.

So I see Mr. Skoglund. I think you didn't make roll call this morning, but I see you're here, so if -- if anyone has any questions for the Company relative to the PBR mechanics that can help us out, we'd appreciate it.

MR. SKOGLUND: Yes. Chris Skoglund, Director of Energy Transition, Clean Energy New Hampshire. I apologize for being late for class.

CHAIRMAN GOLDNER: No -- no problem. No problem. Do you have any questions, sir, or are you good to go?

MR. SKOGLUND: Not at this time, no. Thank you.

CHAIRMAN GOLDNER: Thank you. The Conservation Law Foundation, any questions?

MR. KRAKOFF: Yes, thank you.

I just have, I think, a couple questions, maybe to clarify a couple of things that we talked about this morning.

I guess the first one is -- you know, I think you said this morning that the only other state -- state, not province -- where they have adopted a K-bar like the one proposed here is in Massachusetts, and then somebody suggested Hawaii as well. So could you -- there was some discussion about Hawaii. Could you just clarify what you meant by that?

MR. ROS: Hi. The comment I made was

that Hawaii is a state that has a PBR. And we're going to check right now if that has a K-bar.

MR. KOLESAR: The plan in Hawaii does not have K-bar. What it has is an exceptional project recovery mechanism, which is a form of capital tracker, but it doesn't have K-bar.

MR. KRAKOFF: Okay. Thank you for that clarification.

And my second question is with respect to Connecticut, and you explained some of the differences between Massachusetts and New Hampshire on the one hand and Connecticut on the other hand.

Now, I'm aware that there's three investigatory dockets in Connecticut right now that are studying PBR. I was just wondering how those fit in, and, you know, whether, as a result of those investigations, you might propose something similar in Connecticut that you propose here, or whether Connecticut is completely different altogether.

MR. HORTON: Absolutely. I can take that. And I'll apologize for having my back to you, which is awkward to --

So as it relates to Connecticut, there's first some table-setting. So we have operations -- electric, gas, and water operations in Connecticut. And, in 2020, legislation was passed to put Connecticut on a path for PBR, specifically for the electric companies. The legislation opened the door for PURA, the regulator, to implement PBR for gas companies and water companies as well, but the legislation was specific for electric. And since that time, PURA has been in a process of, just as was mentioned, facilitating or coming to a framework for PBR focused on the electric companies.

Historically, Connecticut has used -- relied upon a forward-looking rate year, and have multiple rate years going into effect. So for Connecticut, our electric and gas companies -- in the prior cases, that was the framework, not having a PBR structure but having three rate years decided as a result of the rate proceeding, and then having capital cost recovery mechanism during the three-year term and continuing thereafter.

The three most recent rate cases in Connecticut, two for water companies and one for an electric Company, has departed from that historical precedent, so now, in those recent decisions, although there's not a formal statement by the Commission to move away from that framework, they've adopted more of an historical test year framework in a one-year rate. So it's akin to here, where we're establishing a test to operate for one year.

And I only say that to say that the PBR dockets -- focusing on Connecticut -- are trying to figure out, essentially, how should a PBR framework be constructed for those periods beyond that first rate year, focusing first on electric.

So the three dockets they have are -- the first one is focused on the ratemaking, which is -- I am the Company's representative in that proceeding and can speak very -- you know, at length on how that is progressing.

The second is on metrics. All three

of the dockets are very much intertwined, but being run separately. So the second one is on metrics, where they have metrics in three categories. They have reporting metrics, which are just data. They have scorecards, which are data but with trends, potentially targets, but not targets. That's a question. And then the last category is performance incentive mechanisms, where there's a direct financial tie to the achievement or not of metrics' results.

And then the third docket is on integrated system planning, which is looking at ways to integrate non-wired solutions or distributed energy resources into our resource criteria. So that's all focused on the electric Company.

We, just today, literally hot off the presses -- might not even be off the presses -- for our gas Company in Connecticut, filed a letter of intent, which is the first step in a rate case in Connecticut. And it's high level, so it certainly is not at a point where I can discuss any details, because there aren't any.

But we did say we intend to file a rate case by November 6, and that rate case will include a performance-based ratemaking proposal for our gas Company in Connecticut that I expect will look very much like what we are talking about here.

The positions that we have taken in that proceeding, which are all public, are consistent, if not identical, to what we have been talking about here. I'm sure there are differences, and there will likely be differences, I would imagine, between what we ultimately propose for Yankee Gas and what we're talking about here, that I would expect to be either reconciled or on the margins.

The approach for PBR is something that, as a Company, we believe in, and so the positions are very similar across -- across the three states.

MR. KRAKOFF: Just as a follow-up, so will these investigation in these two dockets by PURA, will they -- is the ultimate aim to go in a framework for PBR to -- you know, for the two utilities to implement in Connecticut, electric utilities?

MR. HORTON: Yes. So the way the docket has played out -- and, again, it's been going on for a couple of years. It started with an investigation that resulted in a -- I would say a framework for PBR, very high level, in terms of, here are our principles; here are the priorities and outcomes that we're seeking with PBR. And now it's moved on to a phase of trying to get into the specifics of how it will work.

PURA is -- the way that PURA has approached it is they have issued straw proposals that, then, they accept comment and feedback on. On the first one, which is the ratemaking one, the straw proposal was last issued in November, and we've had a series of stakeholder meetings since then. And it's unclear, kind of, how those will factor into the ultimate decision, which is due out in June.

But, procedurally, my understanding and expectation is what you describe; that the outcome of this proceeding would be a framework for PBR, that would then be implemented in a future rate case. It's not going to be implemented immediately. It will be implemented down the road as part of a rate case.

MR. KRAKOFF: Thank you for clarifying that. I don't have any other questions right now. Thanks.

CHAIRMAN GOLDNER: Okay. Thank you, Attorney Krakoff. We'll move now to see if the Office of the Consumer Advocate has any questions for the Company.

MR. KREIS: The Office of the Consumer Advocate intends to enhance the Commission's understanding of Eversource's proposal by presenting evidence in cross-examination at hearing.

CHAIRMAN GOLDNER: Okay. So thank you, Attorney Kreis.

Okay. Well, I thank everyone for their participation today in the technical session. This concludes Day 2. We look forward to Day 3, Monday morning, October 8th, 9:00 a.m., and with the Company's presentation to begin the day.

Thank you. We are adjourned.
(Whereupon, the proceeding
adjourned at 1:09 p.m.)

C E R T I F I C A T E

I, Nancy J. Theroux, LCR, RPR, do hereby certify that the foregoing transcript is a true and accurate transcription of the within proceedings, to the best of my knowledge, skill, ability and belief.

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