

STATE OF NEW HAMPSHIRE
BEFORE THE
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

DOCKET NO. DE 19-057
REQUEST FOR PERMANENT RATES

DIRECT TESTIMONY OF
LEE G. LAJOIE, DAVID L. PLANTE and JAMES J. DEVEREAUX

Step 2 Adjustment

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

May 3, 2021

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PETITION OF PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE
d/b/a EVERSOURCE ENERGY
REQUEST FOR PERMANENT RATES

Docket No. DE 19-057

1 **I. INTRODUCTION**

2 **Q. Mr. Lajoie, please state your full name, position and business address.**

3 A. My name is Lee G. Lajoie. I am employed by Eversource Energy Service Company as
4 Manager of System Resiliency. My business address is 780 North Commercial Street,
5 Manchester, New Hampshire.

6 **Q. What are your principal responsibilities in this position?**

7 A. As the Manager of System Resiliency, I provide services to Public Service Company of
8 New Hampshire d/b/a Eversource Energy (“Eversource” or the “Company”). I am
9 primarily responsible for the Company’s capital budgeting process. In recent years, I have
10 also had responsibility for the REP plan, which supported up to \$40 million of capital
11 investment annually targeted at reliability projects. As the REP program matured and
12 tapered off, I have taken on broader responsibility for the capital budgeting process. In
13 addition, there are two internal groups that report to me, which are the reliability reporting
14 group and the distribution automation group.

1 **Q. Mr. Plante, please state your full name, position and business address.**

2 A. My name is David L. Plante. I am Manager of the New Hampshire Project Management
3 Department for Eversource Energy Service Company. My business address is 13 Legends
4 Drive, Hooksett, New Hampshire.

5 **Q. What are your principal responsibilities in this position?**

6 A. In this role, I am responsible for managing the Project Management Department as well as
7 the overall capital program for the transmission business in New Hampshire. I continue to
8 have direct project management responsibilities for a small number of large transmission
9 and distribution projects in New Hampshire.

10 **Q. Mr. Devereaux, please state your full name, position and business address.**

11 A. My name is James J. Devereaux. I am employed by Eversource Energy Service Company
12 as Manager of Budgets and Investment Planning. My business address is 780 North
13 Commercial Street, Manchester, New Hampshire.

14 **Q. What are your principal responsibilities in this position?**

15 A. As the Manager of Budgets and Investment Planning, I provide services to Eversource. I
16 am primarily responsible for the financial reporting, analysis and oversight of the
17 Company's capital and O&M programs. I also monitor capital projects throughout their
18 life cycle and provide reporting on a monthly basis to review costs and identify projects
19 that need supplemental funding authorization approvals.

20 **Q. Mr. Devereaux, have you previously testified before the Commission?**

21 A. No, I have not previously testified before the Commission.

1 **Q. Mr. Devereaux, please summarize your educational background.**

2 A. I graduated from St. Michael's College with a Bachelor of Arts degree in Business
3 Administration in 1984 and from Bentley University with a Master of Business
4 Administration degree in 1992.

5 **Q. Mr. Devereaux, please summarize your professional experience.**

6 A. I have worked for the Company since 1985 primarily in the Gas Organization in
7 Massachusetts with various roles of increasing responsibility including Director of Gas
8 Service and Supply from 2002 to 2011. Since then, I have worked in Investment Planning
9 in Massachusetts until assuming my current position in 2019.

10 **Q. Did you all previously sponsor testimony in this docket that contains additional**
11 **information on your professional experience and educational backgrounds?**

12 A. Mr. Lajoie provided joint testimony with Company witness Joseph Purington as part of the
13 Company's initial request for permanent rates on May 28, 2019. Mr. Lajoie and Mr. Plante
14 provided joint rebuttal testimony with Company witness Erica L. Menard on March 4,
15 2020. Mr. Devereaux has not previously sponsored testimony in this docket, however his
16 professional experience and educational background are provided above.

17 **Q. What is the purpose of your testimony?**

18 A. The purpose of our testimony is to support the Company's request for a step adjustment to
19 distribution rates to be effective August 1, 2021, as provided in Section 10 of the Settlement
20 Agreement filed on October 9, 2020 in this docket. This is the second step adjustment
21 under the Settlement Agreement and pertains to certain projects placed in service during

1 calendar year 2020. Our testimony will describe the capital projects and the processes in
2 place at the Company pertaining to project management and budgeting. In support of the
3 step adjustment, the Company is also filing joint testimony from Company witnesses Erica
4 L. Menard and Jennifer Ullram on the step adjustment revenue requirement and rate
5 impacts, respectively.

6 **Q. Are you presenting any attachments in support of your testimony?**

7 A. Yes, we are presenting Attachment LGL/DJP/JJD-1 containing the capital additions for
8 calendar year 2020 by project.

9 **Q. How is your testimony organized?**

10 A. Following this introduction, Section II discusses the Company's capital planning and
11 approval process and describes how the construction budget is developed and managed.
12 Section III describes the capital projects and costs included in the step adjustment and the
13 documentation being provided in support of those projects.

14 **II. CAPITAL PLANNING AND APPROVAL PROCESS**

15 **A. Authorization Procedures**

16 **Q. What is the Company's project authorization process?**

17 A. The Company evaluates all capital projects in accordance with a Project Authorization
18 Policy ("PAP"). In its initial request for permanent rates filed in Docket No. DE 19-057
19 on May 28, 2019 (the "Initial Filing"), Attachment ELM-5 provided the current version of
20 the PAP. The purpose of the PAP is to provide a framework to guide decision-making,
21 evaluation and approval of all capital and reimbursable project spending. Within this

1 framework, the Company is able to identify key corporate spending initiatives; enable the
2 evaluation of all major projects; and prioritize the utilization of corporate financial
3 resources.

4 Capital projects subject to the PAP include, but are not limited to, electric operations, real
5 estate/facilities, customer care and information technology. The Company modified the
6 PAP in 2015 to adopt the common process for project authorization and funding across the
7 Eversource Energy organization. The Company primarily follows APS-1, a copy of which
8 was provided in Attachment ELM-5 to the Initial Filing and utilizes the PowerPlan®
9 system as the repository for project authorizations. Authorizations are approved in
10 accordance with the Delegation of Authority (“DOA”), a copy of which was provided in
11 Attachment ELM-6 to the Initial Filing. This process is based on Eversource Energy’s
12 enterprise-wide project-authorization process, which is centralized and standardized across
13 the organization. As an additional measure, the Company still conducts capital project
14 reviews through a committee to monitor spending against the overall capital budget.

15 **Q. What are the steps in the Company’s project authorization process?**

16 A. The Company’s project authorization process starts with a mid-year meeting of the
17 business planning group (the “Planning Group”). The Planning Group meets to review
18 potential capital spending over the upcoming five-year period and develop a strategic plan
19 (the “Strategic Plan”) for presentation to senior management for approval. Each operating
20 area presents its capital spending and resource requirements to the Planning Group for its
21 consideration. The specific capital spending requests made by the operating areas are input
22 into the five-year planning models and the results are compared to financial and

1 performance targets. In addition, spending requests for annual projects and programs are
2 funded using historical spending levels. Together, the specific projects and the annual
3 projects and programs make up the body of work that the Company expects to execute over
4 the five-year period. The Planning Group uses this analysis to develop capital spending
5 levels that balance the Company's financial and performance targets. The Strategic Plan
6 is then presented to senior management for approval. Once approved, the Strategic Plan is
7 used as the foundation for the annual planning process.

8 During the annual planning process, projects are reviewed and modified as needed and
9 become the basis for the annual budget. Throughout the year, projects are presented at the
10 appropriate Project Approval Committee ("PAC") meeting for discussion and approval by
11 a quorum of committee members who review the technical merits of each specific project.
12 Once authorized by the PAC, the project is routed for financial approval in the financial
13 system (PowerPlan®) according to the DOA.

14 **Q. How are budgets developed for capital projects?**

15 A. Budgets for annual blanket projects and programs are typically based on historical
16 spending levels, adjusted for known changes for the next year. Specific projects are
17 identified by engineering and operations groups within the Company and are individually
18 reviewed by a group of Managers and Directors in New Hampshire. This group evaluates
19 the merits and need for each proposed project and develops a priority ranking. Projects
20 with the most significant benefits or that address the most significant needs are included in
21 the capital budget.

1 **Q. How does the Company prioritize capital projects?**

2 A. From an overall perspective, the Company's objective is to arrive at a capital budget that
3 represents the optimal balance of executing investments necessary to maintain and improve
4 the performance of the system, while assuring a cost-efficient use of the Company's limited
5 resources. At the same time, Eversource must maintain a level of flexibility in the budget
6 process to deal with contingencies that inevitably occur during the year. On an annual
7 basis, the Company develops the capital plan by each operating area in collaboration with
8 the engineering and operations departments to identify specific needs in each area. A
9 variety of factors are considered during the prioritization process, including but not limited
10 to, aging infrastructure needs, system conditions, reliability improvements and initiatives,
11 new customer growth, and resource availability. The portfolio of projects is ultimately
12 evaluated by the Company's senior executives through an extensive budget-review process
13 conducted near the end of each year. Annual projects, service to new customers, and load
14 driven projects are considered necessary and included in the budget. Projects to improve
15 reliability are evaluated based on anticipated impact on performance. Aging asset projects
16 are prioritized based on a number of factors, including safety concerns, age of the asset,
17 difficulty in maintaining the asset or in obtaining spare parts, and other similar
18 considerations.

19 **B. Project Authorization Process**

20 **Q. Please describe the approval requirements for the Company's capital project**
21 **authorizations applicable to the proposed step adjustment.**

22 A. Commencing in 2015, projects proposed for inclusion in the capital budget by an operating
23 area require a request for project authorization to be submitted for approval to the senior

1 manager of the relevant operating area in accordance with the PAP. The project sponsor,
2 typically a project originator or a project manager, is responsible for preparing the
3 necessary documentation for approval. As part of the annual budget process, each
4 operating area submits a budget encompassing the requests for project authorization
5 (although project authorizations may be granted throughout the year as circumstances
6 warrant). In addition, a budget for annual projects and annual programs is developed based
7 on historical costs associated with work on the distribution system. The proposed operating
8 area budget must conform to the overall budget amount set by the senior executives. In
9 addition, all capital projects are reviewed and approved by the Plant Accounting
10 department to ensure proper capital and expense classification, project justification and
11 unit of property accounting.

12 Projects are authorized by the Company's management in accordance with the Delegation
13 of Authority on the basis of a Project Authorization Form ("PAF"). A PAF is required
14 where a specific project estimate is expected to exceed the threshold outlined in the PAP.

15 A distribution project PAF includes the following sections:

- 16 • Executive Summary: This section provides a high-level overview of the project and why
17 it should be undertaken.
- 18 • Project Costs Summary: This section provides a breakdown of the project costs by category
19 such as construction labor, materials, project management costs, indirect costs, etc.

- 1 • Technical Justification: This section provides a detailed narrative about the project
2 including a project need statement, objectives, scope, background/justification, business
3 process/technical improvements, alternatives considered, project schedule summary, a list
4 of anticipated risks, and any diagrams or images related to the project.

5 Because operating area budgets are prepared in advance for the next year, PAFs are
6 generally prepared and authorized on the basis of conceptual estimates. As described
7 below, the attachment accompanying our testimony listing the Eversource projects in the
8 step adjustment includes descriptions of projects where the initial authorization differed
9 from the pre-construction/post-design cost estimates.

10 **Q. At what point do projects receive formal approval in the construction budget?**

11 A. Prior to the start of the calendar year, the level of funding for the capital construction budget
12 is finalized and projects that have been proposed and approved by the Engineering,
13 Operations, and Shared Services groups are added to the budget. Once projects are ready
14 for construction with refined project cost estimates, projects are presented to the PAC. The
15 PAC meets at least monthly to review projects from an engineering, schedule, and cost
16 perspective as well as reviewing any projects that require supplemental funding. The PAC
17 consists of a chairperson plus representatives from various disciplines including
18 Engineering, Operations, Major Projects, Investment Planning, and Integrated Planning
19 and Scheduling. Once the PAC has approved a project for initial or supplemental funding,
20 the project is then approved within the PowerPlan® system based on DOA approval limits,
21 as shown in Attachment ELM-6 to the Initial Filing.

1 **C. Cost Control Procedures**

2 **Q. Once the construction budget is finalized, does the Company have measures in place**
3 **to control costs as the projects are designed and completed?**

4 A. Yes. The Company's PAP has been established to allow for incremental project funding
5 authorizations based upon the developmental stage of the project which controls the
6 amount of capital that can be expended on a project until the project is fully defined and
7 most cost components have sufficient detail to secure quality estimates. From a project
8 execution perspective, Eversource has solicited competitive pricing from a variety of
9 qualified engineering, materials, construction and testing vendors forming the basis for
10 Master Services Agreements which ensure uniform and favorable terms and conditions.
11 Additionally, for medium to large materials or project services contracts, Eversource
12 solicits competitive bids to ensure that the most cost-effective contracts are awarded, to the
13 benefit of our projects. A rigorous contract change control process is in place to ensure
14 that prior to approval, contract changes potentially requested by our vendors are in fact
15 necessary for the proper development and execution of the project, clearly outside of the
16 existing contract scope, and have a fair and reasonable cost. Detailed project schedules
17 and outage plans are developed and utilized to ensure timely, predictable execution with
18 minimal delays.

19 **Q. Does the Company have measures in place to monitor project costs and revise project**
20 **funding authorizations in the event that costs increase as the projects are designed**
21 **and completed?**

22 A. Yes. Monthly meetings are held to discuss the status and cost of individual projects within
23 the capital budget. The Company's process requires a Supplement Request Form with

1 revised cost and justification when it becomes likely that the project cost is expected to
2 increase from the original authorized dollar amount in accordance with certain threshold
3 criteria. For Distribution Operations projects up to \$250,000, this threshold is an increase
4 in direct costs of \$25,000 or more. For projects over \$250,000 the threshold is 10 percent
5 of direct costs. Supplement Request Forms are reviewed by the PAC and, if approved,
6 routed for approval in PowerPlan® in the same manner as the original PAF.

7 **III. STEP ADJUSTMENT CAPITAL PROJECTS**

8 **Q. What is the scope of projects for which the Company is seeking to commence cost**
9 **recovery in this second step increase, as provided for in the Settlement Agreement?**

10 A. The Company is seeking approval to commence cost recovery for the revenue requirement
11 associated with \$124.2 million of plant additions placed in service in calendar year 2020
12 as described below.

13 **Q. Please explain why the second step increase is significantly under the \$18 million cap**
14 **contemplated in the Settlement Agreement.**

15 A. Actual plant in service additions for the period ending 12/31/2020 was \$124.2 million
16 which was lower than the amount in the five year plan that was the basis of the settled upon
17 \$18 million cap. Plant additions in 2020 were lower due to delays in some larger substation
18 and facilities projects being placed in service by the 12/31/2020 date.

19 **Q. What is your understanding of the Commission's standard for inclusion of plant**
20 **investment in rate base?**

21 A. It is our understanding that the Commission's long-standing standard for the inclusion of
22 capital additions in rate base is that the capital expenditures must be prudently incurred and
23 the resulting plant must be "used and useful" in providing service to customers. A prudence

1 review involves a determination of whether the utility's actions, based on all that the utility
2 knew or should have known at the time, were reasonable and prudent in light of the
3 circumstances. The Commission considers plant to be "used and useful" if the plant is in
4 service and provides benefits to customers. As demonstrated below and in the attachment
5 that accompanies our testimony, the Company's capital additions placed in service in
6 calendar year 2020 are consistent with the Commission's standard.

7 **Q. Please explain how the Company has categorized its plant additions for purposes of**
8 **the step adjustment.**

9 A. As an initial matter, the Company has segregated all capital additions into three distinct
10 categories for review purposes: (1) specific projects; (2) specific carryover projects; and
11 (3) annual blanket and program projects. Each category of capital additions has distinct
12 capital addition documentation requirements.

13 Specific projects are projects where a stand-alone project is being constructed. Examples
14 of these projects include new substations, new lines, and circuit conversions. Specific
15 projects have defined start and end dates for construction with a defined project cost and
16 may be managed by a project manager and have unique project names for the specific body
17 of work to be executed. For purposes of project review as part of the step increase, the
18 Company has segmented the specific projects into current and carryover categories.
19 Current specific projects are projects that were not reviewed as part of the rate case and
20 had a substantial portion of plant placed in service in 2020. Carryover projects are projects
21 that had a majority of the work orders placed in service prior to 2020 and therefore the
22 2020 plant additions are related to carryover work that continued into 2020 or where there

1 are closeout adjustments made during the plant accounting closeout. In other words,
2 carryover project costs are for projects that were in service and included as part of the prior
3 rate case review in Docket No. DE 19-057 and the first step adjustment, but have charges
4 that have ‘carried over’ into 2020 that are now in service and being included in the
5 calculation of the step adjustment in this filing. Carrying charges may also be credits (or
6 reductions) to costs for adjustments that have been made in 2020.

7 Annual blanket projects are defined as projects that are high-volume and low dollar in
8 nature. An annual project funds a variety of activities intended to address a particular
9 issue. For example, an annual blanket project addressing the issue of voltage outside
10 regulatory limits may involve activities such as the placement of regulators or capacitors,
11 the replacement of conductors, or other activities. Work orders for annual projects are
12 typically under \$100,000 in direct costs. Examples of annual projects are new services,
13 capital tools, obsolescence and asset renewal, line relocations, and service work. These
14 projects are funded at a consistent level from year to year and utilize the same project
15 names each year.

16 Annual program projects support a particular body of work and are typically lower in
17 volume but higher in cost. An annual program funds the same type of work in many
18 different locations, such as reject pole replacements (the work associated with this program
19 is always pole replacements due to an inspection that finds the pole has decayed). Other
20 examples of annual programs include oil-circuit breaker replacements, direct-buried cable
21 replacements, vehicle purchases, and tools and equipment projects. These projects are

1 typically funded at a consistent level from year to year but can vary depending on the nature
2 of the work to be completed in the year. These projects also utilize the same project names
3 each year.

4 **Q. Please describe the documentation you are providing in support of the Company's**
5 **step adjustment.**

6 A. Attachment LGL/DLP/JJD-1 identifies the capital projects placed in service in calendar
7 year 2020 that are not currently in rate base. The attachment contains the following
8 information:

- 9 • Page 1 contains a summary of the 2020 plant additions by category.
- 10 • Pages 2-3 contain the list of projects identified as current specific projects. For
11 each project, the associated plant accounts(s), 2020 plant in service amount, pre-
12 construction authorization amount and any supplemental authorizations and project
13 life-to-date costs through December 31, 2020 are provided. Dollar and percentage
14 variances are calculated between the actual project life-to-date amount and initial
15 pre-construction authorized amount, the last supplemental authorized amount and
16 the pre-construction estimate amount, and the actual project life-to-date amount and
17 last supplemental authorized amount. Also provided is an indicator of whether the
18 project is considered final or still has expected charges in future years. An indicator
19 of "106" means that one or more work orders within that project are either in
20 Construction Work in Progress ("CWIP")/FERC Account 107 or Construction
21 Complete not Categorized ("CCNC")/FERC Account 106. Work orders in
22 Account 107 are not in service as of December 31, 2020 and are not part of this

1 step increase. Work orders in Account 106 are in service as of December 31, 2020
2 and therefore are included in this step increase, but have not been through the
3 completion, closeout and unitization process for accounting purposes. Projects
4 with the 106 indicators can still accept charges. An indicator of “101” means that
5 all of the work orders within the project are in Plant in Service/FERC Account 101.
6 Work orders under projects with this status have gone through the completion
7 process from a project management perspective and plant accounting unitization
8 process and, in general, should not be incurring any additional charges and can be
9 considered final. A reason for the revised authorization is also included to identify
10 at a high level the reasons for needing supplemental funding to complete the
11 project.

- 12 • Page 4 contains the list of projects identified as annual blanket and program
13 projects. For each project, the associated plant accounts(s), 2020 plant in service
14 amount, annual authorization amount and any supplemental authorizations and
15 project life-to-date costs are provided. Dollar and percentage variances are
16 calculated between the actual annual amount and initial annual authorized amount,
17 the last supplemental authorized amount and the initial annual authorized amount,
18 and the actual annual cost and final supplemental authorized amount. Additions
19 included in 2020 can be for construction from the current year or carried over from
20 prior years.

- Pages 5-6 contain the list of projects identified as carryover specific projects. For each project, the associated plant account(s), 2020 plant in service amount, current authorized amount and actual project life-to-date costs are provided. Dollar and percentage variances are calculated between the actual project life-to-date cost and current authorized amount. Also provided is an indicator of whether the project is final or still has expected charges in future years. An indicator of “106” means that one or more work orders within that project are in either CWIP/FERC Account 107 or CCNC/FERC Account 106. Work orders in Account 107 are not yet in service and are not part of this step increase. Work orders in Account 106 are in service and therefore are included in this step increase, but have not been through the completion, closeout and unitization process. Projects with the 106 indicator can still accept charges. An indicator of “101” means that all of the work orders within that project are in Plant in Service/FERC Account 101. Work orders under projects with this status have gone through the completion process from a project management perspective and plant accounting unitization process and, in general, should not be incurring any additional charges and can be considered final. A reason for any projects with plant in service greater than \$50,000 or having a variance between the actual project life-to-date cost and the current authorized amount of greater than 10 percent is also included.

After the Company’s initial filing of this step adjustment proposal, and upon the request of Staff, the Company shall provide further information related to a sampling of the Company’s projects, including but not limited to Project Authorization Forms,

1 Supplemental Request Forms, and work order cost detail summarized at the project level
2 by cost category over the life of the project.

3 **Q. Please summarize the costs of the plant additions included in the step adjustment.**

4 A. Table 1 below provides capital projects by category placed in service in 2020, excluding
5 new business, and included in the step adjustment:

6 **Table 1**

Project Category	Plant Additions as of December 31, 2020
Specific Current Projects	\$70,630,376
Specific Carryover Projects	\$309,513
Annual Blanket and Program Projects	\$53,275,173
Total Plant Additions	\$124,215,062

7
8 **Q. Is the level of documentation provided in this filing similar to the documentation**
9 **provided previously in this docket for the Company's permanent rate request and first**
10 **step adjustment request?**

11 A. Yes. The scope of documentation is the same or similar to what was provided by the
12 Company in support of its permanent rate request and first step adjustment. However, in the
13 Settlement Agreement, the Company has agreed to a business process audit. As of the time
14 this second step adjustment is being filed, the business process audit has not commenced,
15 therefore the information being provided in this second step adjustment filing is consistent
16 with the first step adjustment filing. The business process audit may recommend some
17 changes to the way the Company creates and maintains project documentation. The

1 Company will be working with the Staff, OCA, and the auditor on that review once it
2 commences and will be looking for ways to make its project documentation most useful for
3 regulatory review. The Company worked with Commission Staff to develop an interim
4 template as part of the first step adjustment to provide a format that allows for a productive
5 review of these historical projects. That format is maintained for this second step adjustment
6 filing.

7 **Q. Are all of the investments used and useful in providing service to customers?**

8 A. Yes, all of the investments placed in service in calendar year 2020 are used and useful in
9 the provision of service to Eversource customers.

10 **Q. Were all of the costs for these investments prudently incurred?**

11 A. Yes. As described earlier, the Company follows a comprehensive process for project
12 authorization and cost-control in developing and implementing its capital program.

13 **Q. Does this conclude your testimony?**

14 A. Yes, it does.