Public Service Company of New Hampshire d/b/a Eversource Energy
Docket No. DE 21-020

Date Request Received: March 15, 2022 | **Date of Response: March 25, 2022**
Data Request No. RR-004 | **Page 1 of 2**

Request from: Department of Energy

Witness: Horton, Douglas P

Request:

Marked as Exhibit 71: Provide cash flow analysis or modeling performed by Eversource relating to the proposed transaction.

Response:

Please see Confidential Attachment RR-003-1, page 2, provided with the Company's response to Record Request RR-003. This cash flow analysis is derived from the updated cost recovery calculation presented in response to Record Request RR-003 and is described further below.

As an initial matter, the primary motivation for the Company to purchase CCI's ownership interest in the poles is to improve our service to our customers. As the electric service provider, we have an obligation to our customers to provide safe, reliable, electric service, at an affordable cost. We see opportunities to do that better if we solely own the poles, for all of the reasons presented in our filing, and that is the impetus for this transaction from Eversource's perspective.

The regulatory model becomes important from a financial perspective because our current rates and cost structure do not contemplate the full ownership responsibility of these poles, or the operating costs associated with them. However, as demonstrated by Attachment RR-003-1, page 2 , the financial considerations are *entirely* associated with the recovery of incremental expenses that would not be incurred but for the execution of this transaction. And, even with those considerations fully accounted for, the annual cash flows resulting from this transaction are negative, at least in the short term, and the net present value of this transaction as a whole is also negative. Saying that, in this analysis, the Company has not assumed the timing of its next rate case, at which point it would expect to incorporate plant additions (including the purchase price for the acquired assets and incremental investments on such assets) into rate base. At that point, the Company would begin to earn a return on its investments, causing the NPV to become less negative. However, the NPV would continue to be negative overall under a variety of scenarios, given the significant lag on recovery of the Company's initial investments, and the time lag built into typical ratemaking that is based on a historical test year. Eversource typically would not pursue a transaction based upon a negative present value; however, the Company believes the

Public Service Company of New Hampshire d/b/a Eversource Energy
Docket No. DE 21-020

Date Request Received: March 15, 2022 **Date of Response: March 25, 2022**
Data Request No. RR-004 **Page 2 of 2**

overall benefits to customers outweigh the initial negative NPV risk detailed in Attachment RR-003-1.

Confidential Attachment RR-003-1, page 2 demonstrates that, particularly until incremental capital recovery is reflected in base rates at some point in the future, there is absolutely no earnings for Eversource to be derived from this transaction. In fact, there is only downside financially for the Company to the extent that the capital investments will have been made and not recovered, and that the incremental pole attachment revenues are insufficient to cover the Company's incremental expenses of operating these assets without support of CCI as a joint pole owner. The Company will be incurring additional expenses for incremental pole inspections and maintenance activities that will not be covered by the incremental pole attachment revenues, and the Company's regulatory proposal in this proceeding is simply to get cost recovery for those incremental expenses. Although the Company will have financed the purchase of the pole infrastructure, plus any incremental replacements after the acquisition, as shown in Confidential Attachment RR-003-1, page 2, the Company is not getting a return on those investments until a future rate setting interval.

Confidential Attachment RR-003-1, page 2, shows that the cash flows resulting from this proceeding are negative from the outset, and the net present value to shareholders is negative in light of the fact that we are investing capital up-front and over time that is subject to regulatory lag, to be included in rates in the future, with a return on and of the investment only at that point. However, as described previously, the Company expects the transaction to result in improved service to its customers, more streamlined processes than exist today, and overall benefits to customers over the long term.