STATE OF NEW HAMPSHIRE

BEFORE THE

NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

DOCKET NO. DE 19-057

REQUEST FOR TEMPORARY RATES

DIRECT TESTIMONY OF

WILLIAM J. QUINLAN

On behalf of Public Service Company of New Hampshire

d/b/a Eversource Energy

April 26, 2019

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I. INTRODUCTION

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

A. My name is William J. Quinlan. I am the President and Chief Operating Officer ("COO") of Public Service Company of New Hampshire d/b/a Eversource Energy ("PSNH" or the "Company"). My business address is 780 North Commercial Street, Manchester, New Hampshire.

Q. What are your principal responsibilities in this position?

A. As the Company's President and COO, I am responsible for ensuring that PSNH provides safe and reliable electric service to over half a million customers in 211 cities and towns throughout New Hampshire, as well as overseeing the Company's construction, operation and maintenance of its electric distribution infrastructure in the state.

Q. Please summarize your professional and educational background.

A. I have extensive operations, legal, regulatory, technology, and business experience, first joining Northeast Utilities ("NU"), now Eversource Energy, in 1984 as an assistant engineer in NU's nuclear program. Before joining NU, I was employed by the General Electric Company at its Knolls Atomic Power Laboratory in upstate New York. In 1993, I joined NU's Legal Department as an attorney and later became Deputy General Counsel. From 2003 to 2007, I served as President and COO of NU Enterprises, Inc., the holding company for NU's competitive businesses.

I subsequently served as Vice President – Field Maintenance for NU's Connecticut operating companies, including The Connecticut Light and Power Company ("CL&P") and Yankee Gas Services Company, overseeing the operations, maintenance, transportation, supply chain, and facilities functions for those companies. I later served as CL&P's Vice President – Customer Solutions, overseeing key customer technology functions, including metering, Smart Grid, sales and marketing, and energy efficiency programs. In addition, I was responsible for the account executives, economic development and community-relations functions.

Immediately prior to my current position, I was the Senior Vice President – Emergency Preparedness for CL&P and Yankee Gas, where I was responsible for emergency planning and response, including storms, as well as for establishing industry protocols to partner effectively with federal, state, and municipal officials during any type of emergency. In that position, I also led CL&P's infrastructure hardening, electric vehicle and distributed generation programs. I have served in my current role as the Company's President and COO since September 2013.

I graduated from Villanova University in 1982 with a Bachelor of Science in Mechanical Engineering. I received a Master of Business Administration from the University of New Haven in 1989 and a Juris Doctorate from the University of Connecticut School of Law in 1992.

Q. Have you testified previously before the New Hampshire Public Utilities Commission or other New Hampshire agencies?

A. Yes. I have testified on behalf of PSNH in regulatory proceedings before the New Hampshire Public Utilities Commission ("Commission") as well as the New Hampshire Site Evaluation Committee.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide the Commission with an overview of PSNH's request for temporary distribution rates, which initiates the Company's first distribution rate review since 2009. This request for temporary rates will be followed by a request for permanent rates to be filed on or about May 28, 2019. My testimony provides a brief description of the Company's organization and operations and explains the principal reasons why PSNH is requesting a distribution rate change at this time. My testimony includes a summary of the Company's temporary rate request and how it relates to the upcoming application for permanent distribution rates.

Q. How is your testimony organized?

A. Following this introductory section, Section II of my testimony describes the Company's organization and operations. Section III explains the principal reasons why PSNH is requesting temporary rate relief and provides an overview of that request. Section IV provides some brief concluding remarks.

Q. Is the Company's rate request supported by other testimony?

A. Yes. In addition to my testimony, the Company's request for temporary rates is supported by testimony from the following witnesses:

- Eric H. Chung, Director, Revenue Requirements and Regulatory Projects for Eversource Energy Service Company, and Troy M. Dixon, Director of Revenue Requirements for Eversource Energy Service Company, presenting joint testimony on the Company's proposed revenue requirement for temporary rates; and

- Edward A. Davis, Director of Rates for Eversource Energy Service Company, presenting the proposed changes to distribution rates and corresponding tariff changes associated with the revenue requirement for temporary rates, as discussed in Mr. Chung and Mr. Dixon's joint testimony.

II. PSNH ORGANIZATION AND OPERATIONS

Q. Please describe the Company and its operations.

A. Eversource Energy's electric distribution business consists of CL&P in Connecticut, NSTAR Electric in Massachusetts, and PSNH in New Hampshire, all of which are engaged in the distribution of electricity to retail customers in their respective states. PSNH's distribution business consists primarily of the delivery and sale of electricity to its residential, commercial, and industrial customers. As of December 31, 2018, PSNH furnished retail franchise electric service to approximately 519,000 retail customers in 211 cities and towns in New Hampshire, covering an area of approximately 5,630 square miles.

As of December 31, 2018, Eversource Energy employed a total of 8,084 employees, including 918 that were employed by PSNH. Approximately 50 percent of Eversource Energy's employees are members of the International Brotherhood of Electrical Workers, the Utility Workers Union of America or The United Steelworkers covered by collective bargaining agreements.

Q. Would you please describe the significant organizational or operational changes that have occurred since the Company's rate case in 2009?

A. Yes. In the ten years since the Company's rate case in Docket No. DE 09-035 (the "2009 Rate Case"), the Company has experienced two very significant changes that have fostered operational efficiencies, improved service and created greater focus on distribution operations, consistent with New Hampshire's energy policies. These changes include the merger of NU and NSTAR in 2012, and the completion of the divestiture of the Company's electric generating assets in 2018.

The NU-NSTAR merger was consummated in April 2012. The merger created one of the largest combined utility companies in the United States, with six regulated electric and gas subsidiaries in three states now operating as Eversource Energy.[1] The merger created a platform for the Eversource Energy operating subsidiaries to improve customer service in their respective jurisdictions and to integrate and standardize best practices and processes across operations to assure consistency of approach, optimal utilization of resources and the delivery of superior customer-service. Since the merger, Eversource Energy has fully integrated its corporate and administrative functions and centralized service functions such as procurement, engineering, emergency response, and operations services.

In addition to allowing for operational efficiency and effectiveness in day-to-day operations and restoration of power in major storm events, the operational changes that were made by Eversource Energy reduced operating costs. Most of the cost savings that were achieved in relation to the Company's operations and maintenance ("O&M") resulted from the integration and consolidation of functions in the areas of shared services, such as in relation to medical and dental insurance, corporate insurance and labor across a range of shared-service categories. Although the Company has also experienced increases in costs through the normal course of business, the merger-related savings were critical in helping the Company maintain test year O&M at a level on par with the test year in 2008. These savings were unique, one-time adjustments of cost that would not have been possible without the merger and that are discernibly lowering the cost of service in this case. Without these savings, the Company's test year cost of service would be higher, requiring

[1] Also, on December 4, 2017, Eversource acquired Eversource Aquarion Holdings, Inc. and its subsidiaries (formerly known as Macquarie Utilities Inc).

a greater increase in rates.

The other significant change that has occurred since the Company's 2009 Rate Case is the divestiture of its generation resources. As of August 26, 2018, PSNH has divested all of its electricity generating assets, thereby fully transitioning New Hampshire to a competitive deregulated electricity market and focusing the Company's efforts on exemplary distribution operations and continuing to enable cleaner renewable energy resources to integrate into the distribution system. The completion of the divestiture represents the final milestone in the deregulation of the electric utility industry in New Hampshire and the Company's full transition to a model whereby customers' energy needs are met with generation produced by the regional energy market in a competitive environment. The timing of this recent transition aligns well with a comprehensive distribution rate review by the Commission and is consistent with the commitments made by the Company in the 2015 PSNH Restructuring and Rate Stabilization Agreement approved by the Commission in 2016[2] and in the Company's 2018 petition to continue its Reliability Enhancement Program ("REP") for 2019.[3]

[2] Order No. 25,920 (July 1, 2016) (approving settlement agreement which provided the Company's next general distribution rate case may not have rates that take effect prior to July 1, 2017).

[3] November 16, 2018 Technical Statement of Robert Allen, Joseph Purington and Christopher Goulding, Bates Page 10, in Docket No. DE 18-177 (requesting to extend the REP until the effective date of new rates in a rate review filing to be made in 2019).

III. OVERVIEW OF THE TEMPORARY RATE REQUEST

Q. Please summarize the Company's request for temporary rate relief.

A. In this filing, the Company is requesting a temporary increase in distribution rates to alleviate a distribution revenue deficiency calculated to be approximately $33 million, with an effective date of July 1, 2019.

As shown in Figure 1 below, PNSH's request for temporary rate relief is driven by three primary factors: (1) the revenue deficiency created by the difference between the capital investments made since the Company's last rate case and the current level of distribution revenues allowed by the Commission; (2) the need to adjust rates to reclassify certain vegetation management costs pursuant to the Commission's directives; and (3) the need to recover significant deferred storm costs. This request for temporary rate relief is also an opportunity to credit customers with the benefit of the tax savings accrued as a result of the income tax changes under the 2017 Tax Cuts and Jobs Act ("TCJA").

Figure 1. Primary Drivers of the Request for Temporary Rate Relief

Driver	Amount
Per-book Distribution Revenue Deficiency	$12 million
Request for Temporary Rate Relief:	
Vegetation Management Reclassification	+$18 million
Storm Balance Amortization	+$15 million
TCJA Customer Credit for 2018 Savings	-$12 million
Total Net Deficiency	**$33 million**

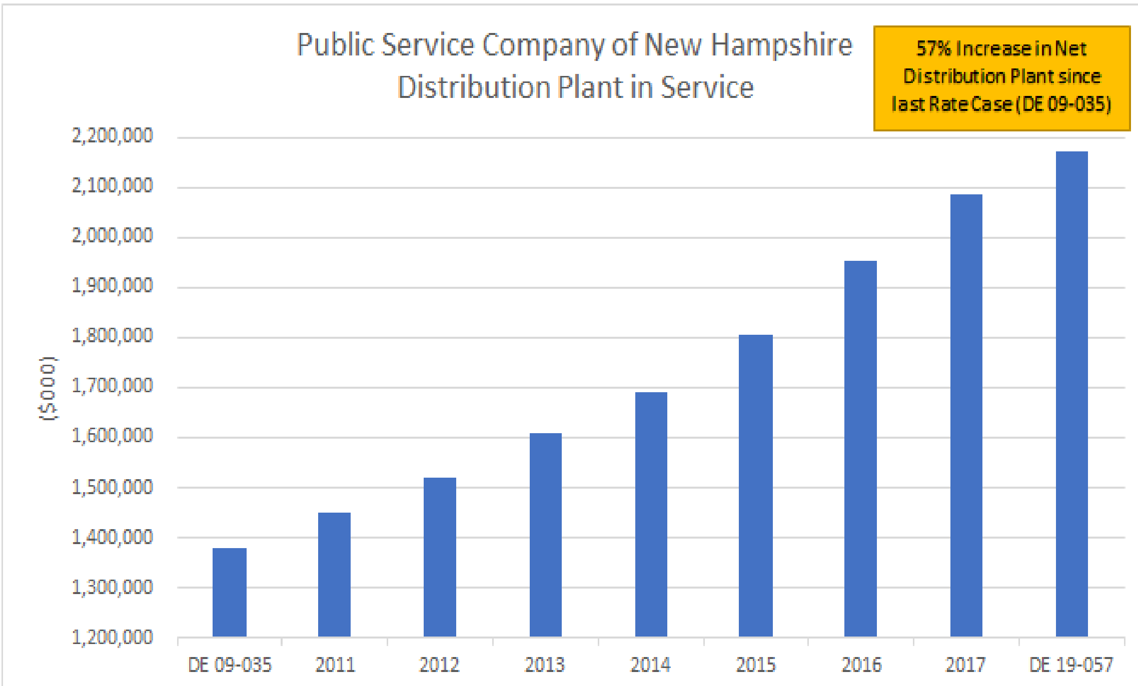
The proposed revenue requirement for temporary rates is based on a test year ended December 31, 2018 and includes normalizing adjustments to the cost of service, which are described in Mr. Chung and Mr. Dixon's joint testimony. In the aggregate, these adjustments do not materially change the Company's overall requested revenue deficiency of $33 million.

In summary, the Company's current distribution rates are insufficient to recover the cost of providing safe and reliable service to customers, including a fair return on the assets devoted to utility service. Accordingly, the Company now finds it necessary to petition the Commission for review and determination of a temporary increase in base distribution revenues to support utility operations.

Q. What are the principal reasons for the Company's request for temporary rate relief?

A. As noted above, one primary driver of the need for temporary rates is recovery of capital investment costs. Distribution rates were last reviewed and set in the 2009 Rate Case based on a 2008 test year, subject to adjustments allowed in that case for step increases. Since that time, the Company has made significant capital investments to construct, replace, and repair the distribution infrastructure needed to provide New Hampshire customers with safe and reliable electric service, increasing the amount of plant in service substantially, as demonstrated in Figure 2, below.

Figure 2. Distribution Plant in Service[4]



In addition to sizeable, ongoing capital investments, the Company is incurring substantial costs for vegetation management work targets designed to continue to improve the reliability and resiliency of the distribution system. Lastly, the Company needs to commence recovery of costs incurred to restore power to customers that are primarily associated with extraordinary weather events in 2017 and 2018. As a result, the Company is experiencing a significant and unsustainable shortfall between operating revenues generated by current rates and operating costs, thus making it necessary to submit this application for temporary rate relief. The temporary rates are necessary because the

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[4] In Docket No. DE 09-035, the Commission permitted the Company to reflect changes in plant during the first quarter of 2010. *See* Order No. 25,123 (June 28, 2010) at 30-31. In addition, the Commission approved a methodology to recover 80 percent of the costs of plant added between April 2010 and March 2013 through step increases.

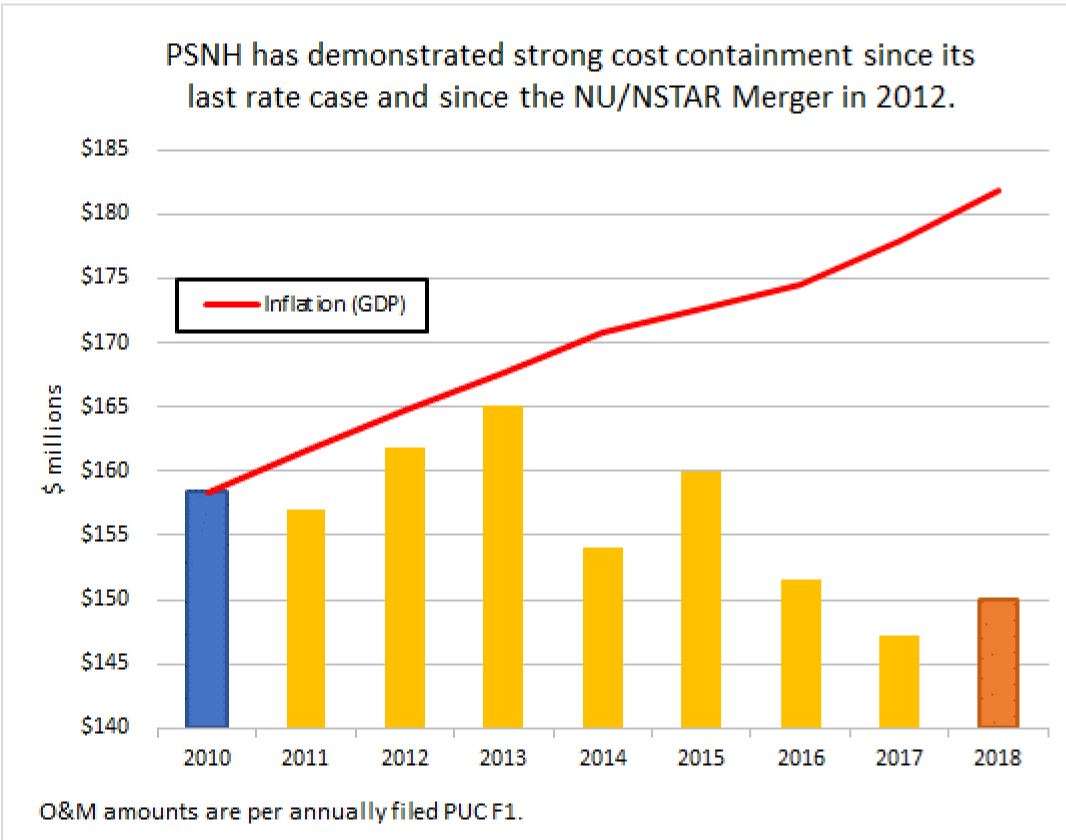
Company's current electric distribution base rates are not sufficient to allow PSNH a reasonable opportunity to recover the costs it has incurred to provide safe, reliable and cost-effective service to its customers.

This application will be followed by a request for a permanent rate increase during the pendency of the temporary rate request. The Company expects to file its application for approval of a permanent rate change on or about May 28, 2019.

Q. Has the Company taken steps to control operations and maintenance expense to offset the need for a base-rate case?

A. Yes. The Company has worked hard to control O&M expense, allowing O&M costs to remain relatively flat over the past several years. This cost containment is a result of the achievement of cost savings through merger synergies, the Company's disciplined management of costs and implementation of continuous efficiency improvements relating to the way in which the Company operates its business. In fact, as shown in Figure 3 below, the level of O&M experienced in the test year ending December 31, 2018 is $32 million **less** than in 2010, adjusted for inflation.

Figure 3. Total O&M Expense[5]



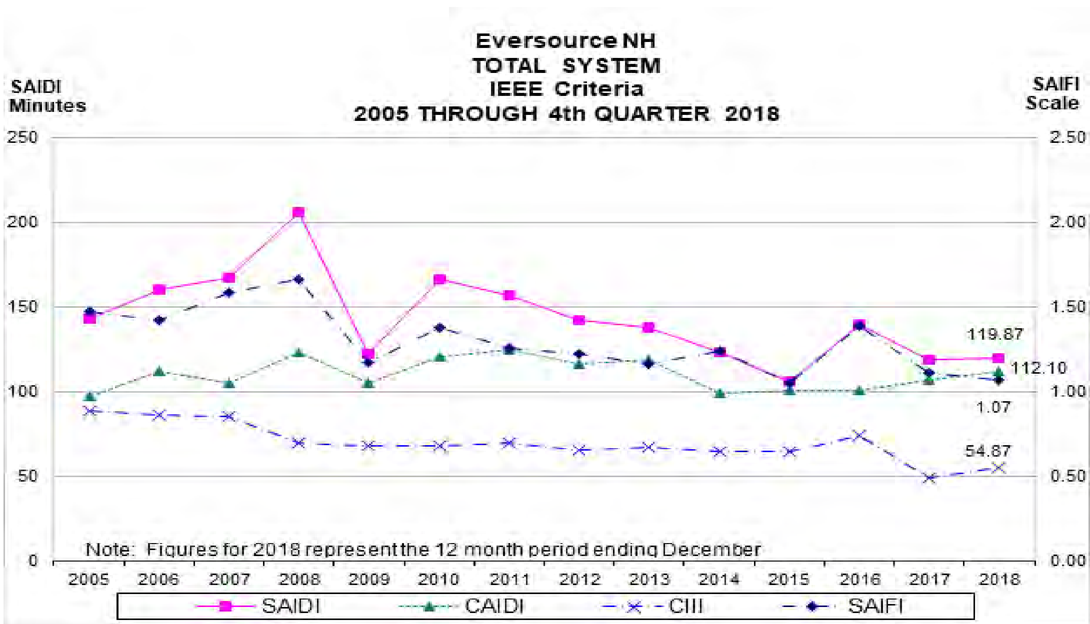
Q. Has the Company maintained the reliability of the electric distribution system while controlling O&M costs?

A. Yes. For over a decade, the Company has made targeted investments, including through its REP, to deliver tangible benefits in reduced frequency and duration of outages to the Company's customers.

[5] The 2018 amount of $149,976,022 charted in Figure 3 here can be found in Attachment EHC/TMD-2, Schedule EHC/TMD-5, page 1 of 6, line 29, Column (B).

The Company and Commission evaluate reliability primarily based on SAIDI[6]. The Company also measures reliability performance based on other metrics, including SAIFI[7], CAIDI[8], and CIII[9]. As shown in Figure 4 below, the Company's reliability results have been steadily improving over time.

Figure 4. Reliability Metrics



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6 SAIDI, the System Average Interruption Duration Index, is the average interruption duration in minutes per customer served. It is determined by dividing the sum of all customer interruption durations during a year by the number of customers served. SAIDI = sum of customer interruption durations/total number of customers.

7 SAIFI, the System Average Interruption Frequency Index, is the average number of times that a system customer is interrupted during a year. It is computed by dividing the total number of customers interrupted in a year by the average number of customers served during the year. A customer interruption is considered to be one interruption to one customer. SAIFI = sum of customer interruptions/total number of customers.

8 CAIDI, the Customer Average Interruption Duration Index, is the average service restoration time or the average interruption duration for those customers interrupted during a year. It is determined by dividing the sum of all customer interruption durations by the total number of customers interrupted in a year. CAIDI = sum of customer interruption durations/total number of customer interruptions.

9 CIII, the Customers Interrupted per Interruption Index, is the average number of customers without power per interruption. It is determined by dividing the number of customer interruptions in a year by the total number of interruptions.

Variations in performance shown in the figure above reflect the impact of weather activity that affects system performance, but does not rise to the level of a major weather event, particularly in 2016. However, the overall trend is improving. SAIDI, SAIFI, CAIDI, and CIII have all been on a downward trend, so that the duration and frequency of outages experienced by customers are decreasing over time.

These improvements are made possible by the capital investments made in the Company's distribution system, as well as vegetation management work. Some of these investments include pole top distribution automation, circuit ties, replacement of antiquated and obsolete equipment, off road line relocation to roadside, and continued vegetation management activity. The construction of circuit ties has provided an alternate source of power for customers which, when coupled with pole top distribution automation devices, has allowed for remote restoration of power to customers who would have previously had to wait for repairs to be made before restoration of service. Replacement of antiquated equipment in substations, such as replacing oil circuit breakers, electromechanical relays, and rebuilding or eliminating some small distribution substations has resulted in significant improvement to substation SAIDI. Replacement of distribution line equipment, such as replacing small bare conductor with larger covered conductor, replacing poles found to be decayed, and replacing obsolete brackets with crossarms has also contributed to improved reliability.

Q. What are the significant drivers of the Company's request for temporary rate relief, if it is not the level of O&M currently required to support utility operations?

A. As noted above, the Company's request for temporary rate relief is largely a function of the fact that the Company has made significant capital investments in the electric distribution system since its 2009 Rate Case, which were not addressed by the annual step increases allowed in that case, nor offset by revenue growth. In addition, the Company's request for temporary rate relief is necessitated by two discrete cost items that are putting pressure on the Company's financial situation: (1) vegetation management expense incurred to maintain and improve the reliability and resiliency of the distribution system; and (2) the recovery of restoration costs primarily associated with major weather events occurring in 2017 and 2018. These two cost items are substantial in magnitude and are not currently recovered through customer rates, and therefore are having a negative impact on the Company's financial situation.

Q. Please describe the impact of storm costs on the Company's request for temporary rates.

A. New England is heavily forested and experiences some of the nation's most severe storms and the frequency and the intensity of these storms in 2017 and 2018 was significant. The costs associated with pre-staging and restoration activities during that period far exceeded the $12 million annual funding level of the Company's Major Storm Cost Reserve ("MSCR"). As a result, the MSCR was in a net deficit position of $68.5 million as of the test year ended December 31, 2018. To recover this shortfall, the Company is proposing to commence recovery of the deficit, including carrying charges at the previously approved stipulated rate of return, over a five-year amortization period. The Company is requesting authorization to commence recovery of the storm deficit because there is a high probability that other storms will occur, and therefore, it will be beneficial to customers to avoid a situation where there is a layering of storm costs that has the potential to become highly burdensome to customers. This and other normalizing adjustments proposed by the Company as part of its request for temporary rate relief are presented in the testimony of Mr. Chung and Mr. Dixon.

Q. What is the Company's proposal for recovery of vegetation management costs within the Company's request for temporary rates?

A. In March 2018, the Commission directed the Company to discontinue accounting for the costs of vegetation management as a capital cost and to begin accounting for it as an O&M expense as of January 1, 2019.[10] Later in 2018, the Company petitioned the Commission to approve the continuation of the REP as a bridge to a base-rate filing in 2019. As part of its petition, the Company proposed to mitigate rate impacts by deferring the REP costs and offsetting those costs against tax savings attributable to the TCJA. The Commission found that the planned REP vegetation management activities are in the public interest, and therefore approved the Company's petition on December 28, 2018.[11]

Consistent with the Commission's directives, and as described in detail in the testimony of Mr. Chung and Mr. Dixon, the Company is proposing a normalizing adjustment to

[10] Order No. 26,112 (March 12, 2018) at 5.

[11] Order No. 26,206 (December 28, 2018).

reclassify vegetation management costs capitalized in the test year as O&M expense in base distribution rates going forward.

Q. Is the Company's request for temporary rates limited in scope?

A. Yes. As described in Mr. Chung and Mr. Dixon's joint testimony, the Company's proposed adjustment for temporary rates is limited in scope and has been presented in a manner designed to facilitate the Commission's review and approval. As an initial matter, the request for temporary rate relief is based on PSNH's books and records on file with the Commission (including the FERC Form No. 1 and NHPUC Form F-1, both of which are provided for reference as attachments to Mr. Chung and Mr. Dixon's testimony), and has been adjusted for certain discrete, non-recurring "normalizing adjustments" to test year activity. The largest of the normalizing adjustments account for the reclassification of vegetation management costs from capital expenses to O&M and to recover the amortization of storm costs referenced above. These normalizing adjustments are further described by Mr. Chung and Mr. Dixon.

Q. Does the Company's proposal include any measures to mitigate the rate impact for customers?

A. Yes, the Company has reflected in this rate filing the reduction in the federal corporate income tax expense caused by the reduction in the income tax rate (from 35 percent to 21 percent) under the TCJA. As noted above, consistent with the Company's commitment in Docket No. DE 18-177, this request for temporary rate relief provides an opportunity for the Company to credit customers with the amounts recorded between January 1, 2018 and June 30, 2019 associated with the TCJA, acting as an offset to the costs associated with the continuation of the REP in 2019, which was approved by the Commission in Order No. 26,206.

Q. Are the proposed temporary rates "sufficient to yield not less than a reasonable return on the cost of the property of the utility that is used and useful in the public service less accrued depreciation, as shown by the reports of the utility filed with the [C]omission[?]"[12]

A. Yes. The Company has calculated a revenue deficiency of approximately $45 million before the changes to the tax gross-up under the TCJA, with a net revenue requirement (after the TCJA credit) of $33 million. As explained in more detail in Mr. Chung and Mr. Dixon's joint testimony, the revenue requirement for temporary rates is based on a total rate base of $1,219,366,601 and an overall weighted average cost of capital of 7.08 percent.

Q. Will the proposed temporary rates be reconciled once permanent rates are set?

A. Yes. As I noted earlier, the Company will seek authorization for new permanent rates in an application to be submitted on or about May 28, 2019. That request will be supported by all of the information required by the Commission's rules, including a comprehensive presentation of testimony and exhibits demonstrating the need for permanent rate relief, as well as the Commission's Standard Filing Requirements that must accompany such a request. The Company's proposed temporary rates will be reconciled to the permanent rate level allowed by the Commission, from the effective date of temporary rates to the future date on which permanent rates will be set.

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12 R.S.A. § 378:27

IV. CONCLUSION

Q. Does this conclude your testimony?

A. Yes. PSNH appreciates the Commission's consideration of the Company's temporary rate relief presented in this case.