STATE OF NEW HAMPSHIRE

BEFORE THE

NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

DOCKET NO. DE 19-057

REQUEST FOR PERMANENT RATES

REBUTTAL TESTIMONY OF DOUGLAS P. HORTON AND TROY M. DIXON

Revenue Requirements

On behalf of Public Service Company of New Hampshire

d/b/a Eversource Energy

March 3, 2020

Table of Contents

I. INTRODUCTION 1
II. REVENUE REQUIREMENT ADJUSTMENTS...3

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I. INTRODUCTION

Q. Mr. Horton, please state your full name, position and business address.

A. My name is Douglas P. Horton. I am the Vice President, Distribution Rates and Regulatory Requirements, for Eversource Energy Service Company. My business address is 247 Station Drive, Westwood, Massachusetts 02090.

Q. What are your principal responsibilities in this position?

A. In this role, I have overall responsibility for rate and rate-related strategy, preparation and presentation of regulatory filings made by the Eversource Energy operating affiliates to their respective regulatory commissions in Massachusetts, Connecticut and New Hampshire. In this proceeding, I am co-sponsoring the revenue requirements testimony with Mr. Dixon.

Q. Please describe your educational background and professional experience.

A. I graduated from Bentley College (now Bentley University) in Waltham, Massachusetts in 2003 with a Bachelor of Science degree. In 2007, I graduated from the Bentley University McCallum Graduate School of Business with a Master of Business Administration. I was hired by NSTAR as a Senior Financial Planning Analyst in August 2007 and promoted to Project Manager, Smart Grid, in March 2010. In 2012, I was promoted to Manager, Revenue Requirements, Massachusetts and subsequently was promoted to Director, Revenue Requirements, Massachusetts in February 2015. I was promoted to my current role of Vice President, Distribution Rates and Regulatory Requirements, in December 2018.

Q. Have your previously provided testimony before the New Hampshire Public Utilities Commission.

A. No. I have however testified on numerous occasions before other regulatory commissions, including the Massachusetts Department of Public Utilities and the Connecticut Public Utilities Regulatory Authority.

Q. Mr. Dixon, please state your full name, position and business address.

A. My name is Troy M. Dixon. I am the Director, Revenue Requirements, for Eversource Energy Service Company. My business address is 107 Selden St, Berlin, CT 06037.

Q. Have you previously submitted testimony in this proceeding?

A. Yes. On May 28, 2019, I submitted direct, pre-filed joint testimony with Mr. Eric H. Chung on the Company's proposed revenue requirement, step increases and distribution revenue adjustment mechanism ("DRAM"). In that testimony, I described my educational and professional background. On October 17, 2020 by letter to Director Howland, Mr. Chung's testimony was adopted by Mr. Horton.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of our rebuttal testimony is to respond to the direct testimony of Commission Staff's consultant, Ms. Donna H. Mullinax, and the Consultant for the Office of Consumer Advocate ("OCA"), Mr. John Defever. Both testimonies recommend various revenue requirement adjustments to rate base, capital structure and operating income. This joint testimony serves to address certain of those recommended adjustments.

II. REVENUE REQUIREMENT ADJUSTMENTS

Q. Please describe the topics covered in your rebuttal testimony.

A. The Staff and OCA witnesses made numerous recommendations to adjust the Company's revenue requirement. These adjustments impacted rate base, cost of capital and capital structure, and operating income.

Q. Does your testimony discuss all of the adjustments proposed through the Intervenor testimony?

A. No, this joint testimony addresses only the revenue requirement elements impacting operating income. In addition, we have focused only on the adjustments that are relatively significant. The fact that we do not respond to a particular adjustment to operating income does not mean that we agree with the adjustment, only that the current state of the evidentiary record is sufficient to support the Company's position or that it did not require additional rebuttal. With respect to Staff's adjustments to rate base, these consist primarily of disallowances of certain utility plant additions and are addressed in detail in in the joint rebuttal testimony of Company witnesses Erica L. Menard and Lee G. Lajoie. Similarly, OCA's adjustments to rate base are primarily related to the disallowance of AMR meter assets, which are addressed in the rebuttal testimony of Company witness Penelope McLean Conner. Lastly, return on equity and capitalization adjustments as put forth by Staff and OCA witnesses are being addressed in the rebuttal testimony of Ann E. Bulkley.

Q. Do the Staff and OCA witnesses propose adjustments to the Company's incentive compensation expense?

A. Yes. Staff's witness proposes to disallow 49 percent (Mullinax Test. at 22-23) and OCA's witness proposes to disallow 70 percent (Defever Test. at 22) of the Company's incentive compensation, based on the inaccurate premise that incentive compensation payments are tied heavily to the attainment of certain financial goals. However, neither of these proposed reductions of 49 percent and 70 percent, respectively, are shown to draw a nexus between the incentive compensation paid to individuals and the broad financial thresholds that are required to gauge whether the overall organization is in a financial position *to pay* incentive compensation to individuals. Eversource Energy necessarily uses certain financial thresholds, such as earnings per share, as a metric for determining *whether* there is enough money to pay incentive compensation to the entire Eversource Energy employee base.

Funding is not determined on a company by company basis, so that the decision to fund incentive compensation is a $50M+ decision in some cases. As a result, it is imperative the Eversource Energy management have a financial trigger to decide upon plan funding.

More specifically, certain enterprise-wide financial results must be attained to determine whether the incentive plan will be funded for the year, and this creates the compensation pool from which payouts are provided to eligible employees. The Company then uses *individual job performance measures* for each employee as the basis for determining the amount of the employee's incentive payment. These individual performance measures are not based on earnings per share or other broad financial goals. Instead, each individual must perform against a set of metrics tied to the specific position and function they are performing. If Eversource Energy has the financial ability to make those payments, specific, customer-centric employee goals are then utilized to determine what the actual payouts will be.

Q. Is incentive compensation a necessary operating expense?

A. Yes, absolutely and cutting out 50-70 percent of this cost is detrimental to the Company because the Company *must pay employees* this compensation where they have met their goals and the compensation is funded on an enterprise-wide basis. It is not possible for PSNH to discriminate against its employees by denying incentive compensation because the Commission has denied recovery. Instead, the Company's incentive compensation plan is a crucial component of a total compensation package designed to attract and retain qualified employees and executives. Use of a variable pay component as part of the total employee compensation is standard labor market practice, both within the utility industry and within the broader employer base. Variable pay plans remain an increasingly critical and prevalent component of most companies' total compensation philosophies. In 2018, the majority (85.9 percent) of the participants in the Towers Watson Salary Budget Survey Report indicated that they have an annual performance bonus/short-term incentive award program in place. For the energy/utility sector, 85.7 percent of the participants reported an annual performance bonus/short-term incentive award program.

If the Company were to compensate employees only with the level of base pay provided for under the current compensation program, it would not be competitive with others in the market and, over time, customers would be harmed because the Company would be unable to attract and retain the type of qualified employees needed to provide safe, reliable, and efficient service. More important, the Company *would have to increase base salaries to compensate employees on a comparable basis, which would add costs for customers with no underling incentive basis.* For this reason, if the Company did not incorporate a variable pay component into its compensation structure, the base salaries would have to be higher to appropriately and competitively compensate employees.

Given the prevalence of incentive programs in the market and the Staff and OCA's mischaracterization of payout criteria, no adjustment to the Company's pro forma incentive compensation is warranted.

Q. Do the Staff and OCA witnesses propose adjustments to the Company's SERP expense?

A. Both Staff and OCA propose disallowances associated with the Company's Supplemental Employee Retirement Plan ("SERP") based on the assertion that these costs should be borne by shareholders (Mullinax Test. at 25-26; Defever Test. at 34). Staff states that "these costs are not necessary for the provision of utility service but are instead discretionary costs to attract, retain, and reward already highly compensated executives." OCA extends its proposed disallowance to non-SERP retirement costs (Defever Test. at 35).

Q. Does the Company agree with these proposed adjustments?

A. No. SERP is a standard component of the Company's total compensation package designed to attract and retain qualified employees. In fact, it is common practice among companies with qualified defined benefit pension plans, such as the Eversource Retirement Plan, to provide executives with a benefit that makes them whole for the limits on pensionable earnings that the Internal Revenue Service imposes on qualified pension plans. The objective is for executives to receive a pension benefit that is similar to that of non-executives relative to their pay. This expense has been recognized in other jurisdictions, including Massachusetts and Connecticut as a reasonable operating cost, and all other Eversource gas and electric operating companies currently recover 100% percent of their SERP expense in rates by approval of the relevant regulatory commissions. A SERP, which is a non-qualified plan, accomplishes the same objective of other retirement plans and is necessitated for certain, higher-earning employees.

Specifically, because the Company no longer offers a defined benefit plan to new employees, newly hired executives are not eligible for the SERP. However, since the SERP is linked to the Company's defined benefit pension plan, employees who already participate in the defined benefit pension plan and are promoted to executive roles become eligible for the SERP. The Company will have to maintain its SERP as long as there are officers eligible for a qualified pension. Therefore, it is necessary for the Company to offer SERP benefits to these managers as they hold positions with a substantial amount of responsibility and oversee the work of many other employees. These managers make decisions on a daily basis affecting a range of matters pertaining directly to the cost and quality of service provided to customers. .Consistent with past precedent in New Hampshire and current precedent in other states, SERP expenses should be allowed.

Q. Please describe the adjustment that Staff has proposed related to the Amortization of Merger Costs.

A. Staff witness Mullinax has recommended the elimination of 100 percent of the proposed amortization of merger costs (Mullinax Test. at 30). The apparent basis for this proposed disallowance is that the Company did not record a deferred asset for the costs incurred in support of the merger. Ms. Mullinax does not dispute that the merger costs were incurred or that the merger produced significant savings, but only that they should be disallowed because the Company did not book a deferred asset. However, the accounting treatment by PSNH for those costs is no different than that utilized for all other Eversource companies in all other jurisdictions. As indicated in the Company's responses to Staff 9-002 and Staff 12-013, with this accounting treatment, these costs have been allowed for recovery in Connecticut and Massachusetts as well as by the Federal Energy Regulatory Commission. Ms. Mullinax has provided no evidence that the Company has not achieved the reported savings or that it did not incur the costs for which recovery is proposed.

Ms. Mullinax makes a secondary argument that there have been no other instances in New Hampshire where the Commission has allowed merger cost recovery. Even if true, this argument does not support any kind of disallowance here because no other company has made the demonstration on savings that the Company has made here. Instead, it ignores the fact that in those cases, the companies did not adequately demonstrate merger savings. Ms. Mullinax can point to no instance where a company that had proven savings was denied recovery. We are not aware of any law or regulation that precludes these costs from being approved for recovery, subject to a showing by PSNH of net savings for customers. In past cases, there simply has not been an adequate demonstration of net merger savings as PSNH has provided in this case. Given that there is no legal impediment to recovery, and that PSNH had demonstrated net savings, the merger costs should be permitted for recovery.

Q. Does the Staff propose changes to the Company's depreciation expense?

A. Yes. The Company has proposed use of the remaining life method of depreciation. As per Mr. Spanos's response to Staff 4-034-SP01, there are two primary benefits to the remaining life method: (1) the method is better designed to align the recovery of actual asset costs with the amount paid by customers; and (2) the resulting depreciation accrual rates are more stable over time, showing less variation between rate cases, due to the fact that the method inherently corrects for the reserve variance. Staff proposes to use the whole life method of depreciation, which results in a proposed adjustment of approximately $1.4 million (Mullinax Test. at Bates 000072). However, as demonstrated in Ms. Mullinax's response to Eversource-Staff-2-008 the calculation of whole life depreciation expense is not correct. Staff incorporated only the incremental change attributable to the second batch of catch-up retirements. Instead, the appropriate figures for the correct calculation were provided in Attachments STAFF 4-034-SP01 A and B. The corrected adjustment to fully consider whole life depreciation is reflected in Table 1 below.

Item	Amount
Revised Whole Life Depreciation (WLD)	$66,331,451
Plus: Amortization of Reserve Imbalance	8,966,112
Less: Update WLD – Vehicles	(2,755,776)
Subtotal Revised WLD Expense	$72,541,787
Less: Remaining Life Depreciation as Filed	(69,179,945)
Adjustment	$3,361,842

Q. Does the Staff propose an adjustment to the environmental reserve?

A. Yes. Staff proposes to reduce the Company's environmental reserve liability by $2.59 million (Mullinax Test. at Bates 000034). The $2.59 million represents the carrying charge component of the $9.2 million reserve balance. Staff alleges that the Company is accruing carrying charges against costs that are estimated and have yet to be incurred. This is not accurate. The Company's calculation of carrying costs within the Environmental Reserve Balance is based on *actual, past expenditures*, not estimates. The calculation consists of taking the monthly spend beginning balance and adding the new monthly charges plus or minus any miscellaneous adjustments. The total monthly spend is then multiplied by the current year's deferred tax rate, to get a net of tax balance. A two-month net of tax average balance would then be calculated and multiplied by the stipulated return and divided by twelve to calculate the monthly return. Given that these carrying charges are calculated against actual incurred costs, the proposed elimination of the $2.59 million liability is unwarranted.

Q. Does the Staff propose an adjustment to the Company's Enterprise IT expense?

A. Yes. Staff has proposed to disallow Enterprise IT expense using an average of the most recent three years of expense. This is inappropriate because these costs are not decreasing, or even fluctuating, but are increasing each year to reflect increased IT requirements for fully serving customers while maintaining a robust cybersecurity capability. A three-year average is not representative of the costs for a typical year or the Rate Year. Enterprise IT Projects Expense represents the service company financing costs of capital projects performed at the service company. Because service company capital investments are expected to continue at current levels, and the majority of the projects currently in service are depreciated over 10 and 15 years, the use of a three-year average wholly inappropriate.

These substantial investments in IT correspond to the actual Enterprise IT Projects Expense billed to PSNH during the period 2015 through 2018, as reflected in the response to STAFF 5-019 A. This historical snapshot offers additional support that Enterprise IT Projects Expenses are increasing annually and not consistent with STAFF's recommendation for a three-year average

Q. Does the Staff make a computational error related to interest synchronization?

A. Yes, the Staff's computation of interest synchronization is inaccurate. If the Commission makes changes to rate base that would necessitate an interest synchronization adjustment, certain corrections are required. Specifically, Staff incorrectly utilizes the cost of short-term debt in its calculation. The correct calculation would be to use the weighted average costs of debt inclusive of long and short-term borrowings. The appropriate methodology needs to be used for the final revenue requirement determination.

Q. Does the Staff propose adjustment to Vegetation Management costs?

A. Yes. The Company responds to the proposed reductions to vegetation management costs in the joint rebuttal testimony of Company witnesses Robert D. Allen and William A. Van Dam.

Q. Do you have any comments that you would like to make on the need for Step Adjustments and the DRAM.

A. Yes. Staff is rightfully concerned about making sure that the DRAM is thoughtfully structured to accomplish narrowly targeted recovery of costs not susceptible for inclusion in base rates. The DRAM should not be allowed to operate as a "blank check," should not eliminate risks that are appropriately borne by the Company and each element of the DRAM should be vetted and structured for appropriate, targeted recovery.

Use of the DRAM is appropriate where it would provide a recovery vehicle under the following parameters:

- Use of the DRAM would decrease costs of a given programs or activity conducted for the benefit of customers where it is not feasible to identify an amount in base rates that is representative of actual costs on a year-to-year basis after the rate case is concluded. The DRAM is useful to reduce carrying charges where amounts would otherwise be deferred for recovery with carrying costs.
- Use of the DRAM will reduce bill impacts over time by stabilizing recovery to smaller amounts, rather than larger deferred amounts. Large over/under recoveries that build up over many years causes bill impacts. This can result in inter-generational equity issues in that customers today are reaping the benefits of the programs but customers in the future are paying for them (or getting a credit for them in the case of over-recovery). The DRAM addresses this issue because more timely reconciliation results in smaller adjustments over time and less carrying charges (plus or minus). Plus, rates reflect actual costs versus large deferrals, serving to preserve accurate price signals for customers.

- For both DRAM (and the step adjustments), it is possible to create a more transparent reporting, tracking and review process. The Company is committed to working with Staff to create processes and check-ins that assure that recovery is even, balanced, equitable and reducing carrying charges as compared to base-rate recovery.

Q. Do you have any final comments on the proposed Step Adjustments.

A. Yes. The Company cannot conduct its operations across time, following a rate case, without some consideration of step recovery for capital investments. The ratemaking procedures in New Hampshire are founded on the historical test year, which does provide a significant level of certainty and clarity in terms of examining cost. However, the minute that the Company exits the rate case, it is already behind in relation to the capital costs it is carrying that are *not yet included* in base rates. Every dollar spent on capital projects after the end of the historical test year is an incremental dollar, not recovered through rates and the cost of carrying capital is substantial in todays' operating environment – not because of interest costs – but in terms of the drag on the return on equity component that credit and equity analysts watch with great attention. For the Company to maintain its financial health, and have access to low-cost capital resources (debt and equity), the Company must maintain a sufficient earnings capability.

The Company's rate proposals in this proceeding are directly founded upon the need to support the system with capital work and vegetation management work, as well as other items. The step adjustments are an absolutely necessity for the Company given that the Company cannot immediately return to the gate for a sequential base-rate case, nor would such a frequency be to the benefit of customers. Therefore, the Step Adjustments are a necessary lifeblood for the Company to maintain operations until the next rate case.

Q. Does this conclude your testimony?

A. Yes.