STATE OF NEW HAMPSHIRE

BEFORE THE

NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

DOCKET NO. DE 19-057

REQUEST FOR PERMANENT RATES

REBUTTAL TESTIMONY OF EDWARD A. DAVIS

Revenue Allocation

On behalf of the Public Service Company of New Hampshire

d/b/a Eversource Energy

March 3, 2020

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I. INTRODUCTION

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

A. My name is Edward A. Davis. I am employed by Eversource Energy Service Company as the Director of Rates. In this position, I provide support to Public Service Company of New Hampshire ("PSNH" or the "Company"). My business address is 107 Selden Street, Berlin, Connecticut.

Q. Have you previously testified before the Commission, in this proceeding?

A. Yes. I have provided direct testimony on behalf of PSNH regarding Rates and Tariff Changes to the New Hampshire Public Utilities Commission ("Commission").

Q. Did any other parties provide direct testimony regarding the issues addressed in your rebuttal testimony?

A. Yes. The Commission Staff's consultant, Dr. Sanem Sergici, the Office of Consumer Advocate's ("OCAs") consultant, Ron Nelson, and AARP's consultant, Scott Rubin filed testimony regarding the Company's cost of service studies, class revenue allocation and rate design.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to discuss the Company's proposed revenue allocation and rate design based on the Company's cost of service studies, and to address specific issues associated with these proposals raised by these parties.

Q. Please summarize the issues addressed in this rebuttal testimony.

A. The Company's rate design proposal is intended to strike a balance among numerous ratemaking goals and objectives and reflects consideration of impacts to customers from overall changes to rates at a class level, and from price or structural changes within each class. The Company relied on the results of the filed allocated cost of service ("ACOS") study and marginal cost of service ("MCOS") study to inform decisions leading to its proposed revenue allocation and rate design. The use of these studies has been met with both support and resistance, and with recommendations for alternate approaches. In its last rate case, the Company submitted only an ACOS. The importance, however, of a having a MCOS marginal cost study to inform rate design was highlighted during the case, and in the final order the Commission required the Company to submit both allocated and marginal cost studies in its next rate case, which it has done in this proceeding. The methodologies applied in the studies filed by the Company in this case are representative of what has been employed in evaluating distribution costs in other rate cases conducted by the Commission. The results of these studies provide key insights into the costs attributable to serving customers in each class and have helped inform the development of proposed class revenue requirements and rates. In this proceeding a number of issues and concerns have been raised, and certain alternate approaches have been recommended by witnesses for Staff, OCA and others. Rebuttal testimony submitted by the Company's Witness, Amparo Nieto, addresses many of the issues with the ACOS and MCOS raised by the parties. In this testimony I further address issues raised in testimony regarding application of study results and the Company's revenue allocation and rate design proposal.

II. REVENUE ALLOCATION AND RATE DESIGN

Q. What are your concerns regarding application of the Company's cost studies?

A. Of fundamental concern are the attempts particularly by OCA's consultant to undermine the validity and value of insights gained from the Company's studies, and to minimize, if not dismiss, the MCOS. It appears that both OCA and AARP witnesses are unfamiliar with or at least do not want to accept or rely on the MCOS and have emphasized changing methodologies and applying only the ACOS. These approaches attempt to override accepted practices and Commission requirements and would in appropriately serve to reduce overall revenue requirement and fixed cost responsibility for the residential class while shifting those responsibilities to other classes. Furthermore, the OCA's witness has made a number of unwarranted claims regarding these studies, which have been addressed in Ms. Nieto's rebuttal testimony.

In developing its rate proposal, the Company has first evaluated class cost responsibility and took a balanced approach in setting rates for each class consistent with key rate design principles and the various factors that needed to be considered for each class. While a MCOS has not been required to be filed by the Company in distribution rate cases conducted since restructuring, it had been a longstanding practice previously to submit both studies in a rate case. Both the ACOS and MCOS have been relied upon by the Company in developing revenue allocations and rate design in previous cases. In this case, both studies are required by the order of the Commission. The studies developed by the Company in this case are based on current (ACOS) and forward looking (MCOS) costs, and correctly employ methodologies appropriate for each type of study. The results of these studies provide important insights into the Company's costs of providing service to its customers and serve a critical role in guiding the Company's distribution revenue allocation and rate design decisions.

Q. What concerns has Staff raised with the application of the ACOS and MCOS in developing proposed rates?

A. Dr. Sergici has summarized a number of key rate principles and reviewed the Company's rate proposal noting where emphasis was more heavily placed by the Company (e.g., gradualism) , and decisions to address other changes, particularly where structural changes might be made, were deferred (e.g., TOU pricing). While the Company does not necessarily disagree with the recommendations for additional changes, it has considered the requirements and potential impacts that could occur as a result of these changes, noting additional requirements that would need to be addressed including potential meter changes, the need for billing determinants and other information to design rates and provide information to customers to facilitate informed decisions. Recognizing the priorities set in developing the company's rate proposal, a number of additional concerns should be addressed before developing additional changes to rates. The impacts and requirements for implementing new structures, data availability, and customer education and outreach are all important in evaluating the requirements and impacts that customers may see.

Regarding revenue allocation, the Company notes that its approach of using the equalized Rate of Return (ROR) as a basis for setting revenue allocation targets is not ad hoc. The ROR evaluation provided reflects use of the ACOS study results to identify the relative revenue contribution of each class toward its revenue requirements responsibility, and to inform the degree to which overall rates may be adjusted (with a goal of moving toward unity) while working within reasonable bounds to assure consideration of bill impacts and gradualism for each class is given and greater equity among rate classes is achieved. As observed by Dr. Sergici, these considerations, along with greater alignment of fixed and variable costs and more efficient pricing were given priority in developing the Company's proposal.

It is important to also note that in setting these priorities, the Company is working with legacy rate designs that vary significantly by class, along with emerging and somewhat undefined rate design needs. The structures that have fallen to distribution rates through the process of unbundling reflect production and transmission function characteristics and rate design that have been in effect for many years. As a result of the MCOS conducted in this case, there are significant differences between legacy distribution rate design and what the MCOS informs. While the Company has been conservative in maintaining current structures while addressing the priorities discuss above, it recognizes the need to also address changes to rate design, including updating TOU and block structures, to achieve more efficient pricing. These structural changes may also need to address and align with the growing and emerging policy objectives, and the capabilities and requirements needed for their implementation, such as metering infrastructure, information requirements, customer education and program development.

Q. Should proposed outdoor lighting rates be increased to offset increases to residential rates?

A. The approach in allocation of cost responsibility and development of outdoor lighting rates reflects a set of circumstances and cost-of-service characteristics unique to this class. Service to outdoor lighting is unmetered, and involves a significant portion of fixed, directly assigned assets that have steady load on the distribution system. Since the last case, there have been many conversions both to new LED technologies and from one class (OL) to another (EOL). Costs for the outdoor lighting class are largely comprised of street lighting equipment and O&M. In the Company's proposal, rate design has been completely revamped, consistent with the unique characteristics of this class. Witness Rubin has suggested that rates ought to not "bounce around" for this class. However, relative to current rates, a significant reduction is warranted. The proposed new rate design for this class reflects changes in customer characteristics and rate design set at a revenue requirement based on a unity rate of return ("ROR") (further, the allocated study fully reconciles the marginal costs of newly installed lights with the embedded costs of those lights.)

Adjustments to outdoor lighting rates performed over time on an average class basis when compared with the updated cost of service and rate levels reflected in the Company's proposal result in a significant decrease to rates from current to proposed levels. Proposed outdoor lighting rate changes reflect the significant changes and unique characteristics of this class. It is appropriate from a cost of service or fairness perspective to single out and "trade off" a portion of revenue allocations from the residential class to the outdoor lighting class as witness Rubin suggests. If it is found to be in the public interest to allocate less of an increase to the residential class than proposed (noting that the Company has proposed to move residential rates partially toward their full revenue requirements responsibility), then all else being equal, a weighting of such reduced allocation among all classes would be more equitable.

Q. Is the proposed Residential Rate R customer charge reasonable and appropriate?

A. One of the priorities in designing proposed rates beyond setting overall class targets is to determine the level of costs recovered through fixed vs. variable charges within each class. The cost studies provide important information for guiding this rate design decision. The ACOS provides key information about the level of fixed costs, while the MCOS provides key information about efficient pricing. The Company relied on the marginal cost study to establish fixed cost benchmarks for the customer charge, and in evaluating how far to move rates from current levels toward benchmark levels while paying particular attention to bill impacts and degree of gradualism to be applied. In addition to the MCOS, the Company compared its proposed rates with the level of fixed charges from the allocated cost study.

Witnesses Nelson and Rubin have advocated moving away from reliance on either the ACOS or MCOS filed by the Company, recommending certain changes in the ACOS methodology (e.g., application of the so-called basic method) that serve to shift cost responsibility away from the residential class. An evaluation of theses alternate methods and flaws in the claims made or approach employed is discussed in the rebuttal testimony of Witness Nieto.

As noted earlier, the Company is required to submit both the ACOS and MCOS in this proceeding. Both studies are important to Staff and the Commission. The role and importance to the Commission of the MCOS in designing rates was recently highlighted in the Electric Division recommendations to the Commission regarding the development of rate design standards for electric vehicles,[1] and is recognized as essential in developing efficient pricing and addressing a number of rate design principles, as discussed in the testimony of Staff's consultant, Sanem Sergici.

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[1] "*Rates designed under the cost of service standard should, to the maximum extent practicable, reflect the cost of providing service to a particular customer class. The cost of service standard has been a foundational component of rate design in New Hampshire for decades.*", referencing further Pub.Serv.Co. of New Hampshire, Order No 20,504 at 285 (June 8, 1992):"*If we viewed rate design as a house, the important aspects of equity, continuity, simplicity, understandability and revenue stability are the attributes that make the house livable…The support – the foundation and the frame is the cost studies; particularly, it rests on the marginal cost of service study (MCOSS)*". IR 20-004, Recommendations Regarding Investigation of Electric Vehicle Rate Design Standards, Electric Vehicle Time of Day Rates for Residential and Commercial Customers, January 10, 2020

Q. What is the importance and relevance of relying on the Company's allocated and marginal cost studies in examining fixed cost responsibility vs. comparing rates charged by other utilities?

A. The cost studies submitted by the Company provide the most relevant measure of cost responsibility for its customers. In his direct testimony, Witness Rubin references a Connecticut residential rate, where a minimum system study was conducted, and while the study showed significantly higher fixed costs, a state policy mandated a cap that narrowed the portion of fixed costs to be utilized in setting the customer charge. A MCOS was not conducted in that case. Mr. Rubin also cites the setting of Eversource's Massachusetts affiliate residential customer charge, but does not mention that the customer charge approved was the result of consolidating many rate classes from four separate service areas into one, with customer charges that increased by well over 50% in some cases, and that in any event, the final approved customer charge was less than that of the allocated cost study. Further, while a marginal cost study was performed, there is no customer component in that study. Unlike the forward-looking approach utilized in the Company's MCOS, a historic, statistical approach was applied in the MA MCOS. While witness Rubin cited low residential customer charges for CT and MA, he did not provide a comparison of more local utility residential rates in discovery. While the Company has requested to set a residential customer charge of $13.89 in this case, it is important to note that this is significantly less than the levels indicted by both cost studies. Further, the residential customer charge approved by the Commission and currently in effect for New Hampshire's other regulated utilities are higher than this requested amount (Unitil: $16.22; Liberty: $14.67). Other examples include the New Hampshire Electric Coop, at $29.32 per month, and Green Mountain Power which charges a daily customer charge that equates to $15.04 per month. While these are interesting comparisons, the most relevant fact in this rate case is that the proposed customer charge of $13.89 is less than, but aligned with, the cost studies conducted specifically for PSNH using current costs.

Q. Please discuss the OCA's concerns regarding lost sales and the relevance of historic vs. test year revenue.

A. Witness Rubin states the lost sales are a fiction, and the increase in revenue from the last rate case to the test year in this case supports [no mechanism should apply). Lost sales and therefore lost revenue are not a fiction. All else being equal, a reduction in sales due to actual energy efficiency measures installed translates into lost revenue. The record in [See pages 24-27 & 59-60 of Order # 25,932] is clear on this terminology, and on the basis for determining lost revenue and its recoverability through the Company's System Benefits Charge mechanism.

Witness Rubin compares revenue calculated at rates applied to sales established in the prior rate case with current case TY revenue, and claims that the increase in revenue during that time shows that the Company has not lost revenue. This comparison is irrelevant. The Company has developed proposed rates using TY billing determinants, and calculated revenue at current rates using those same billing determinants, and not those in effect 10 years ago. Whatever changes in sales and revenue that have occurred between 2008 and 2018, the relevant basis for setting revenue, and determining the extent of displaced or reduced sales due to EE (or DG) installations is the 2018 billing determinants applied in setting rates in this case. Whether the LRAM or another form of decoupling applied, impacts and the determination of revenue adjustments would be made relative to 2018 levels, and the effects of measures installed subsequently.

Q. Does this conclude your testimony?

A. Yes.