BEFORE THE STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

In the matter of:	)
Public Service Company of New Hampshire	)
d/b/a Eversource Energy	)
Distribution Service Rate Case	)
DE 19-057	)

DIRECT TESTIMONY OF

THE OFFICE OF CONSUMER ADVOCATE

BY

JOHN DEFEVER, CPA

DECEMBER 20, 2019

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ON BEHALF OF THE OFFICE OF CONSUMER ADVOCATE

OF THE STATE OF NEW HAMPSHIRE

DIRECT TESTIMONY OF

JOHN DEFEVER, CPA

DOCKET NO. DE 19-057

I. INTRODUCTION

Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?

A. My name is John Defever. I am a Certified Public Accountant, licensed in the State of Michigan. I am a regulatory consultant in the firm of Larkin & Associates, PLLC, Certified Public Accountants, registered in Michigan, with offices at 15728 Farmington Road, Livonia, Michigan 48154.

Q. PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES, PLLC.

A. Larkin & Associates, PLLC is a Certified Public Accounting and Regulatory Consulting Firm. The firm performs independent regulatory consulting primarily for public service/utility commission staffs and consumer interest groups (public counsels, public advocates, consumer counsels, attorneys general, etc.). Larkin & Associates, PLLC, has extensive experience in the utility regulatory field as expert witnesses in over 600 regulatory proceedings including numerous electric, gas, water and sewer, and telephone utilities.

Q. HAVE YOU PREPARED AN EXHIBIT DESCRIBING YOUR QUALIFICATIONS AND EXPERIENCE?

A. Yes. I have attached Appendix I, which is a summary of my experience and qualifications.

Q. ON WHOSE BEHALF ARE YOU APPEARING?

A. Larkin & Associates, PLLC was retained by the Office of Consumer Advocate ("OCA") of the State of New Hampshire to conduct a review of Public Service Company of New Hampshire's ("PSNH" or "Company") application for an increase in rates. Accordingly, I am appearing on behalf of the OCA.

Q. PLEASE SUMMARIZE THE PURPOSE OF YOUR TESTIMONY.

A. My responsibilities in this case are to review revenue requirement issues and to sponsor the OCA's overall revenue requirement. My silence on issues proposed by the Company in this rate case does not indicate that I agree with the Company's request.

II. ORGANIZATION

Q. HOW WILL YOUR TESTIMONY BE ORGANIZED?

A. The testimony is organized in the following manner: Step Increases, Tax Cuts and Jobs Act of 2017 ("TCJA"), issues with the Company's rate base requests, and issues with the Company's operating and maintenance expense requests.

Q. HAVE YOU PREPARED EXHIBITS SUPPORTING YOUR TESTIMONY?

A. Yes. I have prepared Exhibit ___(L&A-1), which consists of Schedules A through D.

Q. HAVE YOU INCORPORATED THE RECOMMENDATIONS OF OTHER OCA WITNESSES IN YOUR SUMMARY SCHEDULES?

A. Yes. I have incorporated the removal of the Automated Meters (AMR) technology from rate base as recommended by OCA witness Paul Alvarez on Schedule B-2 as well as the corresponding flow through adjustments to accumulated depreciation and depreciation expense on Schedules B-3 and C-13, respectively. I have also reflected the return on equity in OCA witness Pradip Chattopadhyay's testimony in the Company's requested capital structure on Schedule D.

Q. PLEASE PROVIDE A BRIEF SUMMARY OF YOUR EXHIBITS.

A. Schedule A presents the overall financial summary for the rate year in this case, giving effect to all the adjustments I am recommending in my testimony as well as adjustments sponsored by other OCA witnesses.

Schedule B contains the rate year rate base amounts resulting from my and other OCA witness recommended rate base adjustments. Schedules B-1 through B-4 provide the supporting calculations used to derive the rate base adjustments.

Schedule C reflects the OCA's recommended net operating income based on the adjustments I and other OCA witnesses are recommending. Schedules C-1 through C-16 provide the supporting calculations for the O&M adjustments the OCA is recommending.

Q. WERE THESE EXHIBITS PREPARED BY YOU OR UNDER YOUR SUPERVISION?

A. Yes, and they are correct to the best of my knowledge.

Q. BASED ON THE OCA'S REVIEW OF PSNH'S FILING, WHAT CHANGE IN REVENUE REQUIREMENT IS THE OCA RECOMMENDING AT THIS TIME?

A. Based on the adjustments that have been quantified to date, the result is a revenue deficiency of $23,452,776 for the rate year ending June 30, 2021.

III. OVERALL FINANCIAL SUMMARY

Q. WHAT AMOUNT OF INCREASED REVENUES DID PSNH REQUEST IN ITS INITIAL PERMANENT FILING?

A. In its Petition for Permanent Rates submitted on May 28, 2019, the Company requested a permanent rate increase of $69.9 million (inclusive of the $33 million temporary rate increase) for the test year ended December 31, 2018. The "Rate Year" is the first 12 months during which the rates established in this proceeding will be in effect (July 1, 2020 through June 30, 2021). The Company is also proposing to implement four annual Step Increases which are discussed below in my testimony.

Q. WHAT STARTING POINT DID YOU UTILIZE IN CALCULATING YOUR RATE BASE AND NET OPERATING INCOME ADJUSTMENTS?

A. I utilized the Company's original permanent filing as the starting point for OCA's adjustments for rate base changes and net operating income changes.

IV. STEP INCREASES

Q. PLEASE DISCUSS THE COMPANY'S PROPOSED STEP INCREASES.

A. Attachment EHC/TMD-3 (Perm) Page 1 of 8, contains the following step adjustments:

	Step Adjustment #1 (effective 7/1/20) Investment Year 1 (Calendar 2019)	Step Adjustment #2 (effective 7/1/21) Investment Year 2 (Calendar 2020)	Step Adjustment #3 (effective 7/1/22) Investment Year 3 (Calendar 2021)	Step Adjustment #4 (effective 7/1/23) Investment Year 4 (Calendar 2022)
Revenue Requirement	$ 14,866,282	$ 20,774,394	$ 13,526,103	$ 15,626,629

Q. DO YOU AGREE WITH THE COMPANY'S PROPOSED STEP INCREASES?

A. No. The Company's response to Staff 13-009 stated the following:

> In this proceeding the Company has calculated illustrative step adjustments based on the capital expenditure forecast currently available which, for the out years is still at the major category level and is not yet developed at the specific project level detail that accompanies the one year plan. However, <u>please note that the calculations included in this proceeding are for illustrative purposes. The Company is not at this time requesting that the PUC authorize the precise step adjustment in future years that has been calculated in this case.</u> Here, the Company is requesting to implement step adjustments on a going forward basis that will be calculated based on actual plant placed in service through the end of the year prior to the year the step adjustment goes into rates (emphasis added).

To be recoverable from ratepayers, costs should meet the known and measurable standard. The Company's proposed increases do not meet that standard because neither the projects nor the costs are known for the step adjustments. It is the burden of the Company to provide satisfactory support for requested increases and that has not been done with regards to the step increases.

Q. PLEASE EXPLAIN.

A. OCA 8-003 requested a list of projects in the step years: The Company stated in part in the response to OCA 8-003:

> The Company's capital planning process begins with a high-level, long-range (5 year) capital expenditure and capital addition forecast by major category of investment developed in the spring of each year. The 5-year forecast is also referred to as the strategic plan. Toward the end of each year, a detailed one-year capital expenditure plan is developed at the specific project level for the coming year. This one-year capital expenditure plan forms the basis of the Company's capital budget for the upcoming year. This capital budget includes capital additions and cost of removal.
>
> The step adjustments proposed in this case are based on the high-level, long-range capital additions forecast, which is produced by category of investment and is not developed to encompass a specific project level because this level of detail comes later in the process and is designed to pertain specifically to an upcoming investment year. Therefore, a detailed plan by project is not available for the step adjustments.

Clearly, the Company's proposal does not meet the known and measurable standard. To allow the Company to recover costs without any support is basically to give them a blank check. This would be inappropriate with obvious possible negative consequences for ratepayers.

Q. THE COMPANY STATES IN THE RESPONSE TO OCA 8-003 "THE ACTUAL STEP INCREASES WILL BE BASED ON ACTUAL PLANT ADDITIONS WITHIN THE STEP ADJUSTMENT YEAR." DOESN'T THIS PROTECT RATEPAYERS?

A. No. The blank check approach removes critical incentives for the Company to choose the right projects, accurately and economically budget projects, and importantly, stay on budget. The Company is protected from errors it may make in these processes while the ratepayer is left paying the bill.

Q. DO YOU HAVE ANY OTHER CONCERNS REGARDING THE COMPANY'S REQUEST?

A. Yes. During the second Technical Session, Staff inquired about the differences in the initial project estimates and the final project costs for numerous completed projects. The Company explained that a work order may be "supplemented" a number of times. As projects go along, the project manager will seek additional funding. The Company did not consider the requests for additional funding to be cost overruns but rather “project supplements.” The Company also stated that it calculates the project cost variance based on the most recent revised cost, not the original estimate. OCA is concerned with the Company's process for capital project funding. When initiating a project, the Company submits a work order which it referred to as a "seed request" as opposed to a complete project cost estimate. Then additional funding can be requested or "supplemented" a number of times as the project goes along, and in some cases with little description or support for the additional dollars. Based on the number of project cost variances, and the Company's position that it doesn't consider the "supplements" to be cost overruns, there does not appear to be sufficient incentive to contain project costs, especially if the costs are being fully borne by ratepayers.

Q. WHAT IS YOUR RECOMMENDATION?

A. The OCA recommends that the Company's request for the STEP increases be rejected because they are not known and measurable. Allowing the Company's proposed blank check approach coupled with its current methodology of capital budgeting will put ratepayers at risk for project cost overspending.

V. TAX CUTS AND JOBS ACT ("TCJA")

Q. PLEASE DISCUSS THE COMPANY'S PLANNED USE OF EXCESS ACCUMULATED DEFERRED INCOME TAXES ("EADIT") RESULTING FROM THE TCJA.

A. Company witnesses Eric H. Chung and Troy M. Dixon state on page 101 of their direct testimony that the Company has proposed to utilize the EDIT as an offset to the revenue requirements of the Grid Transformation and Enablement Program ("GTEP").

Q. HOW DOES THE TCJA IMPACT ACCUMULATED DEFERRED INCOME TAXES?

A. The Company collects an amount of income tax expense that was authorized by the Commission as part of the revenue requirement from ratepayers. Accumulated deferred income taxes (“ADIT”) arise from timing differences between the amount of taxes recorded on the Company's books and the amounts that are filed on the Company's tax return, Accumulated deferred income taxes are reflected as a reduction to the Company's rate base for these funds that it has collected, but it will not have to pay until a later date. Prior to the TCJA, the Company's ADIT balance was calculated based on the Federal income tax rate of 35 percent. Now that the Federal income tax rate has been lowered to 21 percent, the Company has collected and accumulated more money from ratepayers than it will have to pay to the government. The difference between the ADIT collected at the old rate and the new rate is the excess ADIT (“EADIT”) which should be returned to ratepayers as soon as possible.

Q. DO YOU AGREE WITH THE COMPANY'S PROPOSED USE OF THE EADIT?

A. No. As explained in Mr. Chung’s and Mr. Dixon’s testimony, EADIT represents funds that have been collected from ratepayers that are no longer owed to the government as a result of the TCJA. Their testimony states on page 99, “…which is instead owed to and to be returned to customers over time…” The Company’s attempt to use the EADIT to offset the GTEP is inappropriate. This action would unnecessarily complicate the proceeding by connecting these two unrelated issues. The

GTEP is a separate matter and there is no benefit to ratepayers from the Company’s proposal to tie the two together.

Q. WHAT IS YOUR RECOMMENDATION?

A. As acknowledged in the witnesses’ testimony, the EADIT is owed to ratepayers and should be returned. The OCA's recommendation is that the Company's proposal to offset GTEP be rejected and the Company should be directed to return the EADIT to customers in a timely manner.

VI. RATE BASE

A. <u>MATERIALS AND SUPPLIES</u>

Q. WHAT AMOUNT HAS THE COMPANY INCLUDED FOR MATERIALS AND SUPPLIES IN RATE BASE?

A. Attachment EHC/TMD-1 (Perm), Schedule EHC/TMD-36 (Perm) shows a balance of $12,213,448 for materials and supplies in rate base.

Q. HOW WAS THIS AMOUNT DERIVED?

A. The Company has used the 2018 year-end balance for materials and supplies.

Q. DO YOU AGREE WITH THE COMPANY'S USE OF THE 2018 YEAR END BALANCE FOR MATERIALS AND SUPPLIES?

A. No. As shown in the chart below, the balance fluctuates monthly and the December 2018 balance used by the Company is much higher than the balances in nearly every month since 2014.

	2014	2015	2016	2017	2018	2019
JAN	$ 8,826,166	$ 13,264,041	$ 7,707,343	$ 10,385,255	$ 9,246,358	$ 10,374,293
FEB	$ 9,247,411	$ 12,416,171	$ 8,933,031	$ 7,846,880	$ 5,098,839	$ 9,749,347
MAR	$ 8,177,483	$ 8,832,625	$ 8,635,168	$ 9,375,968	$ 10,512,278	$ 9,944,878
APR	$ 8,320,055	$ 9,049,392	$ 9,031,825	$ 9,154,877	$ 10,086,968	$ 9,803,526
MAY	$ 8,735,465	$ 9,454,267	$ 8,739,929	$ 9,251,657	$ 10,453,809	$ 9,514,264
JUN	$ 8,516,772	$ 8,687,023	$ 9,409,437	$ 9,457,105	$ 9,293,068	$ 9,404,607
JUL	$ 8,924,623	$ 9,444,249	$ 7,894,659	$ 10,595,976	$ 9,049,133	$ 10,231,242
AUG	$ 10,768,663	$ 11,197,133	$ 7,558,561	$ 12,495,762	$ 9,006,536	$ 10,005,883
SEP	$ 8,620,655	$ 8,504,063	$ 10,705,049	$ 10,827,113	$ 10,094,752	
OCT	$ 15,329,098	$ 7,960,560	$ 9,560,124	$ 12,198,091	$ 7,643,510	
NOV	$ 11,304,804	$ 6,888,457	$ 9,286,399	$ 9,035,999	$ 8,814,487	
DEC	$ 7,761,004	$ 8,345,449	$ 11,221,521	$ 10,425,211	$ 12,213,448	

As can be seen, the balance has declined significantly in 2019 in contrast to the 2018 year-end balance. The Company earns the authorized rate of return on the balance of materials and supplies included in rate base and it is not appropriate for ratepayers to pay a return on a much higher balance that is not representative of the balance that will be carried in the rate year and subsequent years.

Q. HAS ANOTHER METHOD BEEN APPROVED TO DETERMINE THE RATE BASE LEVEL IN PRIOR CASES?

A. In some prior cases, a five-quarter average has been approved as an appropriate method for determining the amount to be included in rate base.

Q. WHY IS A FIVE-QUARTER AVERAGE MORE APPROPRIATE THAN YEAR-END 2018 BALANCE?

A. A five-quarter average is more appropriate because this expense fluctuates from month-to-month. As such, using the balance from just one month is more likely to be unrepresentative. In fact, the response to OCA 8-019 explains that the December 31, 2018 balance is significantly higher than other months in 2018 and 2019 due to two large purchases. In that month both a transformer and piping were purchased for $1,014,605 and $2,995,149, respectively. This is a good example of why using a single month amount can be misleading and an average provides a better picture of the overall level for a given year.

Q. WHAT IS YOUR RECOMMENDED ADJUSTMENT?

A. The OCA recommends using a five-quarter average to determine the amount to be included in rate base. The response to OCA 8-020 states that a five-quarter average would be $10,507,751. This is a reduction of $1,705,697 to rate base. The OCA's adjustment is shown on Exhibit ___(L&A-1) Schedule B-4.

B. CASH WORKING CAPITAL

Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO CASH WORKING CAPITAL.

A. The adjustment to cash working capital is a flow through adjustment resulting from the OCA's adjustments to O&M expenses and is shown on Exhibit ___(L&A-1) Schedule B-1.

VII. OPERATION AND MAINTENANCE EXPENSES

A. NON-INDUSTRY DUES AND MEMBERSHIPS

Q. HAS THE COMPANY INCLUDED COSTS IN THE RATE YEAR FOR NON-INDUSTRY DUES AND MEMBERSHIPS?

A. Yes. Schedule EHC/TMD-11 (Perm) shows that the Company has included $104,950 for dues for a number of non-industry organizations.

Q. SHOULD THESE COSTS BE FULLY RECOVERABLE FROM RATEPAYERS?

A. No. Attachment EHC/TMD-1 (Perm) Schedule EHC/TMD-11 (Perm) page 2 of 2 shows that these organizations are for chambers of commerce and other non-industry business organizations such as the NH Grocers Association and the NH Lodging and Restaurant Association. Ratepayers receive very little benefit from these memberships.

Q. WHO ARE THE BENEFICIARIES OF THESE MEMBERSHIPS?

A. These memberships are not necessary for the provision of service but instead provide image building and networking opportunities. Therefore, it is the Company and its shareholders that derive the lion's share of the benefits. As such, the Company's customers should not bear the full burden of the expense.

Q. WHAT IS YOUR RECOMMENDED ADJUSTMENT?

A. The OCA recommends a 50/50 sharing of this expense between shareholders and ratepayers. The disallowance of 50% of these costs is a reduction of $52,475. The OCA's adjustment is shown on Exhibit ___(L&A-1) Schedule C-5.

Q. HAVE DUES THAT WERE UNRELATED TO PROVIDING UTILITY SERVICE BEEN REMOVED IN OTHER JURISDICTIONS?

A. Yes, for example in Connecticut, the Public Utilities Regulatory Authority removed 50 percent of non-industry dues in Docket Nos. 13-02-20, 10-02-13 and 07-05-19. I am aware that Arkansas has also removed dues that were not related to providing utility service.

B. VARIABLE COMPENSATION

Q. HAS THE COMPANY INCLUDED VARIABLE COMPENSATION IN THE RATE YEAR?

A. Yes. According to the Company's Attachment EHC/TMD-1 (Perm) Attachment EHC/TMD-15 (Perm), the Company has included $7,613,826 of variable compensation in the rate year.

Q. WHAT IS VARIABLE COMPENSATION?

A. Variable Compensation is the Company's incentive compensation program. Incentive compensation is provided to employees in addition to their base pay.

Q. DO YOU TAKE ISSUE WITH THE INCLUSION OF THIS EXPENSE?

A. Yes. The first issue is that the Company's variable compensation appears to be an opportunity to provide extra pay to all of its employees.

Q. PLEASE EXPLAIN.

A. The Company was asked in OCA 1-032 to provide the number of employees eligible for incentive compensation and the number of eligible employees that did not receive incentive compensation. The following chart is based on the response.

Performance Year	Employees Eligible	Employees Not Receiving Any Variable Pay
2014	1035	2
2015	968	0
2016	906	0
2017	428	1
2018	421	1

As seen, the program rewards just about every employee. This isn't how an incentive program should function. An incentive program should provide motivation to employees to put forth an extra effort. If an employee's performance is unsatisfactory or worse, no incentive pay should be received. If an employee receives incentive compensation after a year of unacceptable work, it could even be considered an incentive to underperform. As currently configured, the variable compensation program functions more like a bonus program, in which everyone gets a bonus but the amounts differ.

Q. WHAT IS YOUR SECOND ISSUE WITH THE INCENTIVE COMPENSATION PROGRAM?

A. The second issue is with the goals upon which the compensation is based. The goals upon which the payments are predicated are heavily weighted towards financial goals. The Company was asked in OCA 8-042 to provide the plan's financial and performance goals for the rate year. The response stated:

> The financial and performance goals shown on page 12 of 20 in Attachment OCA 1-029 B are the same goals upon which the incentive compensation for all employees will be based for each of the rate years.

The page indicated in the response shows financial goals weighted 70 percent and operational goals weighted 30 percent.

Q. DO YOU TAKE ISSUE WITH THESE GOALS?

A. If the Company's customers are responsible for the costs, yes. A further breakdown of the financial and operational goals shows why shareholders, not ratepayers should be responsible. According to the response to OCA 1-029 B page 12 of 20, the financial performance goals which again make up 70 percent of the total include Earnings Per Share, Dividend Growth, and Credit Rating. The operational performance goals which make up only 30 percent of the weighted total include categories labeled as Reliability, Average Restoration Duration, Safety Rate, Gas Service Response, Diverse Leadership, Improve the Customer Experience, Positive Regulatory Outcomes, and Positive Outcomes on Key Strategic Initiatives. As can be seen, 70 percent of the goals are heavily weighted towards shareholders and, of the remaining 30 percent, some of the goals are aimed at benefitting the Company and its shareholders as opposed to ratepayers. That is not to say that ratepayers receive no benefit but that the Company and its shareholders are the primary recipients of the benefits resulting from the goals.

Q. IS IT INAPPROPRIATE FOR A COMPANY'S GOALS TO BE FOCUSED ON FINANCIAL REWARDS?

A. Again, the issue is not the program or its rewards but the fact that the Company proposes that ratepayers be fully responsible for the costs. As the plan is more focused on the Company and its shareholders, they should bear more of the costs.

Q. WHAT IS YOUR RECOMMENDED ADJUSTMENT?

A. It could be argued that a complete disallowance of the costs would be appropriate. However, based on decisions in other jurisdictions that have disallowed amounts related to financial goals, the OCA recommends that the costs be shared 70/30 between shareholders and ratepayers, respectively. This is a reduction of $5,329,678. ($7,613,826 x 70%) The OCA's adjustment is shown on Exhibit ___(L&A-1) Schedule C-11.

Q. PLEASE PROVIDE EXAMPLES OF THE DISALLOWANCE OF INCENTIVE COMPENSATION IN OTHER JURISDICTIONS.

A. The OCA has not done an exhaustive search on the allowance/disallowance of incentive compensation in other jurisdictions. That said, the OCA is aware of the following examples of disallowances:

- Missouri. The Amended Report and Order GR-2017-0215 issued March 7, 2018 disallowed equity-based employee incentive compensation in rates. The Report stated the following on pages 119-122:

> The Commission has a long history of removing earnings based employee compensation from rates. Examples of cases in which the Commission decided against allowing incentive compensation tied to financial benchmarks include: EC-87-114, Union Electric; TC-89-14, Southwestern Bell; TC-93-224, Southwestern Bell; GR-96-285, Missouri Gas Energy; GR-2004-0209, Missouri Gas Energy; ER-2006-0314, Kansas City Power & Light; and ER-2007-0291, Kansas City Power & Light.
>
> …
>
> The Commission has traditionally not allowed earnings based or equity based compensation to be recovered in rates because such incentives are primarily for the benefit of shareholders and not for the benefit of the ratepayers. As the Commission has said in the past, incentivizing employees to improve the company's bottom line aligns the employee interests with the shareholders and not with the ratepayers. Aligning interests in this way can negatively affect ratepayers. (citations omitted)

- Arkansas. The Order in Docket No. 13-028-U dated December 30, 2013 states the following on pages 4-5:

> The Commission denies EAI's request to recover 100% of incentive pay and stock options for its employees from Arkansas ratepayers, and finds that EAI and Staff have failed to show that EAI's short-term, long-term, and stock-based incentive compensation provides ratepayer benefits justifying 100% inclusion in rates. The Commission recognizes that both shareholders and ratepayers benefit from the structure of EAI's short-term incentive plans and therefore finds that $8,087,877 in annual short-term incentive costs should be removed from EAI's operating expenses. The Commission also agrees that EAI's long-term incentive

> compensation is based entirely on the financial performance of EAI and benefits shareholders. Therefore the Commission finds that $7,036,188 should be disallowed and removed from EAI's operating expenses.

- Texas. The Order in Docket No. 46449 dated January 11, 2011 stated the following on pages 34:

> The Commission has repeatedly ruled that a utility cannot recover the cost of financially-based incentive compensation because financial measures are of more immediate benefit to shareholders and financial measures are not necessary or reasonable to provide utility services.

- Oklahoma. The Corporation Commission of Oklahoma in Cause No. PUD 201500208, Order No. 657877, dated May 31, 2016 stated the following on page 161:

> The ALJ adopts Staff and AG's recommendation that an adjustment be made to remove the portion of the Annual Incentive Program costs related to financial measures. In many jurisdictions, including Oklahoma, the cost of incentive plans tied to financial performance measures generally are excluded for ratemaking purposes for several reasons.

C. PAYROLL

Q. HAVE YOU MADE AN ADJUSTMENT TO PAYROLL EXPENSE?

A. Yes. An adjustment has been made to reduce the number of positions included in the rate year.

Q. PLEASE DISCUSS YOUR ISSUE WITH THE NUMBER OF POSITIONS IN THE RATE YEAR.

A. The issue relates to un-hired personnel included in the rate year. The testimony of Mr. Chung and Mr. Dixon states the following on pages 45-46:

> The payroll increase reflects 5 new incremental FTEs at PSNH and PSNH's allocated share of 14 new Information Technology ("IT") FTEs which are being hired by Eversource Energy Service Company. The 5 PSNH employees are needed to support the Company's Expanded Troubleshooters Program. The additional 14 IT FTEs are needed for a cyber security initiative to defend against cyber threats to the critical infrastructure of the Company and will allow for advanced security monitoring and operations support of the Company's systems.

Q. DO YOU DISAGREE WITH INCREASING THE NUMBER OF EMPLOYEES?

A. That isn't the point. What I disagree with is including costs for employees who have not been hired.

Q. WHY IS THIS AN ISSUE?

A. It fails to meet the known and measurable standard. When it comes to hiring, companies are often overly optimistic. The plan to hire a certain number of employees by a particular date does not guarantee that the hiring will occur. If payroll costs are included in rates for un-hired workers, ratepayer may be paying for employees that do not exist. Ratepayers cannot be expected to pay expenses for employees who have not been hired and do not provide service.

Q. ARE THERE FURTHER ISSUES WITH THE COMPANY'S REQUEST?

A. Yes. According to OCA 7-051, the Company has not applied a vacancy factor. The response states:

> The Company has not explicitly applied a vacancy factor in calculating payroll for the Rate Year because the Company's Rate Year payroll expense calculation was based upon actual (not projected) payroll expense incurred during the test year.

Q. WHY IS THE LACK OF A VACANCY FACTOR AN ISSUE?

A. Vacancies are a common issue for utilities. Without consideration of vacancies, the Company has taken the test year payroll expense and added costs for new hires. This formula doesn't account for any vacancies that may occur as current or new hires leave their positions. This is unrealistic, and overstates not only payroll expense but related expenses such as benefits and payroll taxes. The response to OCA 1-026 provided the budgeted and actual FTEs which is summarized for 2017 through 2019 year-to-date. As can be seen, vacant positions are not unusual in the Company's history.

2017

		Service Co Budget	Service Co Actual	Service Co Difference (Vacancy)	PSNH DIST Budget	PSNH DIST Actual	PSNH DIST Difference (Vacancy)	PSNH TRANS Budget	PSNH TRANS Actual	PSNH TRANS Difference (Vacancy)
	Jan	2983.96	2824.06	(159.90)	680	627	(53.00)	60	60	0.00
	Feb	2983.96	2827.06	(156.90)	680	627	(53.00)	62	62	0.00
	Mar	3006.96	2852.03	(154.93)	676	633	(43.00)	62	63	1.00
	Apr	2976.76	2871.76	(105.00)	649	634	(15.00)	64	62	(2.00)
	May	2993.76	2901.18	(92.58)	649	637	(12.00)	64	63	(1.00)
2017	**Jun**	2991.76	2892.58	(99.18)	647	632	(15.00)	64	69	5.00
	Jul	3003.76	2873.48	(130.28)	646	628	(18.00)	65	69	4.00
	Aug	3004.76	2874.28	(130.48)	646	629	(17.00)	65	70	5.00
	Sept	2996.76	2865.98	(130.78)	641	628	(13.00)	65	71	6.00
	Oct	2992.76	2874.83	(117.93)	641	633	(8.00)	65	71	6.00
	Nov	2997.76	2874.83	(122.93)	641	629	(12.00)	65	72	7.00
	Dec	2996.76	2888.93	(107.83)	638	633	(5.00)	65	71	6.00

2018

		Service Co Budget	Service Co Actual	Service Co Difference (Vacancy)	PSNH DIST Budget	PSNH DIST Actual	PSNH DIST Difference (Vacancy)	PSNH TRANS Budget	PSNH TRANS Actual	PSNH TRANS Difference (Vacancy)
	Jan	3006.03	2915.76	(90.27)	664	615	(49.00)	96	96	0.00
	Feb	2997.03	2940.41	(56.62)	664	621	(43.00)	96	95	(1.00)
	Mar	2992.03	2933.88	(58.15)	672	625	(47.00)	96	93	(3.00)
	Apr	3023.03	2931.83	(91.20)	672	625	(47.00)	96	92	(4.00)
	May	3045.03	2916.48	(128.55)	672	626	(46.00)	96	91	(5.00)
2018	**Jun**	3051.03	2901.31	(149.72)	681	627	(54.00)	96	92	(4.00)
	Jul	3046.03	2891.13	(154.90)	686	627	(59.00)	96	93	(3.00)
	Aug	3056.03	2884.13	(171.90)	686	638	(48.00)	96	97	1.00
	Sept	3047.03	2873.66	(173.37)	686	633	(53.00)	96	97	1.00
	Oct	3041.03	2914.38	(126.65)	686	635.5	(50.50)	96	96	0.00
	Nov	3034.03	2914.75	(119.28)	686	632.5	(53.50)	96	95	(1.00)
	Dec	3023.03	2967.95	(55.08)	686	642.5	(43.50)	96	93	(3.00)

2019

		Service Co Budget	Service Co Actual	Service Co Difference (Vacancy)	PSNH DIST Budget	PSNH DIST Actual	PSNH DIST Difference (Vacancy)	PSNH TRANS Budget	PSNH TRANS Actual	PSNH TRANS Difference (Vacancy)
	Jan	3131.86	2984.48	(147.38)	657	644.5	(12.50)	99	89	(10.00)
	Feb	3152.11	3003.48	(148.63)	657	640.5	(16.50)	102	91	(11.00)
2019	**Mar**	3197.86	3019.58	(178.28)	658	639.5	(18.50)	102	92	(10.00)
	Apr	3213.11	3016.35	(196.76)	660	641	(19.00)	102	96	(6.00)
	May	3212.36	3030.6	(181.76)	663	644	(19.00)	102	94	(8.00)

Q. ISN'T IT POSSIBLE THAT ALL OF THESE NEW POSITIONS MAY EVENTUALLY BE FILLED?

A. Of course, it is possible. However, it is also possible that not all of the anticipated positions will be filled. Another possibility is that all of the new positions will be filled but current employees will leave, resulting in less employees than budgeted. The point is that we don't know how many of the new positions will be filled or the amount of attrition that will occur in the meantime. As such, the un-hired positions are not known and measurable.

Q. WHAT IS YOUR ADJUSTMENT TO PAYROLL?

A. My adjustment is to include only the employees that are already hired. This is the most known and measurable amount. According to the response to OCA 1-024, “Of these 19 open FTEs, 4 of the 14 cybersecurity FTEs and 2 of the 5 troubleshooter FTEs have been hired through April 2019.” That leaves 13 budgeted positions that the Company had not hired. Based on the response to OCA 1-024, the removal of the 13 proposed employees is a reduction to payroll of $388,128. ($71,190 + $316,938) The OCA's adjustment is shown on Exhibit ___(L&A-1) Schedule C-1. This adjustment will also have corresponding flow through adjustments to payroll tax and benefits.

D. INSURANCE EXPENSE

(i). NEIL/EIM CREDITS

Q. PLEASE DISCUSS YOUR ADJUSTMENT TO INSURANCE EXPENSE.

A. I have made two adjustments for insurance expense. The first relates to Energy Insurance Mutual Limited ("EIM") and Nuclear Electric Insurance Limited ("NEIL") surplus distribution (credits) which the Company has not reflected as an offset to insurance expense in the filing. The response to OCA 8-026 shows the Company has received credits in each year 2015 through 2018 as well as year to date 2019 and are shown below:

	2015	2016	2017	2018	2019 YTD	2015-2018 4 Year Avg
EIM Credits	$ (27,721)	$ (27,922)	$ (29,391)	$ (142,910)	$ (108,280)	$ (56,986)
NEIL Credits	$ (2,432)	$ (566)	$ (804)	$ (3,913)	$ (6,740)	$ (1,929)
Total	$ (30,153)	$ (28,488)	$ (30,195)	$ (146,823)	$ (115,020)	$ (58,915)

The credits average $56,986 and $1,929 for EIM and NEIL, respectively, for the years 2015 through 2018. The response also shows that the Company has received credits of $108,280 and $6,740 year to date for 2019. In addition, OCA 8-026 states that EIM and NEIL credits have not been reflected in the rate year. As these credits have been received in each of the prior five years, they should be reflected as a reduction to the rate year insurance expense.

Q. WHY SHOULD THE RATE YEAR REVENUE REQUIREMENT REFLECT EIM AND NEIL CREDITS?

A. If the rate year insurance expense doesn't contain an offset for the surplus distributions, the Company will retain all the credits received. Since ratepayers are funding this expense, the credits should be reflected in insurance expense.

Q. WHAT IS THE OCA'S RECOMMENDED ADJUSTMENT?

A. The adjustment is to reflect the four-year average of both credits, for a total reduction to insurance expense of $58,915. This is a conservative estimate as the total NEIL and EIM credits received in 2018 and 2019 are much higher than the four-year average amount. The OCA's adjustment is shown on Exhibit ___(L&A-1) Schedule C-10.

Q. HAS THIS ISSUE ALSO BEEN RECENTLY ADDRESSED IN ONE OF THE COMPANY'S AFFILIATE'S RATE CASES?

A. Yes. In Docket No. DPU 17-05 (NSTAR Electric and Western Massachusetts Electric Company) rate case in Massachusetts, the Departments Decision dated November 30, 2017 on pages 245-247 stated:

> The record shows, however, that EIM made policy surplus distributions during the test year and each of the last four consecutive years. Given this recent history of payments, we are not persuaded by the Companies' arguments that the policy surplus distributions are non-recurring and not known and measurable. Rather, the Department finds that EIM's policy surplus distributions are analogous to those made by Nuclear Electric Insurance Limited ("NEIL"). As a mutual non-profit carrier, NEIL makes policy holder distributions to recognize a return of a portion of the policy's surplus. The Department has required participants to credit policyholder distributions and other adjustments to customers in a manner approved by the Department. The Department has historically treated such credits as an offset against the current NEIL premiums for ratemaking purposes because “policy holder distribution is a known and measurable change that should be included as an offset to the Company’s current NEIL premiums.” Consistent with the treatment of NEIL surplus distributions in prior cases, the Department finds that it is appropriate to adjust the Companies' cost of service to recognize the refund of the insurance proceeds from EIM.

> Based on the above considerations, the Department will adjust the Companies' cost of service. Accordingly, the Department reduces NSTAR Electric's proposed cost of service by $158,407, and reduces WMECo's proposed cost of service by $22,675. (citations omitted)

(ii). DIRECTORS AND OFFICERS LIABILITY INSURANCE

Q. WHAT AMOUNT HAS THE COMPANY INCLUDED FOR DIRECTORS AND OFFICERS ("D&O") LIABILITY INSURANCE IN THE RATE YEAR?

A. According to the response to OCA 1-005, the Company has included $67,139 in the rate year.

Q. WHAT IS THE PURPOSE OF D&O INSURANCE?

A. D&O insurance protects the Company's Officers from lawsuits that arise as a result of their actions.

Q. WHO GENERALLY INITIATES SUCH LAWSUITS?

A. These lawsuits are often brought by the Company's own shareholders.

Q. WHO BENEFITS FROM D&O INSURANCE?

A. Primarily, D&O insurance benefits the Company's Directors and Officers who are protected from lawsuits. The Company's shareholders can also be considered beneficiaries as they would be the recipients of the payouts of this insurance. Ratepayers receive very little benefit from this cost.

Q. WHO SHOULD BE RESPONSIBLE FOR THE COSTS OF THIS INSURANCE?

A. In ratemaking, the burden should follow the benefit. As the officers and shareholders are the main beneficiaries, they should bear the greatest amount of the cost.

Q. ARE YOU AWARE OF THE ARGUMENT THAT BECAUSE D&O IS A LEGITIMATE BUSINESS EXPENSE ITS COSTS SHOULD BE FULLY RECOVERED FROM RATEPAYERS?

A. This argument is not compelling. In ratemaking, not all legitimate business expenses are recoverable from ratepayers. For example, both lobbying and advertising aimed at building a company's image can be considered legitimate business expenses but neither is typically recoverable from ratepayers.

Q. WHAT IS YOUR RECOMMENDATION FOR D&O COSTS?

A. A 75/25 split between shareholders and ratepayers, respectively, is recommended, which results in a reduction of $50,354 ($67,139 X 75%). The OCA's adjustment is shown on Exhibit ___(L&A-1) Schedule C-12.

Q. HAVE SIMILAR ADJUSTMENTS BEEN APPROVED IN OTHER JURISDICTIONS?

A. Yes, for example in Connecticut, a 75/25 split was found to be appropriate by the Public Utilities Regulatory Authority, in Docket No. 16-06-04. This recommendation is consistent with the Authority's findings in a number of other Dockets (e.g., 13-06-08, 13-01-19, 08-07-04, and 05-06-04) where, it was determined that only 25 percent of D&O cost would be allowed to be recovered by the utility. I am aware that the following jurisdictions have also limited the amount of D&O expense in rate cases: Arkansas, California, Florida, and New York.

E. SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN ("SERP")

Q. WHAT AMOUNT HAS THE COMPANY INCLUDED FOR SERP EXPENSE IN THE RATE YEAR?

A. According to the response to OCA 1-053, the Company has included $897,287 of SERP expense in the Rate Year.

Q. WHAT IS SERP?

A. SERP is a supplemental retirement benefit. In general, SERP includes benefits beyond the Company's standard retirement plan and is received by a select group of highly compensated employees. Further, as stated in the reply to OCA 1-054, the SERP benefits go beyond the limits set by the

Internal Revenue Service for qualified pension plans. These excessive benefits are in addition to those already received through the Company's standard retirement plan.

Q. SHOULD THIS EXPENSE BE RECOVERED FROM RATEPAYERS?

A. No. The employees covered by the SERP plan are already receiving ratepayer funded retirement plans. Ratepayers should not be responsible for this additional excessive benefit.

Q. WHAT IS YOUR RECOMMENDED ADJUSTMENT?

A. The recommendation is to disallow the entire SERP expense, a reduction of $897,287 in the rate year. The OCA's adjustment is shown on Exhibit ___(L&A-1) Schedule C-7.

Q. HAVE SIMILAR ADJUSTMENTS BEEN APPROVED IN OTHER JURISDICTIONS?

A. Yes. For example, in Docket No. 13-02-20, before the Connecticut Public Utilities Authority, PURA removed 100 percent of SERP. While I have not conducted an exhaustive search, I am aware that the following jurisdictions have either disallowed or limited the amount of SERP expense in rate cases: Arizona, District of Columbia, Idaho, Maryland, Nevada, Oklahoma, Oregon, Texas, and Washington.

F. NON-SERP

Q. WHAT AMOUNT HAS THE COMPANY INCLUDED FOR NON-SERP EXPENSE IN THE RATE YEAR?

A. The response to OCA 8-037 states that $339,992 has been included in the rate year for Non-SERP.

Q. WHAT IS NON-SERP?

A. Similar to SERP, Non-SERP is an extravagant retirement benefit, generally for a select few well-compensated employees. The response to OCA 8-036 stated:

> Non-SERP benefits are related to specifically negotiated post-employment benefits, which may include pension enhancements not covered by the EESCO Retirement Plan or the SERP.

Q. SHOULD THE COMPANY'S CUSTOMERS BE RESPONSIBLE FOR THIS EXPENSE?

A. No, for the same reasons provided in the preceding section on SERP, it would be inappropriate to shoulder ratepayers with the costs for this additional retirement benefit.

Q. HAVE YOU MADE AN ADJUSTMENT FOR NON-SERP?

A. Yes, I recommend the disallowance of all Non-SERP expense. This is a reduction of $339,992 in the rate year. The OCA's adjustment is shown on Exhibit ___(L&A-1) Schedule C-8.

G. VEGETATION MANAGEMENT

Q. DO YOU AGREE WITH THE COMPANY'S REQUESTED LEVEL OF VEGETATION MANAGEMENT EXPENSE?

A. No. The rate year amount includes $1,213,743 for unpaid debt from the Telephone Operating Company of Vermont d/b/a Consolidated Communications. ("Consolidated")

Q. PLEASE EXPLAIN WHAT THE "UNPAID DEBT" REPRESENTS.

A. The direct testimony of Mr. Chung and Mr. Dixon states the following on page 26:

> …the Company made an adjustment of $1,213,743 to account for tree-trimming maintenance services that the Company performs on behalf of a third-party pole owner. These services are critical to maintain the reliability of the electric distribution system. The amount of $1,213,743 is an actual expense incurred in the Test Year and represents the balance of billings to the third-party pole owner that currently remain unpaid.

Q. DOES THE COMPANY EXPECT TO RECEIVE THE AMOUNT IT IS OWED?

A. No. The Company stated in the response to OCA 6-018 (b), “The Company does not expect that Consolidated will pay this amount.”

In addition, the initial response to OCA 2-050(e) also stated that the Company did not expect to collect the unpaid debt: The response states:

> Consolidated is disputing the 2018 increase over 2017 on the basis of the diminishing correlation of those activities and costs to any benefit for its system. PSNH will not issue a refund to Consolidated for previously paid amounts; but has also determined that it will not collect the unpaid balance.

However, the supplemental response to OCA 2-050-SP01 states that the Company is still working with Consolidated to address related issues. It is not clear whether the $1,213,743 debt is still part of the discussion. The supplemental response states:

> PSNH is currently engaged in a committed, collaborative effort with Consolidated Communications to resolve the operating differences that have arisen in relation to the Intercompany Operating Agreement. On February 11, 2019, PSNH received a letter from Consolidated regarding the magnitude of the expense amounts for 2018 (Attachment OCA 2-050A). The Company met with Consolidated on February 14, 2019, February 27, 2019 and March 19, 2019 to make progress on outstanding operating issues and is currently working through the issues under discussion. On June 25, 2019, PSNH replied in writing to Consolidated's claims that it is owed a refund and should not have to pay any amounts over the base budget amounts (Attachment OCA 2-050B). PSNH is committed to working with Consolidated to address open issues and is hopeful that a consensus resolution can be reached on a going forward basis.

Q. IS IT APPROPRIATE TO INCLUDE THIS COST FOR RECOVERY FROM RATEPAYERS?

A. No. The Company maintains that this amount is owed by Consolidated. As such, the Company should receive reimbursement for this work from Consolidated, not the ratepayers. To simply transfer the debt from Consolidated to ratepayers would remove incentive to collect this debt and possibly provide a disincentive to collect future debts. In short, this would make it too easy for the Company and Consolidated. The Company and Consolidated continue to have a business relationship; this issue should be resolved between the parties involved without resorting to a bailout from ratepayers.

Q. HOW MUCH EFFORT HAS THE COMPANY MADE IN ITS ATTEMPT TO COLLECT THE OWED AMOUNT?

A. It does not appear that the Company has made an extraordinary effort to recover this debt before attempting to transfer it to ratepayers. The Company was asked in OCA 2-050(b) to describe the efforts made by PSNH to receive payment from the third-party pole owner. The response stated:

> PSNH billed Consolidated consistent with its routine billing practices to third-party joint pole owners. The Company typically compiles information on the work completed by its tree contractors in the franchise areas of the telecommunications companies on a monthly basis. The IOP provides guidance as to the percentage of reimbursable work by program type. Invoices are created with backup documentation (by town and program type) and are then sent to Eversource's Sundry Billing group for issuance to the telecommunications companies. Invoices are usually created on a quarterly basis, although there are sometimes delays associated with compiling third-party vendor invoices and reviewing charges when work (and billing) volumes are high. There is typically a 3 to 6-month lag for payment. Sundry Billing sends reminder billing for any unpaid amounts.

This appears to be standard billing practice.

Q. WHAT IS YOUR RECOMMENDED ADJUSTMENT?

A. The adjustment is to remove the entire amount related to the unpaid debt from Consolidated. This is a reduction of $1,213,743 to the rate year. The OCA's adjustment is shown on Exhibit ___(L&A-1) Schedule C-3.

H. AMORTIZATIONS OF DEFERRED ASSETS

Q. WHAT AMOUNT OF AMORTIZATION EXPENSE HAS THE COMPANY INCLUDED IN THE RATE YEAR?

A. According to Attachment EHC/TMD-1 (Perm), Schedule EHC/TMD-30 (Perm) and WP, the Company has included $19,015,397 of amortization expense which is comprised of the following five components:

	Total Cost	Amortization Period	Amount in RY
Rehab Tax Credit	$ (34,044)	1	$ (34,044)
Deferred Storm Cost	$ 77,563,042	5	$ 15,512,608
NH PUC Consultant Costs	$ 336,630	1	$ 336,630
Merger Costs	$ 9,090,203	10	$ 909,020
Environmental	$ 9,164,729	4	$ 2,291,182
Total	$ 96,120,560		$ 19,015,397

Q. PLEASE DISCUSS YOUR ADJUSTMENTS TO THE COMPANY'S AMORTIZATIONS.

A. The first issue is with the NH PUC Consultant Costs. It appears that the $336,630 should be a decrease, not an increase to rates. The direct testimony of Mr. Chung and Mr. Dixon on page 63 states the following:

> …The net of those two changes represented a decrease of $673,260, which the Company proposed to remove from rates. In Order No 26,206 (Dec. 28, 2018), the Commission approved the Company's proposal to remove $673,260 from rates. The $336,630 shown on Attachment EHC/TMD-1 (Perm), Schedule EHC/TMD-30 (Perm), page 2, line 25, Column C is necessary to reflect this $673,260 decrease and is proposed to be amortized over a two-year period, or $336,630 per year.

As the testimony states that the amount should be removed from rates, the Company's increase of $336,630 should actually be a reduction.

Q. PLEASE DISCUSS YOUR OTHER ADJUSTMENTS TO THE AMORTIZATION OF DEFERRED ASSETS.

A. I am also recommending that the deferred storm costs of $77,563,042 and the environmental remediation costs of $9,164,729 be amortized over 10 years. As shown in the table above, the Company is amortizing the deferred storm costs over a five-year period and amortizing the environmental costs over a four-year period. These costs are significant, totaling over $86 million. The OCA's recommendation of a ten-year amortization period for each of these costs will ease the burden on ratepayers.

Q. WHAT IS THE IMPACT OF YOUR RECOMMENDED ADJUSTMENT?

A. My recommended adjustment of removing the NH PUC Consultant costs of $336,630 and extending the amortization periods for deferred storm costs and environmental remediation to 10 years reduces amortization expense by $9,467,644 which is illustrated on Schedule C-2.

I. SEVERANCE EXPENSE

Q. HAS THE COMPANY INCLUDED SEVERANCE EXPENSE IN THE RATE YEAR?

A. Yes, the Company states in the response to OCA 1-068 that $57,136 of severance expense has been included in the rate year.

Q. SHOULD THIS COST BE BORNE BY RATEPAYERS?

A. No. Ratepayers should not bear the cost for severance pay for workers that are no longer providing service to the utility. If the Company wants to provide compensation beyond that earned during employment, that expense should be the responsibility of the shareholders, not the customers.

Q. WHAT IS YOUR ADJUSTMENT FOR THIS EXPENSE.

A. The complete disallowance of this expense is recommended. This is a reduction of $57,136 which is shown on Schedule C-9.

J. BOARD OF DIRECTORS EXPENSE

Q. HAS THE COMPANY INCLUDED BOARD OF DIRECTORS EXPENSE IN THE RATE YEAR?

A. Yes, according to OCA 1-066, the Company has included $226,310 for Board of Directors ("BOD") expense in the rate year.

Q. WHAT TYPES OF COSTS ARE INCLUDED IN BOD EXPENSE?

A. BOD expense typically includes costs for BOD meetings, travel, and fees paid to the BOD.

Q. HAVE YOU RECOMMENDED AN ADJUSTMENT TO THAT AMOUNT?

A. Yes. It is recommended that this expense be shared 75/25 between shareholders and ratepayers, respectively. This results in a reduction of $169,733 which is shown on Schedule C-4.

Q. WHY IS A SHARING OF BOD EXPENSE BETWEEN SHAREHOLDERS AND RATEPAYERS APPROPRIATE?

A. The Board of Directors serve primarily the interests of the Company's shareholders. As the shareholders receive most of the benefits of this expense, they should shoulder most of the costs.

Q. HAVE SIMILAR ADJUSTMENTS BEEN MADE IN OTHER JURISDICTIONS?

A. Yes, for example, in Connecticut, a 75/25 split between shareholder and ratepayers has been determined to be appropriate for BOD expense. Page 73 of the Authority's decision in Docket No. 13-01-19 stated:

> UI proposed total allocated BOD costs of $0.888 million for RY1 and $0.885 million for RY2. Schedule WP C-3.31 A- B. These costs included restricted stock expense for BOD, UIL legal and consulting matters, director stocks, director retirement pension and director expenses.
>
> The main objective of the BOD is to protect the interest of the Company's investors or shareowners. Ratepayers may tangentially garner benefits from the activities of the BOD; however, they are not the focus of the BOD decisions. Consistent with the determinations regarding public company costs discussed above, the Authority allows only 25% of BOD costs in rates.

K. PAYROLL TAX

Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO PAYROLL TAX.

A. The adjustment to payroll tax is a flow through adjustment resulting from the OCA's adjustment to payroll. This adjustment is illustrated on Schedule C-15

L. BENEFITS

Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO EMPLOYEE BENEFITS.

A. The adjustment to benefits is a flow through adjustment resulting from the OCA's adjustment to payroll. This adjustment is shown on Schedule C-6.

M. AUTOMATED METER READING TECHNOLOGY

Q. PLEASE DISCUSS THE ADJUSTMENT TO AUTOMATED METER READING TECHNOLOGY.

A. I have reflected the removal of the Automated Meter Reading technology as recommended by OCA witness Paul Alvarez on Schedule B-2 as well as the corresponding adjustments to accumulated depreciation and depreciation expense on Schedules B-3 and C-13, respectively.

N. OTHER FLOW THROUGH ADJUSTMENTS

Q. ARE THERE ANY ADDITIONAL FLOW THROUGH ADJUSTMENTS?

A. Yes. The OCA's revenue requirement adjustments also have flow through adjustments to Income taxes and interest synchronization, which are shown on Schedules C-16 and C-14, respectively.

Q. **DOES THIS COMPLETE YOUR TESTIMONY**?

A. Yes, at this time.