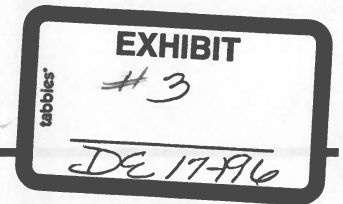


Amidon, Suzanne



From: Matthew J. Fossum <matthew.fossum@eversource.com>
Sent: Friday, October 27, 2017 4:19 PM
To: Chagnon, Richard; Amidon, Suzanne; Frantz, Tom; Buckley, Brian; Brennan, James J; Demmer, Kurt
Cc: Paul E. Ramsey; Marc E. Lemenager; Lee G. Lajoie; Allen M. Desbiens; Joseph A. Purington; Eric H. Chung; Christopher J. Goulding
Subject: Eversource REP Items
Attachments: REP Response Items.docx; Enhanced Tree Trimming Policy 060112.docx

Good afternoon. At our last meeting on Eversource's REP, we were asked to provide some additional information outside of the REP filing itself. Attached to this message are two documents with the requested information. The first is a listing of the requested information and the responses, to the extent we have been able to gather information. The second is an internal accounting memo from 2012 on capitalizing tree cutting costs which accompanies the response on the same issue. Thank you, and we will update the information here as more is available.

Matthew

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Following on the meeting held on October 6, 2017 relative to Eversource's proposed REP for 2018, the Commission Staff and OCA had requested additional information be provided outside the REP filing. Included below is the information requested, to the degree that it is available as of October 27, 2017.

1. Other materials to provide:

a. Estimated rate impacts information;

Information was provided in email from Chris Goulding on October 19, 2017.

b. Timing on bidding of veg management contract;

Pending – Director of Vegetation Management is unavailable, but will return on October 31. Information will be provided as soon as possible after October 31.

c. Supporting information on capitalizing the costs of hazard tree removal;

Enhanced Tree Trimming ("ETT") has been a capital expense of the company for years and has long been approved by the Commission. In the attached internal accounting memo from 2012, it details how and why ETT has been a capital expense of the company in New Hampshire for nearly 20 years, and for about as long in Massachusetts and Connecticut. In brief, ETT both extends the life of the conductors and improves their performance and is therefore appropriately treated as a capital expense.

Furthermore, while tree removal/ETT is not specifically addressed in FERC Distribution asset account definitions, capitalization would be appropriate for initial clearing to the ROW border and related clearing of hazard/danger trees outside the border. FERC Account 365, Distribution Overhead Conductors and Devices (asset account), includes the installed cost of overhead conductors and devices used for distribution purposes and tree removal is a cost of installation. That is, the company clears the area for proper operation of the conductor, so it is appropriate to capitalize that cost to the conductor. Moreover, consistent with GAAP costs are capitalized if they embody probable future benefits and result in significant enhancement in the capability of the asset and/or extension of its useful life. ETT extends the useful life of the conductor by significantly reducing the likelihood of replacement and increases reliability of conductors and reduces tree-related outage incidents, which enhances capability. By contrast, FERC Account 593, Maintenance of Distribution Overhead Lines, is an expense account and includes trimming trees and clearing brush (ongoing trimming/clearing, vs. the cost of initial clearing) on poles, towers and fixtures. Thus, on-going maintenance trimming is an expense, while tree clearing (such as done for ETT) is capitalized.

Relative to REP, consistent with New Hampshire precedent, in 2006, when the initial REP was established for PSNH, it included ETT as a capital expense (see testimony of John MacDonald in Docket No. DE 06-028). That treatment in the REP was approved by the Commission in Order No. 24,750 (May 25, 2007) which approved a settlement agreement implementing the REP.

In Docket No. DE 13-127, and following inquiry by Commission Staff in particular (see June 20, 2013 transcript in Docket No. DE 13-127 at pages 26-27), the Commission approved the reclassification of hazard tree removal from O&M to capital along with the ETT in Order No. 25,534 (June 27, 2013) for essentially the same reasons ETT is capitalized. Accordingly, in that capitalizing ETT is a long-standing and long-approved accounting treatment recognizing that the enhanced trimming extends and enhances the useful life of capital assets, and in that hazard tree removal serves the same purpose, treating both as capital expenses for accounting purposes in the REP is appropriate.

d. Definition of MBI;

MBI measures the number of months the typical customer goes between interruptions. It is calculated by dividing the number of months in the SAIFI calculation by SAIFI. (MBI = Months in SAIFI calculation/SAIFI) For example our YTD SAIFI through September is 0.732. Our MBI is therefore $9/0.732 = 12.3$. Thus, reporting on SAIFI is done, but it is converted to MBI for internal reporting purposes.

e. Budget and plan for O&M and capital for 2017 Base REP;

| | 2013 | 2014 | 2015 | 2016 | 2017 Projection |
|--|----------|----------|----------|-----------|--------------------|
| Total Base Capital | \$76,543 | \$84,417 | \$98,821 | \$114,409 | \$131,989 |
| Reliability Base Capital (included above) | \$12,013 | \$9,990 | \$48,213 | \$38,683 | \$44,169 |
| REP Capital (not included above) | \$21,378 | \$13,859 | \$8,090 | \$45,345 | \$40,894 |

The above numbers are in thousands, and for 2017 the numbers include estimates for end of year 2017 and may be adjusted as final numbers come in. For clarity, "Total Base Capital" is all distribution capital spending by PSNH (excluding REP) for the given years. "Reliability Base Capital" is the reliability-related based capital spending and is a subset of the "Total Base Capital." "REP Capital" is additional capital spending on reliability-related projects and is over and above the "Total Base Capital" amount.

Relative to O&M, the Company is not able to provide base budget O&M spending exclusively dedicated to reliability. Analysis of the actual work performed under various Activity Codes/Field Work Orders will need to be

performed in order to determine which ACs/FWOs are related to reliability, as they are not exclusively dedicated to reliability work. For example, a FWO for “Overhead Switching” may be used for reliability based O&M work or for day-to-day operational O&M work. Likewise work performed under a FWO for “Planned Maintenance Overhead” may include reliability- related work such as installing animal guards, or it may include routine O&M such as replacing lightning arresters on capacitor banks. Customized reports will then have to be developed to report O&M spending related to reliability, beyond the information provided in the annual REP reports which are based on FWOs established to track REP specific O&M items such as Circuit Patrols and Inspection of URD systems.

f. Budget and plan for O&M and capital for 2018 Base REP.

Budget for 2018 is currently under review and will not be available until late 2017.

Date: May 31, 2012
To: Files
From: Michele Roncaioli, Manager of Plant Accounting
Re: Accounting for Enhanced Tree Trimming (ETT)

Background

The purpose of this memo is to summarize the accounting treatment and formalize the policy that has been established and utilized for NU's utility subsidiaries (CL&P, WMECO and PSNH) and approved by their respective regulators. This policy is being applied on an ongoing basis to NU's ETT programs.

In the mid 1990's CL&P had aging infrastructure and declining reliability. Investments needed to be made to improve reliability to CL&P customers and meet customer expectations for continued quality service. In 1996, CL&P began to trim enhanced clearances on portions of the circuitry that was rebuilt or reconductored. Initially the focus was on re-clearing off-road distribution rights-of-way (ROW). In 1998 CL&P began the ETT program which extended to all three phase backbone circuitry. The backbone phase was from 1999 to 2003. The 10 Year Lateral Tree Trimming phase began in 2004. See Appendix to this memo for expenditure history.

Regulatory History

The Program was approved by the Connecticut Department of Public Utilities Control (DPUC) in Docket No. 98-01-02. Northeast Utilities informed the DPUs in New Hampshire and Massachusetts of the ETT treatment as approved by the Connecticut DPUC and there was no contention from the departments. It was established that capitalization was the appropriate accounting method for Enhanced Tree Trimming.

Western Massachusetts Electric Company (WMECO) began the use of ETT in 2000. The DPU in Massachusetts accepted the proposed rate base as part of the WMECO settlement DTE-04-106, ETT capital additions dating back to the beginning of the program were included and the Commission did not dispute rate base as part of this settlement. The Commission accepted ETT capital historical adds as part of DTE-06-55 and DPU-10-70. DPU 10-70 expanded the discussion of ETT; it was accepted as part of the final order.

Public Service of New Hampshire (PSNH) began the use of ETT in 1999. ETT was included in Reliability Docket 95-194 dated March 2001. As part of PSNH's 2006 rate case (DE 06-028), the Company proposed a formal Reliability Enhancement Program (REP) which included capitalized ETT. The Commission issued order No. 24,750 approving the Settlement Agreement filed in the case which included full funding for the REP program. DE-09-035 addressed ETT capital spend, and it was accepted as part of the final order.

At the request of the regulators, a tree trimming plan (which includes ETT) is filed annually with the DPUC. There are compliance orders in all 3 jurisdictions

Benefits to Long-Term Assets

The goal of the ETT program is to clear trees and limbs beyond clearances provided by routine maintenance line clearance programs. The maintenance program maintains the clearance zone of 8ft on the side, 10 ft. below and 15 ft. above the conductor. Maintenance alone would not significantly improve reliability because the majority of tree-caused interruptions are due to trees and limbs outside the maintenance clearance zone. ETT extends

as far as possible; backbones are cleared ground to sky, removing all hazard trees in the fall zone. Laterals have an overhead clearance minimum of 20 ft.

The most recent analysis for estimated CL&P capital ETT was prepared in 2008. The analysis indicated a forty percent (40%) improvement in non-storm SAIDI (reliability) due to tree-caused interruptions, for both backbones and laterals.

The 40% improvement factor is based on an analysis prepared as part of a Distribution Capital Investment (DCI) Initiative. It was based on actual locations where trimming had occurred. In the late 1990's an analysis showed improvements in the 70% range, based on completing roadside ETT on a small percentage of backbones, for our worst performing circuits (at the time).

Prior to ETT the circuit average customer minutes for backbone were 400,000 and for laterals were 43,500. After ETT was performed the average customer minutes for backbone were 240,000 and for laterals were 17,400. The calculated dollars per customer minute saved were \$0.85(backbone) and \$3.13(laterals).

Accounting Guidance

The ETT program is a one-time program to perform work which is capitalized, similar to the original installation cost of conductor. These costs are deemed a minor unit of property that did not previously exist. The enhanced tree trimming program conforms to a new standard clearance level while improving the reliability and extending the life of the conductor asset. The extension of life, improved reliability and addition of a minor unit of property that did not originally exist supports capitalization, in accordance with NU's capitalization policy (APS 8). After the initial cycle of enhanced tree trimming is complete, the company expenses subsequent years' costs to maintain the additional clearance established through ETT.

NU's capitalization policy for ETT is consistent with the FERC Uniform System of Accounts Electric Plant Account -365 (Overhead Conductors and Devices) contained in FERC 18 CFR part 101, which allows for Tree Trimming as a capital cost. Capitalized Enhanced Tree Trimming costs are depreciated over the life of the conductor (account 365) benefiting from the specific tree trimming. This treatment is consistent with the systematic and rational criteria for depreciation required under generally accepted accounting principles.

cc: Jane Knopf, Tim Griffin, Mike DiPietro

Appendix

ETT Capital Expenditures

CL&P

| Year | Capital Expenditures |
|------|----------------------|
|------|----------------------|

| | |
|------|------------|
| 1996 | 9,462,000 |
| 1997 | 2,289,000 |
| 1998 | 5,542,000 |
| 1999 | 12,267,000 |
| 2000 | 12,270,000 |
| 2001 | 13,008,000 |
| 2002 | 11,306,000 |
| 2003 | 13,444,000 |
| 2004 | 2,897,000 |
| 2005 | 2,940,000 |
| 2006 | 2,748,000 |
| 2007 | 9,462,000 |
| 2008 | 8,374,000 |
| 2009 | 4,546,000 |
| 2010 | 4,484,000 |
| 2011 | 3,639,000 |

WMECO

| Year | Capital Expenditures |
|------|----------------------|
|------|----------------------|

| | |
|------|---------|
| 1999 | - |
| 2000 | - |
| 2001 | - |
| 2002 | - |
| 2003 | - |
| 2004 | 254,000 |
| 2005 | 192,000 |
| 2006 | 46,000 |
| 2007 | - |
| 2008 | 304,000 |
| 2009 | 414,000 |
| 2010 | 429,000 |
| 2011 | 801,000 |

PSNH

| Year | Capital Expenditures |
|------|----------------------|
|------|----------------------|

| | |
|------|-----------|
| 1999 | 289,100 |
| 2000 | 660,100 |
| 2001 | 490,200 |
| 2002 | 699,100 |
| 2003 | 962,900 |
| 2004 | 1,019,400 |
| 2005 | 964,800 |
| 2006 | 782,700 |
| 2007 | 1,310,100 |
| 2008 | 1,552,100 |
| 2009 | 2,057,300 |
| 2010 | 1,983,800 |
| 2011 | 2,042,100 |