STATE OF NEW HAMPSHIRE

BEFORE THE

NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

DOCKET NO. DE 19-XXX

WESTMORELAND CLEAN INNOVATION PROJECT

DIRECT TESTIMONY OF

ERIC H. CHUNG

Project Revenue Requirement

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

July 31, 2019

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

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I. INTRODUCTION

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

A. My name is Eric H. Chung. I am employed by Eversource Energy Service Company as Director, Revenue Requirements (New Hampshire) and Regulatory Projects. My business address is 247 Station Drive, Westwood, Massachusetts 02090.

Q. What are your principal responsibilities in this position?

A. I am currently responsible for all regulatory activity affecting the financial requirements of Public Service Company of New Hampshire ("PSNH" or the "Company"). I am also responsible for certain enterprise-wide regulatory initiatives for the Eversource Energy operating businesses in the states of Connecticut, Massachusetts and New Hampshire.

Q. Please summarize your professional experience.

A. I was appointed to my current position in February 2015. From August 2013 to January 2015, I was Director of Revenue Requirements for the Eversource Energy operating companies in Massachusetts and New Hampshire, including PSNH.

Prior to joining Eversource, from 2011 to 2013, I was a Senior Manager in the Power Utilities Advisory practice at Ernst and Young LLP. From 2009 to 2011, I worked for PacifiCorp, a vertically-integrated electric utility serving approximately 1.7 million customers across six states in the Western United States, where my primary role was Director of Environmental Policy and Strategy. I also served as an Associate Partner in the Utilities practice at Oliver Wyman, a Senior Engagement Manager in the Power practice at Strategic Decisions Group, and a Senior Programmer Analyst at Goldman Sachs. I have over 20 years of relevant management consulting and industry experience, with most of my career dedicated to the power and utilities sectors.

Q. Please summarize your educational background.

A. I received a Bachelor of Arts degree in physics with honors from Harvard College, as well as a Master of Business Administration in finance and economics from the University of Chicago Booth School of Business.

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

A. Yes, I have previously testified before the New Hampshire Public Utilities Commission (the "Commission") in many proceedings, including Docket No. DE 11-250 (Investigation of Merrimack Station Scrubber Project and Cost Recovery); Docket No. DE 13-274 (2014 Stranded Cost Recovery Charge Rate Change); Docket No. DE 13-275 (2014 Default Energy Service Rate Change); Docket No. DE 13-108 (Reconciliation of Energy Service and Stranded Costs for Calendar Year 2012); Docket DE 14-238 (2015 Public Service Company of New Hampshire Restructuring and Rate Stabilization Agreement); Docket No. DE 15-464 (Lease Agreement Between Public Service Company of New Hampshire and Northern Pass Transmission); Docket No. DE 16-693 (Public Service Company of New Hampshire Power Purchase Agreement with Hydro-Renewable Resources); Docket No. DE 17-096 (Petition for Finding of Fact and Issuance of Financial Order); Docket No. DE 17-105 (Sale of Wyman 4 Interest); Docket No. DE 17-124 (sale of generating assets); and Docket No. DE 19-057 (Petition for Approval of Permanent Rates).

Q. What is the purpose of your testimony?

A. I am providing testimony related to the revenue requirement for the Westmoreland Clean Innovation Project ("Project"). In this testimony, I will describe the Company's proposal for cost recovery for the Project through a reconciling rate mechanism, which is among the Company's comprehensive distribution rate case proposals pending approval in Docket

No. DE 19-057. I will also describe the illustrative revenue requirement calculation for the Project.

II. PROJECT REVENUE REQUIREMENT

Q. Please summarize the Company's proposal for recovering costs of the Project.

A. In Docket No. DE 19-057, the Company has a pending proposal to establish a new non-bypassable reconciling rate called the Distribution Rate Adjustment Mechanism ("DRAM"). The proposal is presented in the joint testimony of Eric H. Chung and Troy M. Dixon in that docket. The proposed DRAM would be an annual rate in effect from July 1 to June 30 of each year that implements certain outcomes of the Company's ongoing rate case, as well as various other Commission directives that may occur in between rate cases. The Company anticipates submitting a comprehensive DRAM "umbrella" filing each May 1 for the Commission's review and approval in advance of a single annual July 1 rate adjustment.

As proposed in Docket No. DE 19-057, the DRAM contains five recovery elements. One of these, called the Grid Transformation and Enablement Program ("GTEP"), is the element through which the Project costs would be recovered. The GTEP is a multi-year initiative to accelerate capital work targeted at upgrading the condition of the distribution system for greater resiliency and the integration of advanced clean energy technologies, such as the Project. To accomplish the objectives of the GTEP, the Company has requested in Docket No. DE 19-057 the approval of a cost-recovery mechanism to provide post-rate case support for the program costs, including the Project.

Additional details on the DRAM, including the benefits, documentation, and rate design related to such mechanism, are described in the joint testimony of Mr. Chung and Mr. Dixon in Docket No. DE 19-057. Additional details on the GTEP are described in the joint testimony of Joseph A. Purington and Lee G. Lajoie in Docket No. DE 19-057.

Q. What is the GTEP Factor, and how would it facilitate the recovery of the Project costs?

A. As described in Docket No. DE 19-057, the Grid Transformation and Enablement Program Factor ("GTEP Factor") is an annual rate adjustment and reconciliation factor to recover: (1) actual, eligible preauthorized GTEP expenditures on a calendar year basis, starting with the Rate Year; and (2) a reconciliation component in the second year and beyond. The GTEP Factor would be part of the DRAM and will provide an annual rate adjustment for Commission-approved investments that are forecasted to be placed in service pursuant to GTEP, subject to future reconciliation. The mechanism would be the funding vehicle for the Project.

Q. Will the GTEP Factor be limited to preauthorized expenditures?

A. Yes. Only investments that are preauthorized by the Commission will be eligible for cost recovery through the GTEP Factor. Commission preauthorization of GTEP investments means that the Commission will approve the decision to proceed with those investments, and in future reconciliation proceedings will review the prudence of the implementation of these investments pursuant to that authorization.

Q. Are you presenting any schedules or exhibits to illustrate cost recovery of the Project through the GTEP Factor?

A. Yes, in support of this proposal, I am presenting Attachment EHC-1, which calculates an illustrative annual revenue requirement for the Project. There are three pages contained in this Attachment:

- Page 1 shows a summary of the revenue requirements;
- Page 2 shows support for income tax calculations; and
- Page 3 shows return on rate base and capital structure.

Q. Please describe the annual process you anticipate for updating the GTEP Factor for the Project's revenue requirement.

A. The Project's revenue requirement will follow the overall process for updating the GTEP Factor, which will entail several major steps:

- First, on or about September 1 of each year, the Company plans to file a preliminary forecast of GTEP investments for the following calendar year and discuss that plan with Commission Staff.
- Next, on or about November 15 of each calendar year, and starting in 2020, it shall provide the Commission with a compliance filing that forecasts the Company's expected spending under the GTEP Factor for the upcoming calendar year. This

compliance filing will incorporate Staff's earlier feedback on the program. The Company would request an order approving the plan by January 1.

- Subsequently, on an annual basis and as part of the Company's May 1 compliance filing under the proposed DRAM, the Company will provide two GTEP-related items: (1) a revenue requirement calculation for the current calendar year consisting of actual capital spend to date and a forecast for the balance of the year; and (2) a report to the Commission reconciling actual GTEP costs in the prior period, including a proposed reconciling adjustment to be made as part of the revenue requirement for the upcoming year. The current-year GTEP revenue requirement and prior-year reconciliation amounts approved by the Commission will be implemented as part the annual July 1 DRAM rate adjustment.

In the case of the Project, the Company would expect to reconcile the actual capital investment incurred at the time of the next DRAM reconciliation after the in-service date, and annually reconcile actual O&M expenditures against the estimates placed previously into rates.

Q. What are the incremental capital and O&M revenue requirements for the Project?

A. Capital investment for the Project is expected to be approximately $7 million in 2021. Annual non-labor O&M for warranty and maintenance costs begins when the Project is in-service in 2022 and is estimated to be $140,000 annually. These figures are provided on Attachment EHC-1, Page 1, Lines 23 and 34.

Q. How will the annual Project revenue requirement be calculated?

A. For the year in which eligible GTEP investments are placed into service, including the Project, the annual revenue requirement will be calculated on a monthly basis. The annual revenue requirement will be calculated based upon average annual costs in subsequent years. The return on eligible GTEP plant investment shall be the most recent weighted average cost of capital approved in the Company's most recent rate case.

Depreciation expense shall be set at the depreciation rates approved by the Commission in the Company's most recent rate case. For the year during which the Project is placed into service, the Company shall calculate depreciation expense by: (1) dividing the annual depreciation rate by twelve; and (2) applying the resulting rate to the average monthly plant balance over the course of the year. Depreciation for subsequent years shall be based on the average of beginning and end of year plant balances.

Incremental property tax expenses associated with the Project will be included in the GTEP revenue requirement.

Q. Have you calculated an illustrative revenue requirement for the Project?

A. Yes. As noted above, Attachment EHC-1, Page 1 is an illustrative annual revenue requirement computation for the Project. As shown on line 37, column (C), the revenue requirement for the 2021 is approximately $602,447. This calculation is consistent with the calculation presented in Attachment EHC/TMD-8 (Perm), Schedule EHC/TMD-1 (Perm) in Docket No. DE 19-057.

Q. Have you estimated the overall rate impact for the Project?

A. Yes. Line 41 of Attachment EHC-1, Page 1 estimates an average rate impact across all customers and rate classes, based on the illustrative annual revenue requirement and applying a representative annual distribution sales estimate. As shown in column (C), the average rate impact in 2021 is $0.008 cents/kWh.

Q. Please summarize the Company's request with respect to the Project revenue requirement.

A. The Company requests to include the revenue requirement of the Project as illustrated in the DRAM. Under the Company's proposal, the amount would be reflected as part of the DRAM as of July 1, 2021, subject to reconciliation as part of the proposed May 1, 2022 DRAM compliance filing.

Q. Does this conclude your testimony?

A. Yes, it does.