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

SUPPLEMENTAL TESTIMONY

OF

DONNA H. MULLINAX
CONSULTANT TO STAFF

JULY 16, 2020

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DHM-S-1	Revenue Requirements Schedules
DHM-S-2	Rate Case DE 19-057 Final Audit Report, March 25, 2020
DHM-S-3	DE 20-005 Eversource Response to Staff 1-043 and Excerpts from DE 20-005 Audit Report dated May 15, 2020, Audit Issue #5

<u>Introduction and Summary</u>

Q. Please state your name by whom you are employed, and your business address.

A. My name is Donna Hubler Mullinax. I am a consultant to Staff. My employer is Blue Ridge Consulting Services, Inc. My business address is 114 Knightsridge Road, Travelers Rest, SC 29690.

Q. Are you the same Mrs. Mullinax that filed Direct Testimony in this proceeding?

A. Yes.

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 supplemental testimony in this proceeding?

A. The purpose of my testimony is to present Staff's updated position regarding 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 deficiency.

Q. Please summarize your recommendations.

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

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

		Staff's Supplemental Recommendations		
	Staff's Recommended Rate of Return			6.47%
	Revenue Conversion Factor			1.37142
		Rate Base	Operating Income	Revenue Deficiency
	Company Updated Proposal	$ 1,215,689,670	$ 42,423,178	$ 69,254,451
Adjustment 1	Modify Plant in Service-Revised	$ (46,116,345)	$ 1,171,595	$ (5,697,184)
Adjustment 2	Catch Up Meter Retirements and Conversion from Remaining Life to Whole Life-Revised	(843,000)	(2,618,033)	3,515,657
Adjustment 3	Cash Working Capital-Revised	2,747,482		243,696
Adjustment 4	Adjustments from March 25, 2020, Audit Report-New		116,749	(160,112)
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-Revised		-	-
Adjustment 13	Environmental Reserve–Revised		556,887	(763,728)
Adjustment 14	Enterprise IT Expense		1,009,741	(1,384,781)
Adjustment 15	Healthcare		214,600	(294,307)
Adjustment 16	Storm Costs-Revised		(2,916,680)	4,000,000
Adjustment 17	New Start Arrearage Forgiveness	1,700,000	(861,877)	1,332,784
Adjustment 18	Interest Synchronization-Revised		(486,960)	667,828
	Uncollectble Adjustment			(246,905)
	Impact of Staff's Recommended Cost of Capital			(19,153,068)
	Staff Recommend Adjustments	$ (42,511,863)	$ 10,683,133	$ (37,821,782)
	Staff Recommended Totals	$ 1,173,177,808	$ 53,106,311	$ 31,432,669

Q. What revenue increase does Staff recommend?

A. Staff recommends a base rate increase of no more than $31,432,669. The following table shows the Company's updated revenue requirement request and Staff's recommendation.

Table 2: Staff's Updated Recommended Revenue Requirement

	Revised	As Filed	Difference
Company's Updated Revenue Deficiency	$ 69,254,451	$ 69,254,451	
Staff's Recommended Adjustment	(37,821,782)	(44,875,910)	
Staff's Recommended Revenue Deficiency	$ 31,432,669	$ 24,378,542	$ 7,054,128

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

A. Yes. Attachment DHM-S-1, includes Staff's updated revenue requirement schedules, and Attachments DHM-S-2 through DHM-S-3 are copies of selected documents that are referenced in my testimony.

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

A. The schedules are organized consistent with my Direct Testimony.

Q. What schedules have been updated?

- Schedule 1 Summary Comparison of Computation of Revenue Requirement and Revenue Deficiency—The schedule was updated to add Staff's Supplemental Position.
- Schedule 1.1 Revenue Requirements and Revenue Deficiency with Staff's Recommended Adjustments—This schedule was updated to reflect the change in the weighted cost of capital and the flow-through of Staff's recommended adjustments to rate base and operating income, including those that are updated in this testimony.
- Schedule 2 Rate of Return Calculation and Schedule 2.1 Impact of Staff's Recommended Rate of Return on Company's Revenue Deficiency—This schedule was updated to reflect the updated capital structure and cost of capital based on the recommendation of Staff witness J. Randall Woolridge.
- Schedule 3 Ratemaking Adjustments—This summary schedule reflects Staff's updated recommended adjustments to rate base and operating income.

- The following individual schedules that support Staff's updated adjustments have been adjusted. The specific updates are discussed later in my testimony.
    - Schedule 3.1 Modify Plant in Service-Revised
    - Schedule 3.2 Catch Up Meter Retirements and Conversion from Remaining Life to Whole Life-Revised
    - Schedule 3.3 Cash Working Capital-Revised
    - Schedule 3.4 Adjustments from March 25, 2020, Audit Report-New
    - Schedule 3.12 Depreciation Expense-Whole Life-Revised—This adjustment was consolidated with the adjustment presented on Schedule 3.2.
    - Schedule 3.13 Environmental Reserve–Revised
    - Schedule 3.16 Storm Costs-Revised
    - Schedule 3.18 Interest Synchronization-Revised

<u>Updates Reflected in Staff's Supplemental Testimony</u>

Rate of Return

Q. Please explain the revision to rate of return.

A. The rate of return used in Staff's revenue requirements was revised to reflect the updated return on equity supported by Staff witness J. Randall Woolridge.

Adjustment 1 Modify Plant in Service

Q. Please explain the update to Modify Plant in Service.

A. Plant in Service was updated to reflect the revisions supported in Staff witness Jay Dudley's updated testimony. Since Mr. Dudley is recommending excluding plant that was placed in service in 2015, 2016, 2017, and 2018, I refined the calculation for the accumulated depreciation to consider the year the plant was placed in service. The effect of these adjustments to gross plant, including its corresponding impact on accumulated depreciation, *reduces* rate base by $46,116,345. The adjustments to Plant in Service also *reduce* depreciation expense by $1,606,752, which *increases* Operating Income by $1,171,595. Staff's recommended adjustment is presented on Schedule 3.1.

Adjustment 2 Catch-Up Meter Retirements and Conversion from Remaining Life to Whole Life and Adjustment 12 Depreciation Expense-Whole Life

Q. Please explain the update the Catch Up Meter Retirements and Conversion from Remaining Life to Whole Life.

A. As discussed in my Direct Testimony, during discovery (and also identified during the Audit in Issue #5 discussed later), the Company found that the plant balance for Account 370–Meters was misstated. Due to an issue with the Company's plant accounting system (PowerPlan), retirements were not being recorded timely. As a result, the Company found that $14,327,816 in meter assets had to be caught up. This issue affects various components of the Company's revenue requirements, including the Company's proposed depreciation accrual rates (under both the remaining life and whole life methodologies), the plant balance recorded in account 370, and the accumulated deferred income taxes. The Company did not update its revenue requirements and, in my Direct Testimony, I reflected Staff's preliminary numbers in its revenue requirement so that the potential effect of the catch-up meter retirements could be considered. This adjustment was reflected in Staff's original Adjustment 2.

In my Direct Testimony, Staff also addressed the issue regarding the Company's use of an unapproved depreciation methodology (Remaining Life) and changed the Company's depreciation accrual rates to use the long-standing precedent of Whole Life. This adjustment was reflected in Staff's original Adjustment 12.

The Company's rebuttal pointed out that Staff's adjustments incorporated only the incremental change attributable to the second batch of catch-up retirements and provided corrected calculations.[1] Staff reviewed the information provided and agrees with the revision.

To reflect the update for both the meter retirements and the change in depreciation methodology to allow for easier reconciliation, Adjustment 12 was combined with Adjustment 2. As shown on Schedule 3.2, the combined adjustment *reduces* rate base by $843,000. The adjustment *reduces* Operating Income by $2,618,033.

Adjustment 3 Cash Working Capital

Q. Please explain the update to Cash Working Capital.

A. Since Cash Working Capital is calculated based on lead and lag days that are applied to each component of cost of service, Staff's adjustment to Cash Working Capital was updated to reflect the update of Staff's other updated adjustments. As shown on Schedule 3.3, Staff's adjustment to Cash Working Capital *increases* rate base by $2,747,482.

[1] Rebuttal Testimony of Douglas P. Horton and Troy M. Dixon, page 10, lines 6–12 (Bates 000040).

Adjustment 4 Adjustments from March 25, 2020, Audit Report

Q. Please provide the update regarding Audit Issues.

A. The Original Schedule 3.4 (Adjustment 4) in my Direct Testimony was a placeholder pending completion of Staff's audit. This schedule has been updated to reflect the findings in Staff' March 25, 2020, Audit Report that have an effect on revenue requirements. Staff's Audit Report is provided as Attachment DHM-S-2.

Q. What specific audit findings are reflected within Staff's updated revenue requirements?

A. Staff's updated revenue requirement reflects the following audit findings:

- Audit Issue #2 Wrong Depreciation Method—The audit found that the Company used the remaining-life depreciation method that has not been approved by the Commission. The Audit Report stated that the Company should have used the Whole Life method in conformance with N.H. Code Admin Rules PUC 308.08 and Form E-25E to calculate depreciation expense.[2] This audit finding was originally reflected in Adjustment 12 in Direct Testimony. As discussed earlier, Adjustment 12 has been combined with Adjustment 2 related to meter retirements to help understand and reconcile the full effect on depreciation.
- Audit Issue #5 Retirements in a Timely Manner—In February 2018, the Company retired $23.9 million of meters in account 370. Due to an issue with PowerPlan, the 2014–2017 retirements had not been done timely.[3] The delay in retirement had an

[2] Rate Case DE 19-057 Final Audit Report, March 25, 2020, pages 133–134.
[3] Rate Case DE 19-057 Final Audit Report, March 25, 2020, page 139.

effect on the depreciation accrual rates. The effect of the meter retirements on revenue requirements is recognized in Adjustment 2.

- Audit Issue #6 Artwork/Murals—The Company stated that due to the relatively small dollar amount and for purposes of closure to the audit process, it agreed to remove the $14,824 in artwork/murals in the employee lunch room at Eversource Energy Park in Manchester.[4] The removal of these costs is reflected in Adjustment 4.
- Audit Issue #8 Expenses to be Booked Below the Line—The audit found that the following expenses should be booked below the line. The removal of these costs from the Company's revenue requirement is reflected in Adjustment 4.

Table 3: Audit Issue #8–Expenses to be Booked Below the Line

Audit Issue #8-Expenses to be Booked Below the Line		
Account 580000 includes $2,650 for holiday breakfasts.	$	2,650
Account 588000 includes $1,852 for dashboard sticky pads.		1,852
Account 588152 includes $18,935 for physical therapy services.		18,935
Account 908000 includes $10,144 in Community Programs - Sponsorship		10,144
Account 921000 includes $3,909 in event sponsorships.		3,909
Account 923000 included $7,555 for jackets.		7,555
Account 926000 includes $17,559 in employee service awards.		17,559
Account 930200 includes $5,000 for a gala sponsorship.		5,000
Account 930200 Includes $40,050 in chamber of commerce memberships		40,050
Subtotal Audit Issue 8-Expenses to be Booked Below the Line	$	107,654

- Audit Issue #10 State Education Tax—The audit found that the Company included State Education Tax within the property tax expenses. Utilities are not to pay the Statewide Education Tax as part of the municipal property taxes but rather through the annual invoice and remittance to the State of NH Department of Revenue. The Company should remove $29,909 from Filing Schedule EHC/TMD-31.[5] The removal of these costs is reflected in Adjustment 4.

[4] Rate Case DE 19-057 Final Audit Report, March 25, 2020, page 140.
[5] Rate Case DE 19-057 Final Audit Report, March 25, 2020, pages 148–149.

- Audit Issue #12 Operations and Maintenance Expenses—This audit issue had four findings. Staff has comments on three of those findings.

Q. What is Staff's comments regarding the first finding in Audit Issue #12.

A. During the audit of DE 20-005 (Audit of Divestiture-Related Costs), it was found that a portion of the $5.5 million of Stranded O&M costs should be refunded back to Distribution, Transmission, and other affiliates. The allocated amount to be refunded PSNH Distribution is $362,504. As a result of the refund not being recorded, the audit found that the O&M expenses were overstated by $362,504.[6] However, Staff does not recommend an adjustment in this proceeding. The refund reflects a non-recurring item and would understate expenses during the rate effective period.

In response to Data Response Staff 1-043 in Docket No. DE 20-005 (Exhibit DHM-S-3), the Company stated, "Upon approval of recovery of the $5,459,403 stranded A&G expenses, PSNH will record a payment to the Affiliated companies that absorbed the costs for the $5,459403 liability currently on the books."[7] Staff will address any concerns regarding the $5.5 million of stranded O&M costs in DE 20-005.

Q. Please discuss the second finding in Audit Issue #12.

A. During its review of Account 583, the audit found a memo that stated that rent for the Bradford, NH location has not been paid since August 2017. A payment of $20,131 was made to make the account current. The 2017 monthly rent was $1,545. The audit recommends removing a total of $7,725 for the five months from 2017 that were paid in

[6] Rate Case DE 19-057 Final Audit Report, March 25, 2020, pages 89 and 151.
[7] DE 20-005 Eversource Response to Staff 1-043 (Attachment DHM-S-3).

2018.[8] These expenses were outside the test year. The Company agreed in its response to the audit's finding. Thus, $7,725 has been removed in Adjustment 4.

Q. Please discuss the final finding in Audit Issue #12.

A. The audit found that Enterprise IT Expenses posted to accounts 930RAX and 930300 for $781,844 were based on factors that included return on equity calculated at the Service Company level. These Enterprise IT Service Company costs with a return were allocated to affiliates as expenses.[9] The information provided shows that Total Enterprise IT Project expense of $47.3 million includes a return of 9.73%. Of the $47.3 million, $4.3 million was allocated to PSNH. That amount was then split between the capitalized portion and expense as shown in the following table.

Table 4: Enterprise IT Project Expense-2018

	2018
Total Enterprise IT Project Expense	$ 47,300,244
Allocated to PSNH	4,291,690
Less: Capitalized Portion	(831,049)
Net Enterprise IT Project Expense	$ 3,460,641

In its response to the Audit finding, the Company stated that "if it would eliminate controversy and close-out the audit process, the Company could recompute the expense for ratemaking purposes using the ROE authorized in this case rather than using the weighted-average ROE actually recorded by ESC." The audit's response was to recommend that the PUC Electric division review the provided information and determine the appropriateness of both the type of calculation and whether the inclusion within the instant rate filing is appropriate.[10]

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[8] Rate Case DE 19-057 Final Audit Report, March 25, 2020, pages 94–95 and 151–153.
[9] Rate Case DE 19-057 Final Audit Report, March 25, 2020, page 151.
[10] Rate Case DE 19-057 Final Audit Report, March 25, 2020, page 153.

Q. Did Staff recommend an adjustment in Direct Testimony regarding Enterprise IT Expense?

A. Yes. Staff found that the PSNH's allocated amounts have increased significantly over the last several years as shown in the following table.

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

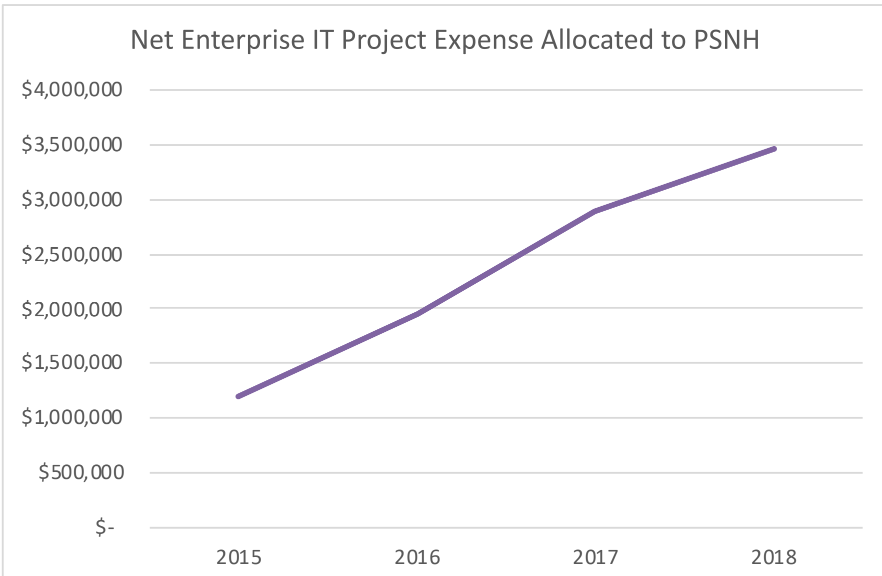

Table 5: Enterprise IT Project Expense 2015–2018

	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

Staff recommended that Enterprise IT Expenses should be normalized using a three-year average 2016 through 2018. The amount recovered should be no more than $2.77 million.

Q. How does the audit's findings affect Staff's adjustment?

A. As the audit pointed out, it is not clear why the allocation for Enterprise IT expense was not part of the service company allocation nor what authority allowed the return on equity to be included in the amount allocated to PSNH.[11] In any event, including a return on these expenses is not appropriate. At a minimum, the Commission should approve Staff's recommended adjustment reflected in Adjustment 14. Further investigation into the Company's inclusion of a Service Company level return into the costs it is allocating to the PSNH subsidiary should be investigated.

Q. What is the updated effect on revenue requirements the audit findings discussed above?

A. As shown on Schedule 3.4, Operating Income is *increased* by $116,749.

Adjustment 13 Environmental Reserve

Q. Please explain what was updated in the adjustment related to the Environmental Reserve.

A. Staff initially recommended removing the carrying charges included in the Environmental Reserve balance under the premise that carrying charges were being calculated based on estimated costs that have not actually been incurred. Based upon information provided in the Company's rebuttal, it was determined that carrying charges were only calculated on actual costs. The update to this adjustment returns the carrying charges to the environmental reserve balance. Staff's recommended adjustment continues to recommend that the environmental reserve be amortized over six years instead of the

[11] Rate Case DE 19-057 Final Audit Report, March 25, 2020, page 151.

Company's requested four years. As shown on the Schedule 3.13, the revised adjustment *increases* operating income by $556,887.

Adjustment 16 Storm Costs

Q. Please explain the update to Storm Costs.

A. Staff's original adjustment removed a normalizing adjustment that added $69,523 to O&M expense for communication expenses that were initially recorded to the Major Storm Cost Reserve. Based upon information provided in the Company's rebuttal, it was determined that the costs were associated with media communication associated with pre-staging and, while not recoverable through the Major Storm Cost Reserve, would be reconsidered recurring and appropriate to include in base rates. Staff continues to support returning the $4 million to the Storm Reserve Accrual and rejecting the proposed transfer of the $4 million to the Company's new proposed annual funding of the Major Storm Cost Recovery (MSCR) mechanism as supported by Staff witness Richard Chagnon in this Direct Testimony. As shown on Schedule 3.16, the adjustment *reduces* operating income by $2,916,680.

Adjustment 18 Interest Synchronization

Q. Please explain the update to Interest Synchronization.

A. The Interest Synchronization adjustment reflects the taxes that would accrue on the interest on debt component associated with the change in rate base. The update corrects an oversight in Staff's adjustment where only the cost of short-term debt was used. The calculation should have used the weighted average cost of debt, including long-term and short-term borrowings. In addition, Interest Synchronization was updated to reflect the effect of Staff's other updated adjustments. The updated adjustment is provided on Schedule 3.18.

Conclusions

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 $31,432,669.

Q. Does this conclude your testimony?

A. Yes.