STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DOCKET NO. DE 19-057

IN THE MATTER OF: **PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE d/b/a EVERSOURCE ENERGY**

REQUEST FOR PERMANENT RATES

DIRECT TESTIMONY

OF

DONNA H. MULLINAX
CONSULTANT TO STAFF

DECEMBER 20, 2019

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<u>Introduction and Summary</u>

Q. Please state your full name.

A. My name is Donna Hubler Mullinax.

Q. By whom are you employed and what is your business address?

A. I am employed by Blue Ridge Consulting Services, Inc. My business address is 114 Knightsridge Road Travelers Rest, SC 29690.

Q. Please summarize your education and professional work experience.

A. I graduated with honors from Clemson University with a Bachelor of Science in Administrative Management and a Master of Science in Management. I am a Certified Public Accountant (CPA), Certified Internal Auditor (CIA), a Certified Financial Planner (CFP), and a Chartered Global Management Account (CGMA) designation holder. I am a member of the South Carolina Association of Certified Public Accountants, the American Institute of Certified Public Accountants, and the Institute of Internal Auditors.

I have over 40 years of professional experience and have been a utility industry consultant for the last 25 years. My consulting assignments include numerous rate cases filed by public utilities and litigation support for various construction claims. Other project experience includes management, financial, and compliance audits, due diligence reviews, prudence reviews, and economic viability and financial studies. I have worked with public service commissions, attorneys general, and public advocates in Arizona, Colorado, Connecticut, Delaware, District of Columbia, Hawaii, Kentucky, Illinois, Maryland, Massachusetts, Michigan, Missouri, Nebraska, New Hampshire, New York, North Dakota, Ohio, Oregon, Pennsylvania, and Utah.

Q. Have you included a more detailed description of your qualifications?

A. Yes. A description of my qualifications is included as Attachment DHM-1.

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

A. Yes. I have testified before this Commission in Docket Nos. DE 16-383, DE 16-384, DG 17-048 and DE 19-064. In addition, Blue Ridge has provided analysis and reported on our findings in Docket Nos. DG 17-070, DW 18-047, DW 18-054, and DW 18-056.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of the Staff of the New Hampshire Public Utilities Commission ("Commission").

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to address the revenue requirements proposed by Public Service Company of New Hampshire, d/b/a Eversource Energy ("PSNH," "Eversource," or "Company") and to present the effect of Staff's recommended ratemaking adjustments on the Company's revenue requirements.

Q. Please summarize your recommendations.

A. The following table summarizes Staff's recommendations regarding revenue requirements.

Table 1: Summary of Staff's Recommended Adjustments and the Effect on Rate Base, Operating Income, and Revenue Deficiency

		Rate Base	Operating Income	Revenue Deficiency
	Staff's Recommended Rate of Return			6.24%
	Revenue Conversion Factor			1.37142
	Company Updated Proposal	$ 1,215,689,670	$ 42,423,178	$ 69,254,451
Adjustment 1	Modify Plant in Service	$ (62,999,792)	$ 1,542,734	$ (7,509,303)
Adjustment 2	Catch Up Meter Retirements	(843,000)	(897,100)	1,158,131
Adjustment 3	Cash Working Capital	2,773,118		237,413
Adjustment 4	Audit Issues-Placeholder		-	-
Adjustment 5	Payroll		300,389	(411,960)
Adjustment 6	Incentive Compensation		2,929,117	(4,017,056)
Adjustment 7	Severance		21,741	(29,816)
Adjustment 8	Remove SERP		557,761	(764,926)
Adjustment 9	Sharing of D&O Liability Insurance		25,624	(35,141)
Adjustment 10	Vegetation Management		9,999,650	(13,713,743)
Adjustment 11	Remove Amortization of Merger Cost to Achieve		662,830	(909,020)
Adjustment 12	Depreciation Expense-Whole Life		(1,015,574)	1,392,780
Adjustment 13	Environmental Reserve		871,486	(1,195,175)
Adjustment 14	Enterprise IT Expense		1,009,741	(1,384,781)
Adjustment 15	Healthcare		214,600	(294,307)
Adjustment 16	Storm Costs		(2,865,986)	3,930,477
Adjustment 17	New Start Arrearage Forgiveness	1,700,000	(861,877)	1,327,538
Adjustment 18	Interest Synchronization		(393,938)	540,255
	Uncollectble Adjustment			(292,955)
	Impact of Staffs Recommended Cost of Capital			(22,904,322)
	Staff Recommend Adjustments	$ (59,369,674)	$ 12,101,198	$ (44,875,910)
	Staff Recommended Totals	$ 1,156,319,997	$ 54,524,375	$ 24,378,542

Q. What revenue increase does Staff recommend?

A. Staff recommends a base rate increase of no more than $24,378,542. The following table shows the Company's updated revenue requirement request and Staff's recommendation.

Table 2: Staff's Recommended Revenue Requirement

Company's Updated Revenue Deficiency	$ 69,254,451
Staff's Recommended Adjustment	(44,875,910)
Staff's Recommended Revenue Deficiency	$ 24,378,542

Q. Are you presenting any exhibits in connection with your direct testimony in this proceeding?

A. Yes. Besides my qualifications already mentioned as Attachment DHM-1, Attachment DHM-2 includes Staff's revenue requirement schedules, and Attachments DHM-3 through DHM-28 are copies of selected documents that are referenced in my testimony.

Q. How are Staff's revenue requirement schedules organized?

A. Staff's revenue requirement schedules, included in Attachment DHM-2, are organized into summary schedules and adjustment schedules. The schedules consist of Schedules 1, 1.1, 1.2, 2, 2.1, 3, 3.1 through 3.18.

Q. What is shown on Schedule 1?

A. Schedule 1 is a summary comparison of the Company's and Staff's computation of the revenue requirement and the revenue deficiency. The schedule summarizes the total impact of Staff's recommended adjustments and reflects the revenue requirement needed for the Company to earn Staff's recommended rate of return on Staff's proposed rate base.

Q. What is shown on Schedule 1.1?

A. Schedule 1.1 provides additional detail by major rate base and operating income categories and shows how Staff's recommended adjustments are applied to the Company's updated filings to obtain Staff's recommended revenue requirement and revenue deficiency.

Q. What is shown on Schedule 1.2?

A. Schedule 1.2 presents the calculation of the revenue conversion factor. The revenue conversion factor grosses up the Income Deficiency amount for income taxes to obtain the Revenue Deficiency amount. The conversion is needed to reflect that more than one dollar in gross revenue is needed for each dollar of net operating income because of the imposition of taxes on those earnings.

Q. What is shown on Schedule 1.3?

A. Schedule 1.3 presents the calculation of the uncollectibles or bad debt percentage that is applied to the revenue deficiency to estimate the portion that will likely not be collected and charged off as bad debt. The estimated uncollectible revenues are added to the revenue deficiency to determine the final revenue requirement. The Company has assumed 0.6571% of its retail revenue will be charged as a net write off.

Q. What is shown on Schedules 2 and 2.1?

A. Schedule 2 summarizes the capital structure and cost of capital proposed by the Company relative to the recommendation of Staff witness J. Randall Woolridge. Schedule 2.1 isolates the impact on the revenue deficiency for the difference between the Company's proposed capital structure and cost of capital and that recommended by Staff.

Q. What is shown on Schedule 3 and Schedules 3.1 through 3.18?

A. Schedule 3 summarizes Staff's adjustments to rate base and operating income (i.e., revenues less expenses). Schedules 3.1 through 3.18 provide further support and calculations for the adjustments Staff is recommending.

Revenue Requirements

Eversource's Requested Revenue Increase

Q. What revenue increase has been requested by the Company?

A. The Company's Application filed on April 26, 2019, requested an increase in base rate revenues of $69.913 million, which includes its request for a temporary rate adjustment of approximately $33 million.[1] On November 11, 2019, the Company filed an update to its revenue requirement. The Company's updated request is for an increase in base rates of $69.254 million, or a decrease of $658,245 from its initial request.[2]

Changes Made in Eversource's Updated Revenue Requirements

Q. What changes did the Company make to its updated revenue requirement?

A. The Company stated that it made 16 adjustments from its initial filing to reflect adjustments as a result of discovery requests or information exchanged during technical sessions or that had been identified as needing to be updated when the Company's initial filing was made. The following is a list of the cost of service changes the Company made in the updated revenue requirements.

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[1] Eversource filing dated May 28, 2019, cover letter.
[2] Eversource filing dated November 4, 2019, Updated Revenue Requirement.

1. Regulatory Assessments were updated to reflect the latest NHPUC regulatory assessments (July 1, 2019–June 30, 2020). Increases revenue requirements by $463,737.
2. Revenues were adjusted to normalize late payment fees by removing 2018 from the three-year average. Reduces revenue requirements by $490,290.
3. Materials & Supplies were adjusted to remove inventory obsolescence incorrectly classified as distribution. Reduces revenue requirements by $59,825.
4. Dues & Memberships were adjusted for PSNH allocation of EEI dues (non-lobbying portion) from 20% to 15%. Reduces revenue requirements by $47,469.
5. Customer Service Normalizing amount was adjusted from an estimated amount to actual. Reduces revenue requirements by $17,311.
6. Fine paid to the NH Department of Labor was moved below the line. Reduces revenue requirements by $7,500.
7. Dues & Memberships were reduced to remove Business and Industry Association (BIA) dues associated with public policy advocacy. Reduces revenue requirements by $4,400.
8. Lease Expenses were adjusted to correct the lease escalation. Reduces revenue requirements by $3,151.
9. Mineral Oil Normalizing amount was adjusted from an estimated amount to actual. Increases revenue requirements by $441.

10. Residual O&M Expense Inflation was adjusted to reflect the impact of all normalizing adjustments. Reduces revenue requirements by $18,461.
11. Employee Health Care Costs were adjusted to incorporate the impact of 2020 working rates. Increases revenue requirements by $294,440.
12. Pension, PBOP, SERP were adjusted to reflect the latest actuarial reports. Reduces revenue requirements by $798,587.
13. Insurance Expense was adjusted to reflect the latest policy information. Increases revenue requirements by $32,347.
14. Property Taxes Placeholder will be updated to reflect latest tax bills when available in December 2019.
15. Cash Working Capital was adjusted to incorporate the effect of the changes listed above. Increases rate base by $2,121.
16. Uncollectibles Expense was adjusted to incorporate the effect of the changes listed above. Reduces revenue request by $4,297.[3]

Staff's Position on Eversource's Updates to Revenue Requirements

<u>Healthcare Costs</u>

Q. Does Staff agree with the revisions the Company made to its updated revenue requirement?

A. Staff appreciates the Company's review and refinement of its revenue requirements following the discovery process. However, Staff objects to the Company's healthcare cost update "to incorporate [the] impact of 2020 working rates" based on data from an external benefits consultant. No additional information was provided with the update and

[3] Eversource filing dated November 4, 2019, Updated Revenue Requirement.

the change is not known and measurable and should be rejected. Staff recommends using the original Healthcare Costs submitted by the Company. As shown on Schedule 3.15, Staff's adjustment *increases* Operating Income by $214,600.

Establishment of Current Distribution Revenue Requirement

Q. When was the Company's current Distribution revenue requirement established?

A. Eversource's current rates were established in Order No. 25,123 (June 28, 2010) in Docket No. DE 09-035. The rates were based on a test year of the 12 months ended December 31, 2008, with rates effective July 1, 2010. The Company requested $51 million. The current rates were the result of a Settlement, resulting in an increase in Distribution revenues of $45.5 million and projected changes July 1, 2011–$(2.9 million), July 1, 2012–$9.5 million, and July 1, 2013–$11.1 million.[4]

<u>Test Year</u>

Q. What test year is being used in this case?

A. The Company has based its request for a revenue increase on a historical test year of the 12 months ended December 31, 2018.[5] Staff's calculations use the same historical test year.

Q. Did the Company make adjustments to its historical test year?

A. Yes. The Company stated that it made normalizing adjustments to address costs or revenue items that are non-recurring, out-of-period, or otherwise not appropriate to be

[4] Docket No. DE 09-035 Settlement Agreement on Permanent Distribution Service Rates, pages 2–3.
[5] Direct Testimony of Eric H. Chung and Troy M. Dixon, page 7, line 16 (Bates 000068).

reflected in the revenue requirement. Similarly, to the extent that the test year excluded certain known and measurable costs or revenue changes that will be incurred on a continuing basis, those items were included in the revenue requirements.[6]

Q. Did the Commission's Audit Staff audit the Company's historical test year results?

A. Staff's audit is ongoing, and it is my understanding that the final audit report will be complete by the end of the year (after the Company has had an opportunity to comment on a draft audit report). Staff plans to recalculate its proposed revenue requirement to reflect the results of the final audit report.

<u>Adjustments to Rate Base</u>

Q. What rate base had the Company proposed?

A. The Company's revised rate base is $1,215,689,670.[7]

Q. Is Staff proposing any adjustments to the Company's proposed rate base?

A. Yes. Staff proposes adjustments to the following rate base items:

- Plant in Service
- Catch Up Meter Retirements
- Cash Working Capital

[6] Direct Testimony of Eric H. Chung and Troy M. Dixon, page 9, line 12–page 10, line 2 (Bates 000070–000071).
[7] Attachment EHC/TMD-1 (Perm), Schedule EHC/TMD-1 (Perm), November 4, 2019 Update.

Plant in Service

Q. Please explain Staff's recommended adjustment to Plant in Service.

A. Staff's overall adjustment to Plant in Service includes the individual adjustments that are supported by the testimonies of Staff witness Jay Dudley.

Q. What is the effect of Staff's recommended adjustments to Plant in Service?

A. The effect of these adjustments to gross plant and the corresponding impact on accumulated depreciation *reduces* Rate Base by $62,999,792. The adjustments to Plant in Service will also *reduce* depreciation expense by $2,115,740, which *increases* Operating Income by $1,542,734. Staff's recommended adjustment is presented on Schedule 3.1.

Catch Up Meter Retirements

Q. Please explain Staff's recommended adjustment regarding Catch Up Meter Retirements.

A. During discovery the Company determined that the plant balance for Account 370– Meters was misstated. The Company's manual process for retiring meters was not working as intended. Representatives from the Company's Plant Accounting and Meter Operations groups performed a detailed analysis of the meter count reflected in Account 370 per the Company's plant accounting system of record (PowerPlan) and compared it to data from a separate system that is utilized by the Meter Operations group (PowerTrack) which maintains information related to meters installed in the field. The Company determined that $14,327,816 in meter assets must be retired.[8]

[8] Eversource response to Staff TS 2-018 (Attachment DHM-03).

Q. Does this late developing issue affect other components of the Company's revenue requirements?

A. Yes. While the additional retirements do not change net plant in service, since gross plant goes down by the same amount as accumulated depreciation, the Company explained that there is an effect on the Company's revenue deficiency for the following three reasons:

- The recommended depreciation rate will change as a result of reflecting the additional retirement activity. The depreciation rate under either the remaining life method or the whole life method increases.
- The balance against which the depreciation rate is applied has gone down, which, if not for the increase in the depreciation rate, would result in a small decrease in the revenue deficiency proposed in this case.
- The balance of ADIT as of December 31, 2018, would increase by approximately $843,000 reflecting this additional retirement activity.

The Company stated that the overall increase on the revenue deficiency resulting from these three factors would cause an increase in the revenue deficiency of $3.9 million, from $69.3 million to $73.2 million under the Company's proposed remaining life method for calculating depreciation rates. Due to the late development of this issue, the Company is not proposing to update the revenue requirement at this time. In the January update, the Company will update the revenue requirement to reflect the latest balances in account 370–Meters as well as the associated accumulated depreciation reserve and the effect on ADIT.[9]

[9] Eversource response to Staff 4-034-SP01 (Attachment DHM-04).

While the Company stated that it has not updated its revenue requirement, it did provide preliminary numbers on how the meter retirement would affect net plant in service, accumulated depreciation, accumulated deferred income taxes, and depreciation expense. Staff has reflected these preliminary numbers in its revenue requirement so that the potential effect of the catch up meter retirement can be considered. Schedule 3.2 reflects the retirement of the meters[10] and the matching accumulated depreciation,[11] resulting in $0 effect on net plant in service. The effect on accumulated deferred income taxes is also shown on Schedule 3.2. The adjustment *reduces* rate base by $843,000. Staff has also recognized the effect of the meter retirements on depreciation expense, using Staff's preferred Whole Life methodology.[12] As shown on Schedule 3.2, the adjustment *reduces* Operating Income by $897,100.

Cash Working Capital

Q. Please explain Staff's recommended Cash Working Capital adjustment.

A. Cash Working Capital was developed through the preparation of a lead-lag study. The lead-lag is applied to each component of the cost of service to quantify the cash working capital requirement associated with that cost of service item. Staff's adjustment to Cash Working Capital updates the revenue and expense components of the Company's lead-lag study to reflect Staff's adjustments that are discussed within this testimony. As shown on Schedule 3.3, Staff's adjustment to Working Capital *increases* jurisdictional Rate Base by $2,773,118.

[10] Eversource response to Staff 2-004 and Staff 2-004-SP01 (Attachment DHM-05).
[11] Eversource response to Staff 2-003 and Staff 2-003-SP01 (Attachment DHM-06)
[12] Staff converted the Depreciation Expense from the Company's Remaining Life methodology to Whole Life on Schedule 3.12. The adjustment on Schedule 3.2 adjusts Staff's Whole Life methodology before the meter retirements to the effect after the retirements.

Q. What is the impact of Staff's recommended adjustments to the Company's requested rate base?

A. The Company's updated rate base was $1,215,689,670. Staff's recommended adjustments *reduces* the rate base to $1,156,319,997.

<u>Adjustments to Operating Income</u>

Q. What net operating income has the Company proposed?

A. The Company's revised operating income at current rates is $42,423,178.[13]

Q. Is Staff proposing any adjustments to the Company's proposed net operating income?

A. Yes. Staff is recommending adjustments to the following expense components:

- Audit Issue Placeholder
- Payroll Expense and Payroll Taxes
- Incentive Compensation
- Severance
- SERP
- Sharing of Directors and Officers ("D&O") Liability Insurance
- Vegetation Management
- Removal of Amortization of Merger Costs
- Depreciation Expense

[13] Attachment EHC/TMD-1 (Perm), Schedule EHC/TMD-1 (Perm), November 4, 2019 Update.

- Environmental Reserve
- Enterprise IT Expense
- Storm Costs
- New Start Arrearage Forgiveness Program
- Interest Synchronization

Audit Issue Placeholder

Q. Please explain Staff's recommended adjustment Audit Issue Placeholder.

A. Staff's audit is ongoing, and it is my understanding that the final report will be complete by the end of the year. Staff's recommended revenue requirements will likely need to be updated when the final audit report is available. Staff has included a placeholder on Schedule 3.4 for any audit findings that would affect the Company's requested rate increase.

Payroll Expense and Payroll Taxes

Q. Please explain Staff's adjustment to Payroll Expense.

A. Staff's adjustment to Payroll Expense and Payroll Taxes includes: (1) payroll reduction for the incremental post-test year FTEs that the Company has not yet hired and (2) removed payroll associated with workforce reduction in which severance was paid.

Q. Please explain Staff's recommendation regarding incremental post-test year FTEs.

A. The Company's payroll adjustment reflects incremental post-test year hires (FTEs). The new FTEs includes (1) five PSNH employees to support the Company's Expanded

Troubleshooters Program ($528,231) and (2) PSNH's allocated share of 14 new Information Technology FTEs, which are being hired by Eversource Energy Service Company ($99,671).[14] The Company has not filled all of the proposed new positions as shown in the following table.[15]

Table 3: Status of Incremental FTEs Included In Payroll Expense

	Total Payroll	Planned FTEs	Actual FTEs
Incremental FTEs-Cyter Security	99,671	14	6
Incremental FTEs-Troubleshooters and SOC	528,231	5	2

Staff recommends excluding payroll expense and payroll taxes associated with the incremental unfilled positions because it is not certain that the Company will follow through on its hiring plans. Additionally, the longer the new positions remain vacant, the future expense is increasingly remote from the test year.

Q. Please explain Staff's adjustment to payroll expense and payroll taxes associated with severance.

A. Severance was paid to two individuals whose positions were eliminated as part of a workforce reduction. The salaries of these two individuals totaling $8,476 were included in the Test Year revenue requirements.[16] Staff has removed the salaries of these positions from payroll expenses and payroll taxes.

[14] Direct Testimony of Eric H. Chung and Troy M Dixon 45:15–17 (Bates 000106) and Eversource response to OCA 1-024 (Attachment DHM-07).
[15] Eversource response to Staff TS 2-010 (Attachment DHM-08) and Staff TS 2-011 (Attachment DHM-09).
[16] Eversource response to Staff 12-001 (Attachment DHM-10).

Q. What is the total effect of Staff's recommended adjustments to Payroll Expense and Payroll Taxes?

A. As shown on Schedule 3.5, Staff's recommended adjustments to Payroll Expense and Payroll Taxes *increase* Operating Income by $300,389.

Incentive Compensation

Q. Please explain the Company's incentive compensation plans.

A. The Company provides incentive compensation to non-union employees, executives and directors. The Company's Employee Annual Incentive Program includes cash payouts.[17] The Eversource Energy Incentive Plan includes cash awards and equity awards, including Stock Options, Stock Appreciation Rights (SARs), Restricted Stock, and Stock Units.[18] The Company is seeking recovery of the following variable compensation amounts.[19]

Table 4: Variable Compensation Included in Rate Year

Description	Amount in Rate Year	Percent
Employee Incentive	$ 3,962,425	52%
Executive Incentive	1,409,087	19%
Executive Stock Incentive	1,902,217	25%
Director RSU's	340,097	4%
Total Variable Compensation	$7,613,826	100%

Q. How are the amounts to be awarded determined by the Company?

A. The Board of Trustees approves the annual incentive program and sets the overall corporate performance goals. The Company stated that the performance objectives and weighting for each of the plans was included in the annual proxy statements.[20] All

[17] 1604.01(a)(15) Attachment 2 (Bates SFR-003907–003909).
[18] 1604.01(a)(15) Attachment 3, page 4 (Bates SFR-003910–SFR003911).
[19] Eversource response to OCA 1-030 (Attachment DHM-11).
[20] Eversource response to Staff 5-033 (Attachment DHM-12).

Eversource employees (executive and non-executives) share in the attainment of stated goals.[21] The 2018 goals continue to base 70% of the annual incentive performance targets on the Company's overall financial performance and 30% on overall operational performance. Specific goals are used to assess performance, with potential ratings on each goal ranging from 0% to 200% of target. Financial and Operational goals were assigned specific goals that were used to assess performance, with weightings for each goal as shown in the following table.[22]

Table 5: 2018 Incentive Compensation Performance Goals

2018 Annual Incentive Program Goals		
Financial	70%	
Earnings per Share		60%
Dividend Growth		10%
Advancement of Strategic Growth Initiatives		30%
Operational	30%	
Service Reliability and Restoration		60%
Safety Ratings, Gas Service Response, Diversity Promotions and Hires of Leadership Employee Positions, and Key Initiatives		40%

Q. What does Staff recommend regarding incentive compensation?

A. As a performance-based component of total compensation, the Company links compensation to metrics and outcomes related to financial and operational performance. Goals that are based on profitability benefit shareholders while being potentially detrimental to ratepayers. Staff recommends that the portion of the Incentive Compensation goals that promote the interest of shareholders be funded by shareholders.

[21] Eversource response to OCA 8-040 (Attachment DHM-13).
[22] Eversource response to OCA 1-029, Attachment C, page 10 (Attachment DHM-14).

Q. Please explain why focusing on shareholder-related goals can hurt ratepayers.

A. Financial performance targets are not designed to promote the interests of customers and, at worst, can be in conflict when competing priorities must be balanced. For example, expenses can be reduced to increase profitability by deferring maintenance (resulting in increased outages). Further, expenses can be reduced by failing to adequately staff Customer Services. As an example, customers could have an outage and be without power and find it difficult to access customer service to report the outage. Customer services will also have long wait times for other inquiries or complaints if it is understaffed to reduce costs and drive up profitability.

Considering the Company's performance goals on a weighted total, the following percentages result.

Table 6: Incentive Compensation Goals - With Weighting

2018 Annual Incentive Program Goals	Basis	Goals	Weighted
Financial	70%		
Earnings per Share		60%	42%
Dividend Growth		10%	7%
Advancement of Strategic Growth Initiatives		30%	21%
Operational	30%		
Service Reliability and Restoration		60%	18%
Safety Ratings, Gas Service Response, Diversity Promotions and Hires of Leadership Employee Positions, and Key Initiatives		40%	12%
			100%

By reducing expenses, the Company's management can increase its net income, which influences the Earnings per Share Goals (weighted at 42%) and dividend growth (weighted at 7%). Operational goals related to Service Reliability and Restoration is weighted at only 18%. Having goals to incent performance is a good management practice; however, it is important that incentive payments are based on performance goals that drive the desired behaviors. The Company has made the decision to prioritize shareholder goals above those of ratepayers because all net income and dividends accrues to the investors. Therefore, shareholders should fund the awards that incentivize management for achieving the goals that benefit them. Ensuring that the competing interests are balanced is also important. This balance has been achieved by requiring the sharing of incentive compensation between ratepayers and shareholders.

As further support to Staff's concern regarding the imbalance between ratepayer and shareholder interests, a significant portion of the awards are stock related (Executive Stock Incentive-25% and Director RSU's-4%), which could influence decisions that promote shareholders' interest. Therefore, Staff is recommending the portion of the Incentive Compensation that more closely benefits shareholders be funded by shareholders. Staff's adjustment reduces incentive compensation by 49%.

Q. Please explain the adjustment to payroll taxes associated with incentive compensation cash awards.

A. A portion of incentive compensation is awarded as cash and would be subject to payroll taxes. The reduction in the cash award would also reduce the payroll taxes associated with them.

Q. What is the total effect of Staff's recommendation for incentive compensation?

A. As shown on Schedule 3.6, the adjustment to incentive compensation and the associated adjustment to payroll tax *increases* Operating Income by $2,929,117.

Severance

Q. Please describe the severance expense reflected in the test year.

A. The Company incurred allocated severance expense of $54,297 in the test year (inflated to $57,136 in the Rate Year). The payments covered six individuals with the reason for termination Involuntary–Mutual Agreement (and Involuntary–Workforce Reduction).[23]

Q. Does Staff recommend an adjustment for severance expense?

A. Yes. Staff recommends two adjustments. First, consistent with its recommendation in DG 17-048, to which the Commission agreed, Staff recommends excluding severance paid to employees who were asked to resign. Ratepayers have already borne the costs of paying all the Company's employees to perform. If circumstances are such that employees are being asked to resign, ratepayers should not bear the costs. Shareholders should carry the cost of bad hiring decisions, and if the least cost means of removing employees is severance pay, Eversource should take that course to reduce its costs to shareholders. The Commission agreed with Staff and ruled

> The Commission is persuaded by Staff's position that ratepayers should bear the expense of payroll for services provided, but should not bear severance costs related to employees who resign to avoid being fired. Layoffs (where Staff did not recommend disallowance of related severance pay) could involve reductions in work force where the saved payroll expense would find its way into lower rates. Involuntary resignations, on the other hand, may involve subpar performance, and customers should not be required to bear an underperforming employee's payroll and the severance cost incurred to remove that same employee.[24]

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[23] Eversource responses to Staff 5-012 (Attachment DHM-15) and OCA 1-068 (Attachment DHM-16).
[24] DG 17-048, Order No. 26,122 (April 27, 2018), page 13.

For these reasons, Staff proposes to disallow severance expense of $28,334 in the test year for severance paid associated with mutually agreed upon separations. The adjustment is shown on Schedule 3.7 and *increases* Operating Income by $21,741.

SERP

Q. Please explain the Company's Supplemental Executive Retirement Plan (SERP).

A. The Company provides supplemental executive retirement plan (SERP) benefits to highly compensated employees. These supplemental retirement plans for highly compensated individuals are provided because benefits under the general retirement plans are subject to certain limitations under the Internal Revenue Code ("Code"). As such, these types of plans are often referred to as non-qualified plans. Benefits payable under these non-qualified plans are typically equivalent to the amounts that would have been paid but for the limitations imposed by the Code. Supplemental retirement plans for highly compensated employees are designed to provide benefits in excess of the general pension plans of the company. The Company is requesting recovery of $979,307 for its non-qualified or supplemental executive retirement plan.[25]

Q. What is Staff's recommendation regarding recovery of SERP?

A. Staff recommends that shareholders pay the costs of the supplemental executive retirement plans. This recommendation means that ratepayers would pay for the executive benefits included in the Company's <u>regular</u> pension plan, and shareholders will pay for the additional executive benefits included in the supplemental plans. For ratemaking purposes, shareholders should bear the additional costs associated with

[25] Eversource response to Staff 4-032 (Attachment DHM-17).

supplemental benefits to highly compensated executives, since these costs are not necessary for the provision of utility service but are instead discretionary costs to attract, retain, and reward already highly compensated executives. The SERP is exclusive to the executive officers and the funding of this benefit should not be borne by the ratepayers. Staff recommends removing SERP from recovery. As shown on Schedule 3.8, Staff's adjustment *increases* Operating Income by $557,761.

Q. Is SERP included in the cost of service for Liberty in DE 19-064.

A. No. Liberty's rate request does not include any recovery related to SERP.[26]

Sharing of Directors and Officers ("D&O") Liability Insurance

Q. Please explain Staff's recommended adjustment regarding the sharing of Directors and Officers ("D&O") Liability Insurance.

A. The total current premium for D&O liability insurance is $1,066,485, with $70,281 allocated to PSNH.[27] Staff's adjustment removes one-half of the D&O Liability Insurance expense. The 50% removal reflects a sharing of this insurance between shareholders and ratepayers. As shown on Schedule 3.9, Staff's adjustment *increases* Operating Income by $25,824.

Q. Why should the cost of D&O Liability Insurance Expense be shared between shareholders and ratepayers?

A. The Company provided a list of acts covered by its D&O liability insurance.

[26] Docket No. DE 19-064, Liberty's response to Staff 5-11 (Attachment DHM-18).
[27] Attachment EHC/TMD-1, WP EHC/TMD-13 (Perm) November 4, 2019 Update.

> D&O Liability insurance covers the Directors and Officers of PSNH for claims made against them while serving on the Board of Directors and/or as an Officer of PSNH. Elements to the D&O policy are as follows;
>
> - Side A—Protects PSNH's Directors and Officers when PSNH cannot indemnify the individuals.
> - Side B—Reimburses PSNH when it indemnifies the individual Directors and Officers, thus protecting PSNH's balance sheet.
> - Side C—Also known as "entity coverage," covers PSNH in a securities class action lawsuit.
>
> The types of claims that may target PSNH leadership individually as well as PSNH as an entity typically include shareholder suits over company or stock performance, creditor or investor suits over mismanagement or dereliction of fiduciary duties, misrepresentation in a prospectus, decisions exceeding the authority granted to a PSNH Officer, failure to comply with regulations or laws, employment practices and HR issues, pollution and other regulatory claims.[28]

As shown by this list, D&O Liability Insurance protects the personal assets of officers and directors from the costs of lawsuits that may be initiated by employees, vendors, shareholders, and other parties for alleged wrongful acts in managing the Company.

When required to be utilized, shareholders benefit from payouts under the policy that would reduce the cost not recoverable from ratepayers. On the other hand, ratepayers benefit because having the insurance enables the directors and officers to make decisions without fear of personal liability. As a result, it is reasonable for shareholders to bear a portion of the cost of D&O Liability Insurance.

[28] Eversource response to Staff 5-029 (Attachment DHM-19).

Vegetation Management

Q. Please explain Staff's recommendation regarding Vegetation Management.

Staff is recommending several adjustment related to Vegetation Management. These include (1) Costs not paid by Consolidated Communications and (2) vegetation management capital costs-transferred to O&M expense. The final result of these adjustments results in an annual recovery of $18.3 million for vegetation management. As shown on Schedule 3.10, Staff's recommended adjustments *increase* Operating Income by $9,999,650.

Q. Please explain Staff's recommended adjustment regarding costs not paid by Consolidated Communications.

A. The Company included a normalizing adjustment to increase the expense for vegetation management by $1,213,743. The Company explained that the amount represents the work performed in calendar year 2018 and not paid by Consolidated Communications ("Consolidated") for its contribution to the vegetation-related costs as a joint pole owner. The Company stated that it does not expect Consolidated will pay this amount with the following explanation:

> The underlying issue raised by Consolidated in discussions with the Company is that there is a growing difference between the need for vegetation management on the Company's system and the benefit that the Consolidated system is receiving. PSNH has engaged in substantial discussion with Consolidated and is aware that the benefit that the Consolidated system is receiving is not increasing in correlation with the increased spending demanded by the electric distribution system. As a result, PSNH does not expect that Consolidated will continue to escalate its contribution to align with the need for expenditure on the electric distribution system, but rather will look to exercise its right under the IOP to correlate its contribution to the benefit its system is receiving.[29]

[29] Eversource response to OCA 6-018 (Attachment DHM-20).

Staff's position is that the $1,213,743 due from Consolidated should not be borne by ratepayers. Passing the past due balance through to ratepayers would remove the incentive for PSNH to resolve the contribution issues with Consolidated.

Q. What is Staff's recommendation regarding vegetation management capital costs-transferred to O&M expense?

A. Staff's adjustment regarding the transfer of vegetation management capital costs to O&M expenses is supported by the testimony of Staff witness Kurt Demmer. Staff's adjustment removed $12.5 million from O&M expenses.

Removal of Amortization of Merger Costs

Q. What is the Company seeking regarding the Amortization of Merger Costs?

A. The Company is seeking recovery of "PSNH's share of the merger costs, to be recovered over ten years, in its request for rate relief."[30] The Company stated the total Merger Costs to Achieve is $125.9 million and has allocated 7.22% of those costs to PSNH or $9.09 million. The Company's pro forma amortization for merger costs is $909,020, which is based on amortizing $9.09 million over ten years.

Table 7: Amortization of Merger Costs to Achieve

Total Merger Cost to Achieve	$ 125,903,082
Allocation Rate (gross plant allocator)	7.22%
Total Amount Allocated to PSNH	$ 9,090,203
Amortization Period (years)	10
Annual Amortization	$ 909,020

[30] Direct Testimony of Eric H. Chung and Troy M. Dixon 75:10–11 (Bates 000136).

Q. What is Staff's position regarding the Company's request?

A. The New Hampshire ratepayers should not bear any of the $125 million the Company spent to consummate the merger. Staff recommends that the amortization of the Merger Cost to Achieve be disallowed for recovery in this proceeding. As shown on Schedule 3.11, Staff's adjustment *increases* Operating Income by $662,830.

Q. Why have you removed the amortization related to merger costs?

A. The Company has included the pro forma adjustment for merger costs as part of its "Amortization of Deferred Assets."[31] In the case of the merger costs, however, there is no underlying deferred asset to be amortized. According to the Company, these merger costs were incurred and expensed by the Eversource company parent and have never been carried on the books of PSNH.[32] Thus, I see no basis for including the merger cost amortization when PSNH has no corresponding deferred asset and the same costs were expensed by the parent or service company.

By comparison, the Company is also seeking, under the same category of "Amortization of Deferred Assets," to amortize an environmental reserve balance over a four-year period.[33] As the Company notes, however, PSNH was specifically authorized to defer these estimated environmental remediation costs in a 1999 settlement agreement and again in three subsequent rate cases.[34] In the case of the merger costs, there was no

[31] Direct Testimony of Eric H. Chung and Troy M. Dixon page 60-75 (Bates 000121 -136).
[32] Eversource response to Staff 15-5 (Attachment DHM-21).
[33] Direct Testimony of Eric H. Chung and Troy M. Dixon pages at 76-77 (Bates 000137-138).
[34] Direct Testimony of Eric H. Chung and Troy M. Dixon page76:58 (Bates 000137).

order authorizing creation of a deferred asset or deferral of these costs for future recovery.

Q. Is PSNH legally entitled to recovery of the merger costs?

A. I am not an attorney, but the Company itself notes that in New Hampshire there are no examples "where recovery of merger-related transaction and integration costs were actually recovered by a post-merger entity."[35]

Depreciation Expense

Q. Please explain Staff's adjustment to Depreciation Expense.

A. The Company performed a depreciation study and incorporated the results in its proposed Depreciation Expense. The Company used the Remaining Life methodology in its depreciation study.[36] The Commission has consistently used the Whole Life methodology. Staff's adjustment reflects the difference between the two methodologies.

The Whole Life methodology results in a Depreciation Reserve Imbalance that must be amortized separately and reflected in Depreciation Expense. Staff has used ten years to amortize the Depreciation Reserve Imbalance. As shown on Schedule 3.12, the conversion to Whole Life *reduces* Operating Income by $1,015,574.

Environmental Reserve

Q. What is the Company requesting regarding amortization of Environmental Costs?

A. The Company is seeking recovery of its Environmental Reserve Balance of $9.2 million over four years. The Company explained that

[35] Eversource response to Staff 12-014 (Attachment DHM-22).
[36] Direct Testimony of John J. Spanos, 7:3–7 (Bates 001408).

> Under the terms of the 1999 PSNH restructuring settlement agreement (DE 99-099), approved by the Commission, and in three subsequent rate proceedings (DE 03-200, DE 06-028, and DE 09-035), PSNH was allowed to defer estimated environmental remediation costs as they are accrued for future recovery. The estimated costs were recognized when PSNH's environmental scientists quantified the costs of the site remediation. When remediation work begins at a site, the reserve account is charged for remediation costs, such as labor and materials. The regulatory asset established for environmental costs will be amortized to expense once recovery begins.[37]

The project balance in the Company's last rate case, Docket No. DE 09-035, was $829,000. As that docket progressed, the balance was revised to approximately $8.5 million to reflect the higher remediation costs, primarily related to the Keene manufactured gas plant site. The original amount of $829,000 was approved via the settlement agreement, while the remaining costs were deferred, along with any future costs and adjustments, to be addressed in the Company's next rate case. The balance as of December 31, 2018, is $9.2 million. The Company proposes to amortize the balance over four years, or $2,291,182 per year.[38]

Q. Why did the reserve balance increase from $8.5 million to $9.2 million?

A. The Company stated,

> The deferred environmental remediation costs reached $8.5M in 2017. The additional $664,729 was incurred in 2017 and 2018. Due to a directive from Eversource environmental accounting experts, in 2017 the reserve for Reserve Site #10 Laconia MGP was increased by $934,955 to account for 30 years of groundwater monitoring and 10 years for coal tar recovery. Previously, the reserve included a budget for five years for both groundwater monitoring and coal tar recovery. There were also several other increases and decreases to reserve sites #11 Keene, #14 Dover, #16 Franklin, #17 Nashua, #18 Coakley Landfill, and insurance proceeds.

[37] Direct Testimony of Eric H. Chung and Troy M. Dixon 76:5–12 (Bates 000137).
[38] Direct Testimony of Eric H. Chung and Troy M. Dixon 76:13–77:6 (Bates 000137–000138).

> These increases and decreases in 2017 and 2018 left a deferred total at the end of 2018 of $9,164,729.[39]

As part of the Company's response it provided a list of the transactions from 2012 through 2018.

Q. What is Staff's concern regarding the $9.2 million that the Company has accumulated in its Environmental Reserve Balance?

A. Since the establishment of the $7.6 million balance from Docket No. DE 09-035,[40] the Company has added $2.59 million identified as "record stipulated rate of return" to the balance. Staff is concerned that the Company is recording carrying charges for estimated costs that have not actually been incurred. As stated in its explanation for the increase from $8.5 million to $9.2 million, part of the increase was due to "30 years of groundwater monitoring and 10 years for coal tar recovery. Previously, the reserve included a budget for five years for both groundwater monitoring and coal tar recovery." These costs are estimated and not out of pocket, and the Company should not earn a return on them.

Q. What was the Company's basis for adding these carrying charges to the reserve balance?

A. When asked about the addition of carrying charges, the Company stated that the environmental reserve accounting treatment was first established following Docket No. DE 99-099. Since that time, the Company has applied the applicable stipulated rate of

[39] Eversource response to Staff 5-017 (Attachment DHM-23).
[40] Neither the Settlement Agreement (April 30, 2010) nor the Commission Order No. 25,123 approving the settlement Agreement (June 28, 2010) mention that the $7.6 million was deferred and would be addressed in the next base rate case.

return then in effect to the unrecovered balance. The Company is proposing to continue the practice going forward and would apply the weighted average cost of capital approved by the NHPUC as a result of this docket.[41]

Q. What is Staff's recommendation regarding the carrying charges in the Reserve Balance and recovery of them from ratepayers over four years?

A. Staff recommends that the Environmental Reserve balance be *reduced* by $2.59 million to remove the incremental carrying charges from 2010 when the original balance of $7.6 was established in Docket No. DE 09-035. These carrying costs have been calculated on estimates of future expenditures and are not out-of-pocket costs. No shareholder capital has been expended, so it is not just and reasonable that the Company earn a return on this balance. In addition, allowing the Company to earn a return on the balance established for environmental remediation could have an unintended effect. As long as the Company can earn a return on estimated future expenditures there is reduced incentive to actually perform the remediation activities.

In addition, Staff recommends the balance be recovered over six years rather than the four years proposed by the Company. The period between the current 2019 and the Company's last base rate case is ten years. If a similar time period elapses between this proceeding and the next base rate case and the Company collects its proposed annual amortization (based on four years) for ten years, the Company would over recover the estimated remediation costs. As shown on Schedule 3.13, the balance without carrying charges, amortized over six years, *increases* Operating Income by $871,486.

[41] Eversource response to Staff TS 2-014 (Attachment DHM-24).

Enterprise IT Expense

Q. Please explain Staff's concern regarding Enterprise IT Expense.

A. Enterprise IT Projects that benefit multiple operating companies are typically placed in service at the service company, rather than individually at each operating company. The Company's IT capital projects for the service company, as well as PSNH's allocated dollar amount, have increased significantly over the last several years as shown in the following chart and table.[42]

Figure 1: Net Enterprise IT Project Expense Allocated to PSNH 2015–2018

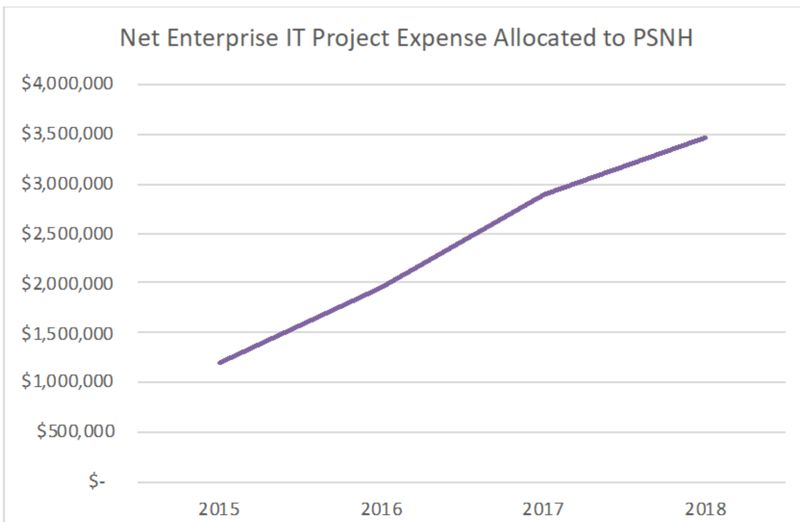

Table 8: Enterprise IT Project Expense 2015–2018

	2015	2016	2017	2018
Total Enterprise IT Project Expense	$ 11,050,149	$ 20,786,008	$ 35,904,377	$ 47,300,244
Allocated to PSNH	1,350,612	2,212,896	3,660,498	4,291,690
Less: Capitalized Portion	(147,622)	(260,679)	(772,365)	(831,049)
Net Enterprise IT Project Expense	$ 1,202,990	$ 1,952,217	$ 2,888,133	$ 3,460,641

[42] Eversource response to Staff 5-019 (Attachment DHM-27).

Q. What was the Company's reasons for the increase in Enterprise IT Expense?

A. The Company stated that the increase was due to several large projects being completed, such as: Supply Chain Consolidation (Maximo, Ariba), Human Resources Platform (WorkDay & WorkForce), Enterprise ACD/IVR (Automated Call Distribution, Interactive Voice Response), CIP (Critical Infrastructure Protection), and Financial Reporting (PowerPlan).[43]

Q. What is Staff's recommended adjustment for Enterprise IT Expense?

A. While a small portion of these projects are capitalized, the majority of the expenditures are charged as an expense. The Test Year expense allocated to PSNH (2018–$3.5 million) is the highest in recent history and includes several large projects that were completed in 2018. Using this amount overstates the Company's recurring operating experience. Staff recommends that Enterprise IT Project expenses should be normalized using a three-year average 2016 through 2018. As shown on Schedule 3.14, the adjustment *increases* Operating Income by $1,009,741.

Storm Costs

Q. What is Staff's recommendation regarding Storm Costs?

A. Staff has two adjustments that affect revenue requirements related to Storm Costs. First, Staff witness Richard Chagnon provides testimony to support Staff's recommendation regarding the Company's proposed transfer of $4 million from the Company's current annual funding for the Storm Reserve Accrual and the Company's new proposed annual

[43] Eversource response to Staff 5-019 (Attachment DHM-27).

funding level of the Major Storm Cost Recovery (MSCR) mechanism. Staff's adjustment returns the $4 million to the Storm Reserve Accural.

Q. What is Staff's second recommendation regarding Storm Costs?

A. The Company included a normalizing adjustment that added $69,523 to O&M expense for communication expenses that were initially recorded to the Major Storm Cost Reserve, and, as such, the costs were not included in per-book test year distribution expenses. In Docket No. DE 18-058, Audit Staff denied recovery through the Major Storm Cost Reserve as the costs were not related to the literal restoration of power. The costs were identified as media communication associated with pre-staging.[44] Staff is recommending removing these costs as non-recurring.

Q. What is the effect of Staff's recommended adjustments to Storm Costs?

A. As shown on Schedule 3.16, the adjustment *reduces* Operating Income by $2,865,986.

New Start Arrearage Forgiveness Program

Q. Please explain Staff's adjustment regarding the New Start Arrearage Forgiveness Program.

A. Staff witness Richard Chagnon provides testimony to support Staff's recommendation regarding recovery of the New Start Arrearage Forgiveness Program. As shown on Schedule 3.17, Staff's recommendation creates a regulatory asset for the set-up costs to be recovered over five years and recovers the estimated arrearage forgiveness, net of

[44] Eversource response to Staff 5-20 (Attachment DHM-28).

avoided costs, over 4.5 years. Staff recommendation *increases* rate base by $1.7 million and *reduces* Operating Income by $861,877.

Interest Synchronization

Q. Please explain Staff's recommended adjustment to Interest Synchronization.

A. The interest synchronization adjustment synchronizes the rate base and cost of capital with the tax calculation using Staff's recommended weighted cost of debt. The adjustment is shown on Schedule 3.18.

Q. What is the impact of Staff's recommended adjustments to the Company's operating income?

A. The Company's updated operating income is $42,423,178. Staff's recommended adjustments increase operating income to $54,524,375.

<u>Conclusions</u>

Q. In conclusion, what is Staff's recommended increase to base revenue?

A. Staff is recommending that the Company be allowed an increase to its distribution base rates of no more than $24,378,542.

Q. Does this conclude your testimony?

A. Yes.