

STATE OF NEW HAMPSHIRE
BEFORE THE
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

DOCKET NO. DE 24-070
REQUEST FOR CHANGE IN RATES

DIRECT TESTIMONY OF
Mark Kolesar and Agustin J. Ros, Ph.D.

Performance Based Regulation

On behalf of Public Service Company of New Hampshire

d/b/a Eversource Energy

June 11, 2024

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1 **I. INTRODUCTION**

2 *Mark Kolesar*

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

4 A. My name is Mark Kolesar. Currently I am the Managing Principal at Kolesar Buchanan
5 & Associates Ltd. My business address is 47 Tuscany Glen Place NW, Calgary, Alberta,
6 Canada, T3L 2T6.

7 **Q. Please summarize your educational background.**

8 A. I have an Honors Degree in Philosophy and a Master of Business Administration in
9 Managerial Economics and Finance from the University of Ottawa.

10 **Q. Please summarize your professional background.**

11 A. I have over 30 years of experience in the regulated utilities sector, having worked in the
12 areas of regulation and public policy, external relations, marketing, strategy and business
13 development, and mergers and acquisitions. This includes over 20 years of corporate

1 experience in the telecom sector, where I was Vice President, Economic Affairs at TELUS
2 Corporation. During this time, I was engaged in the adoption of performance-based
3 ratemaking (“PBR”) in the telecommunications sector.

4 In 2008, I joined the Alberta Utilities Commission (“AUC”). During my twelve-year
5 tenure as a member of the AUC, I served six years as Vice Chair and two years as Chair of
6 the commission. During my time at the AUC, my fellow commissioners and I worked
7 together to issue over 1,400 decisions, and I was instrumental in the initial adoption of PBR
8 in Alberta. During my AUC tenure, I adjudicated numerous PBR applications for two gas
9 distribution utilities, four electric distribution utilities and one electric transmission utility.

10 Since leaving the AUC in July 2020, I have been a researcher, author and consultant in
11 utility regulation and policy development, and a frequent participant in webinars and
12 conferences in both Canada and the United States. My current areas of research include
13 incentive regulation, the theory and practice of PBR, community energy projects, the
14 integration of distributed energy resources into the grid, the future of utility rate design,
15 utility business models, and regulatory renewal in response to emerging utility industry
16 dynamics. I have advised several utilities and regulators on matters related to PBR and
17 incentive regulation.

1 **Q. Have you previously testified before the Commission or other regulatory agencies?**

2 A. I have not previously testified before the New Hampshire Public Utilities Commission. I
3 have previously testified before the Commonwealth of Massachusetts Department of
4 Public Utilities in base distribution rate proceedings, D.P.U. 23-80 and D.P.U. 23-81.

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

6 A. My testimony provides expert opinion evidence with respect to Public Service Company
7 of New Hampshire's ("PSNH" or the "Company") performance-based regulation
8 application.

9 **Q. Please summarize your testimony.**

10 A. My testimony provides a brief overview of performance-based regulation and then explains
11 how the adoption of PBR will benefit customers in New Hampshire. My testimony also
12 discusses the objectives of a well-designed PBR plan and provides some considerations
13 when approving a PBR plan. My testimony then provides an overview of the PBR plan
14 proposed by PSNH and provides my opinion on the individual elements of the proposed
15 plan. I conclude my testimony with a recommendation that the New Hampshire Public
16 Utilities Commission approve the PBR plan as proposed.

17 **Q. Are you presenting any attachments in addition to your joint and individual**
18 **testimony?**

19 A. Yes. I am presenting the following attachments in support of the proposed PBR plan:

Attachment Designation	Purpose/Description
Attachment ES-MK-1	<i>Principle Report of Mark Kolesar</i>
Attachment ES-MK-2	<i>Curriculum Vitae of Mark Kolesar</i>

1

2 ***Dr. Agustin J. Ros***

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

4 A. My name is Agustin J. Ros. I am Senior Managing Director at Ankura Consulting Group
5 (“Ankura”) and Adjunct Professor at the International School of Business at Brandeis
6 University. My business address at Ankura is 265 Franklin Street, Suite 1005, Boston,
7 Massachusetts 02110.

8 **Q. Please summarize your educational background.**

9 A. I have a Bachelor of Arts degree in economics from Rutgers University-Newark and a
10 Master of Science in economics from the University of Illinois-Champaign-Urbana. I
11 received my Ph.D. in economics from the University of Illinois-Champaign-Urbana.

12 **Q. Please summarize your professional background.**

13 A. I began my career as a regulatory economist working as an Executive Assistant to the
14 Chairman of the Illinois Commerce Commission (“ICC”), where I provided economic and
15 policy advice to the Chairman on all matters before the ICC. During my tenure at the ICC,
16 I was seconded to the Federal Communications Commission (“FCC”) to participate in the
17 Federal-State partnership implementation of the Telecommunications Act of 1996. For the
18 past 28 years since my departure from the ICC, I have been employed by several economic
19 consulting firms, most recently by Ankura, where I have consulted and testified on matters

1 involving regulatory economic and antitrust issues in the energy, postal,
2 telecommunications, and water sectors. During that time, I have taught economics at
3 Northeastern University and am currently an Adjunct Professor at Brandeis University,
4 where I teach a class on regulation and antitrust.

5 **Q. Please describe your background involving PBR.**

6 A. I have 30 years of experience with PBR, beginning in 1994, where I advised the Chairman
7 of the ICC on the first PBR plan for a utility in Illinois, Illinois Bell Telephone. Since then,
8 I have worked on dozens of PBR plans -- many of which involved Total Factor Productivity
9 (“TFP”) and the establishment of the “X-Factor” for use in a PBR formula. Included in
10 my PBR and TFP experience is work on early studies before the FCC and before state
11 public utility commissions (“PUCs”) involving the incumbent local telephone companies,
12 as well as TFP studies involving telephone operators in Mexico and Peru.

13 I have experience working on TFP and PBR in the electricity sector. In 2010, I was an
14 expert on behalf of the AUC and conducted a TFP study for the electricity and natural gas
15 distributors in Alberta that the AUC utilized to determine the appropriate X-Factor. I
16 recently led a TFP, cost benchmarking and stretch factor study on behalf of Hydro-Québec
17 TransÉnergie before the Régie de l’énergie.

1 **Q. Have you published academic, peer-reviewed articles on TFP and PBR?**

2 A. Yes. I have several publications in academic journals discussing the theory and
3 implementation of TFP, PBR and, most recently, an article on econometric cost
4 benchmarking analysis.

5 **Q. Have you previously testified before the Commission or other regulatory agencies?**

6 A. Yes. I have testified twice before the New Hampshire Public Utilities Commission in
7 Docket Nos. DE 19-057 and DE 19-064, on behalf of the Staff of New Hampshire Public
8 Utilities Commission, involving electricity marginal cost of service studies. I have also
9 testified on dozens of occasions before federal agencies, state PUCs, federal district courts
10 and before international PUCs and regulatory agencies.

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

12 A. I am the principal author of a report entitled “Total Factor Productivity and the X-Factor
13 for use in PSNH PBR Plan,” (“*X-Factor Report*”). The *X-Factor Report* is included as
14 Attachment ES-AR-1. The purpose my testimony is to summarize the *X-Factor Report*
15 and present the main findings.

16 **Q. Are you presenting any attachments in addition to your testimony?**

17 A. Yes. I am presenting the following attachments in support of the proposed PBR plan:

Attachment Designation	Purpose/Description
Attachment ES-AR-1	<i>X-Factor Report</i>
Attachment ES-AR-2	Curriculum Vitae of Dr. Ros

18

1 **Q. Please summarize your *X-Factor Report*.**

2 A. PSNH is proposing a change in base distribution rates, along with implementation of a
3 four-year Performance Based Ratemaking (“PBR”) plan. In a PBR plan with an “Inflation
4 minus X” PBR formula, the X-Factor is an important element of the plan and plays a key
5 role in determining rate adjustments throughout the plan. Specifically, the PBR formula
6 relates changes in PSNH’s allowed revenues to the change in inflation in the overall
7 economy (“I”), minus changes in the *differences* in the total factor productivity (“TFP”)
8 and input price growth between the electric-distribution industry and the overall economy
9 -- the latter component commonly referred to as the “X-Factor.” This is the PBR formula
10 for the X-Factor when the measure of inflation (I) is an economy-wide measure, such as
11 the gross domestic product price index (“GDP-PI”), which is the measure of inflation that
12 the Company is proposing in its PBR formula. Accordingly, under the PBR plan, PSNH
13 will be given the opportunity to achieve revenues in years two, three and four of the plan
14 based upon the formula: “I - X”, inclusive of the K-Bar component for capital support, and
15 other components of the formula described elsewhere in this testimony.

16 To determine the economically appropriate X-Factor to use in an “I – X” revenue-based
17 PBR formula for an electric-distribution company, we calculated the electric-industry TFP
18 and input price growth. We constructed an excel-based electric-industry TFP model using
19 data from the Federal Energy Regulatory Commission (“FERC”), the Energy Information
20 Administration (“EIA”) and other sources.

1 **Q. What were your main findings?**

2 A. TFP growth is the difference in the rate of growth of a company's output and the rate of
3 growth of a company's inputs. Our TFP model shows that electric-industry TFP growth
4 during the period 2000 to 2022 averaged **-0.26%**. The TFP model has, as intermediate
5 calculations, the input price growth of each company. During the period 2000 to 2022,
6 electric-industry input price growth averaged **3.39%**.

7 Information on economy-wide TFP growth is readily available from the U.S. Department
8 of Labor and economy-wide input price growth can be readily calculated using economy-
9 wide TFP growth and GDP-PI data from the U.S. Bureau of Economic Analysis.
10 Economy-wide TFP growth during the period 2000 to 2022 averaged **0.77%**, while
11 economy-wide input price growth averaged **3.01%**.

12 Putting all the components of the X-Factor together—the electric industry TFP and input
13 price growth as well as the economy-wide TFP and input price growth—we calculate that
14 during the period 2000 to 2022, the X-Factor averaged **-1.42%**.

15 As I explain in the *X-Factor Report*, a revenue-cap PBR plan for an electric-distribution
16 company that starts with “just and reasonable” going-in rates and is subject to a PBR
17 formula that results in annual allowed revenue changes in years two, three and four of
18 **GDP-PI + 1.42%** results in rates that mimic the outcomes that one would observe under
19 competition, while remaining “just and reasonable” under applicable ratemaking standards.

1 **Q. Did you conduct cost benchmarking analysis in your *X-Factor Report*?**

2 A. Yes. To assist in the selection of a stretch factor in the PBR formula, I conducted cost
3 benchmarking analyses consisting of a unit-cost comparison and econometric
4 benchmarking. A stretch factor is usually applied to the PBR formula in first generation
5 PBR plans to immediately share with consumers the efficiency gains from the PBR plan
6 that a utility is expected to achieve (“low hanging fruit”) when first under a new incentive
7 structure. Based upon my cost benchmarking analyses, I conclude that PSNH is an average
8 cost-performing utility, neither a low nor high performing electric company in terms of
9 operating costs.

10 **II. JOINT TESTIMONY**

11 **Q. Mr. Kolesar and Dr. Ros, are you sponsoring any joint attachments?**

12 A. Yes, we are jointly sponsoring the Overview of Performance Based Regulation and its
13 Application (“*Overview Report*”), Attachment ES-MK/AR-1.

Attachment Designation	Purpose/Description
Attachment ES-MK/AR-1	<i>An Overview of Performance Based Regulation and its Application</i>

14 **Q. Please briefly summarize the Overview of Performance Based Regulation and its**
15 **Application report.**

16 A. The *Overview Report* provides a comprehensive overview of PBR and its application in
17 various representative jurisdictions nationally and internationally, including an explanation
18 of the common elements that may make up a PBR plan.

1 **III. CONCLUSION**

2 **Q. Does this conclude your joint testimony?**

3 **A. Yes.**