BEFORE THE
STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DOCKET NO. **DE 24-070**

IN THE MATTER OF: Public Service Company of New Hampshire
d/b/a Eversource Energy
Request for Change in Distribution Rates

DIRECT TESTIMONY

OF

DONNA H. MULLINAX
CONSULTANT TO NEW HAMPSHIRE DEPARTMENT OF ENERGY

February 7, 2025

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Introduction and Purpose

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

A. My name is Donna H. Mullinax. I am President of Blue Ridge Consulting Services, Inc. My business address is 114 Knightsridge Road, Travelers Rest, South Carolina 29690

Q. Please summarize your educational background and professional work experience.

A. I graduated with honors from Clemson University, earning a Bachelor of Science in Administrative Management and a Master of Science in Management. I am a Certified Public Accountant (CPA) licensed in South Carolina, a Certified Internal Auditor (CIA), and a retired Certified Financial Planner (CFP), and I hold the Chartered Global Management Account (CGMA) designation. I am also a member of the South Carolina Association of Certified Public Accountants, the American Institute of Certified Public Accountants, and the Institute of Internal Auditors.

I bring over 45 years of professional experience to my role as President of Blue Ridge, a position I have held since May 2016. Before this, I served as Vice President and Chief Financial Officer (CFO) for 20 years overseeing all aspects of finance and administration, including accounting, cash management, tax planning and preparation, fixed assets, human resources, and employee benefits for my both my current and previous employers. Additionally, I have served on various boards of directors.

For more than 30 years, I have been a utility industry consultant, participating in numerous rate cases and providing litigation support for construction claims. My consulting experience spans management, financial, and compliance audits, due diligence reviews, prudence reviews, and economic viability and financial studies. I have worked with public service commissions, attorneys general, and public advocates in the District of Columbia and 20 states, including Arizona, Colorado, Connecticut, Delaware, Hawaii, Kentucky, Illinois, Maryland, Massachusetts, Michigan, Missouri, Nebraska, New Hampshire, New York, North Dakota, Ohio, Oregon, Pennsylvania, Utah, and West Virginia.

Q. Have you included a more detailed description of your qualifications?

A. Yes, a detailed description of my qualifications is provided as Attachment DHM-1.

Q. Have you previously testified before the New Hampshire Public Utilities Commission?

A. Yes. I have testified before this Commission in Docket Nos. DE 16-383, DE 16-384, DG 17-048, DG 20-105, DW 20-184, DE 21-030, DG 21-104, and DE 23-039. Additionally, Blue Ridge has conducted analysis and reported our findings in Docket Nos. DG 17-070, DW 18-047, DW 18-054, and DW 18-056.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of the New Hampshire Department of Energy ("Department").

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to evaluate the revenue requirements proposed by Public Service Company of New Hampshire d/b/a Eversource Energy ("PSNH," "Eversource," or "Company"), and to present the effect of the Department's recommended ratemaking adjustments on the Company's revenue requirements.

<u>Summary of Recommended Revenue Increase</u>

Q. Please summarize the Company's requested revenue increase.

A. In its application filed on June 11, 2024, the Company requested a total distribution revenue increase of $181.9 million, with an effective date of August 1, 2025. The Company also proposed implementing a Performance-Based Regulation (PBR) plan.[1] On December 17, 2024, the Company updated its revenue requirements to reflect adjustments and corrections identified during discovery and technical sessions. The updated revenue requirement requests a total distribution revenue increase of $177,745,424.[2]

Q. What Revenue Increase does the Department recommend?

A. The Department recommends a revenue *increase* of no more than $82,197,706 for the Company's distribution base rates:

Table 1: Department Recommended Revenue Deficiency (Sufficiency)

Company's Revenue Deficiency	$ 181,898,881
Company's Updated Revenue Deficiency	$ 177,745,434
Recommended Adjustment	(95,547,728)
Recommended Revenue Deficiency (Sufficiency)	$ 82,197,706

To support this recommendation, the Department has proposed several adjustments:

[1] Petition for Temporary and Permanent Rates (June 11, 2024), page 6.
[2] Eversource's 12/17/24 Updated Revenue Requirements (Attachment DHM-3).

Table 2: Summary of the Department's Recommended Adjustments and the Effect on Rate Base, Operating Income, and Revenue Deficiency

Recommended Rate of Return	6.80%
Revenue Conversion Factor	1.36846

		Rate Base	Operating Income	Revenue Deficiency (Sufficiency)
Company's Updated Request		$ 1,854,152,033	$ 8,882,302	$ 177,745,434
Department Adjustments				
Adjustment Audit	Audit Issues	$ -	$ 17,755	$ (24,297)
Adjustment 1	Disallowed Plant in Service	(51,847,397)	1,287,074	(6,585,969)
Adjustment 2	Materials & Supplies	(11,940,971)	-	(1,111,168)
Adjustment 3	Prepayments	(2,066,146)	-	(192,265)
Adjustment 4	Regulatory Liability	8,124,302	-	756,008
Adjustment 5	Cash Working Capital	3,968,265	$ -	369,267
Adjustment 6	Weather Normalized Revenue	-	4,647,821	(6,360,343)
Adjustment 7	Placeholder Payroll Expense		-	-
Adjustment 8	Incentive Compensation	-	4,214,061	(5,766,761)
Adjustment 9	Payroll Tax	-	241,595	(330,613)
Adjustment 10	Supplemental Executive Retirement Benefits	-	650,839	(890,645)
Adjustment 11	D&O Liability Insurance	-	38,582	(52,798)
Adjustment 12	Projected Inflation	-	1,327,637	(1,816,814)
Adjustment 13	Rate Case Expenses	-	340,024	(465,308)
Adjustment 14	Fee Free	-	140,377	(192,100)
Adjustment 15	New Start	-	357,145	(488,738)
Adjustment 16	Unrecovered Storm Costs		39,968,654	(54,695,387)
Adjustment 17	Vegetation Management		146,150	(200,000)
Adjustment 18	Interest Synchronization	-	491,290	(672,309)
	Uncollectble Adjustment	-	-	(621,576)
	Impact of Recommended Cost of Capital	-	-	(16,205,910)
Department Adjustments Total		$ (53,761,947)	$ 53,869,004	$ (95,547,728)
Recommended Totals		$ 1,800,390,086	$ 62,751,306	$ 82,197,706

<u>Organization of Testimony</u>

Q. Are you sponsoring any exhibits as part of your testimony?

A. Yes. In addition to my qualifications in Attachment DHM-1, Attachment DHM-2 includes the Department's Revenue Requirement schedules. Attachments DHM-3 through DHM-19 are copies of selected documents referenced in my testimony.

Q. How are the Department's revenue requirement schedules organized?

A. The schedules in Attachment DHM-2 are organized into summary schedules and adjustment schedules. The schedules include Schedules 1, 1.1, 1.2, 2, 3, 4, 4.1, and 5, along with adjustment-supporting schedules starting with Schedule 5.1.

Q. What information is provided in Schedule 1?

A. Schedule 1 provides a summary comparison of the Company's and the Department's revenue requirement and revenue deficiency calculations. It reflects the cumulative impact of the Department's adjustments and the revenue requirement necessary for the Company to earn the Department's rate of return on the Department's rate base.

Q. What does Schedule 1.1 show?

A. Schedule 1.1 calculates the Gross Revenue Conversion Factor (GRCF), which grosses up the income deficiency to account for taxes. This factor recognizes that the Company must collect more than one dollar in gross revenue for each dollar of net operating income due to taxation.

Q. What is presented on Schedule 1.2?

A. Schedule 1.2 presents the Uncollectibles/Bad Debt ratio used to gross up the revenue deficiency for anticipated uncollectibles.

Q. What information does Schedule 2 provide?

A. Schedule 2 details the Company's proposed test year rate base and the effects of the Department's adjustments, which are addressed separately in my testimony, used to derive the Department's rate base.

Q. What is summarized in Schedule 3?

A. Schedule 3 outlines the Company's proposed test year net operating income and the effects of the Department's adjustments, which are also addressed separately in my testimony, used to derive the Department's net operating income.

Q. What do Schedules 4 and 4.1 show?

A. Schedule 4 summarizes the capital structure and cost of capital proposed by the Company and corresponding figures supported by the Department's witness, Dr. Randall Woolridge, used to calculate the weighted average cost of capital or rate of return. Schedule 4.1 isolates the revenue deficiency impact resulting from differences between the Company's and the Department's proposed rates of return.

Q. What information is contained in Schedule 5 and the supporting schedules beginning with 5.1?

A. Schedule 5 summarizes the Department's adjustments to rate base and net operating income (revenues less expenses). Supporting schedules beginning with Schedule 5.1 provide detailed calculations and explanations for these adjustments.

Establishment of Current Base Rate Revenue Requirement

Q. When was the Company's current Distribution base rate revenue requirement established?

A. The Company's current rates were established in Order No. 26,433, issued on December 15, 2020. In that order, the Commission approved a permanent distribution rate increase of $44.987 million, less rate case expenses, for services rendered on or after January 1, 2021. These rates were based on a test year covering the 12 months ended December 31, 2018. The approved rates resulted from a settlement agreement that included step increases of no more than $11 million, $18 million, and $9.3 million, effective for allowed projects and programs closed to plant in 2019, 2020, and 2021, respectively.[3]

Company's Requested Revenue Increase

Q. What revenue increase is requested by the Company?

A. The Company's Application requests a total distribution revenue increase of approximately $182 million.[4]

Q. What does the Company state are the primary drivers of the requested rate increase?

A. The Company states that the $182 million revenue deficiency is driven primarily by increased capital investments, including additions expected to be in service by December

[3] DE 19-057, Order No. 26,505 (December 15,2020), page 1 and 21–23.
[4] Direct Testimony of Douglas W. Foley, Robert S. Coates, and Douglas P. Horton at 32:1–2 (Bates 1376).

31, 2024, as well as enterprise IT project costs, vegetation-management costs, and non-major storm costs. The table below summarizes the Company's request for rate relief:[5]

Table 3: PSNH Summary of Rate Request

Filing Component	Amount
Per-book Distribution Revenue Deficiency	($51 million)
Request for Temporary Rate Deficiency:	
Preliminary Storm Cost Amortization	($9 million)
Other Amortizations	($22 million)
Other Revenue Requirement Adjustments	($5 million)
Total Net Deficiency - Temporary Rates	**$77 million**
Full Storm Cost Amortization	($31 million)
Storm Fund Contribution	($7 million)
Pro Forma and Other Revenue Requirement Adjustments	($67 million)
Total Net Deficiency - Permanent Rates	**$182 million**

As shown above, a significant portion of the Company's revenue increase is related to storm costs.

Q. Did the Company file an update to its revenue requirements?

A. Yes. On December 17, 2024, the Company updated its revenue requirements to reflect updates and corrections identified during discovery and during technical sessions. The updated revenue requirement requests a total distribution revenue increase of $177.7 million.[6]

[5] Direct Testimony of Douglas W. Foley, Robert S. Coates, and Douglas P. Horton at 32:15–19 and 34:19 (Bates 1376 and 1378).
[6] Eversource's 12/17/24 Updated Revenue Requirements (Attachment DHM-3).

Q. What changes did the Company make to its updated revenue requirement?

A. The Company stated the changes shown below were made to the December 17, 2024, updated revenue requirement:[7]

Table 4: Summary of Changes Made in Company's 12/17/24 Updated Revenue Requirement

Revenue Deficiency - 12/17/24 Cost of Service Update	$ 177,745,434
Revenue Deficiency - 6/17/24 Initial Filing	$ 181,898,881
Increase (Decrease) in Overall Deficiency	$ (4,153,448)

#	Topic	Total Incr / (Decr) to Deficiency	Description
	Adjustments to Expenses / Revenues from Initial Filing		
1	Pole Attachment Revenues	$ (2,187,758)	Updated to reflect 2024 former CCI third party attacher revenues.
2	Postage Expense	166,439	Updated to reflect July 2024 postage rate.
3	Employee Benefits	734,860	Updated to reflect 2025 working rates.
4	Insurance Expense & Injuries & Damages	460,701	Updated to reflect most recent insurance policies.
5	Variable Compensation	(3,399,921)	Updated to reflect actual 2024 payout based on 2023 performance.
6	Field Operations	(31,042)	Updated to remove costs associated with penalties.
7	Vegetation Management	(10,020)	Updated to reflect 2025 updated budget.
8	Regulatory Assessments	1,922,784	Updated to reflect most recent regulatory assessments and 5-year average of consultant costs.
9	Vehicles	(656,988)	Updated to remove fleet labor costs.
10	Rate Case Expense	(74,588)	Updated to reflect actual costs through November 2024.
11	Residual O&M Inflation Adjustment	73,735	Updated to reflect most recent inflation forecast. Also impacts inflation adjustment for Schedules ES-REVREQ-7, 10, 17, 18, 19, 23, and 24.
12	Amortization of Deferred Assets	(16,150)	Updated to reflect actual deferred Fee Free costs through July 31, 2024.
13	Amortization of Deferred Assets	(30,757)	Updated to reflect actual deferred New Start costs through July 31, 2024.
14	Amortization of Deferred Assets	(1,027,916)	Updated storm cost amortization to reflect provisions of the temporary rates settlement & to reflect Storm Filing Docket No. DE 24-041.
	Total Increase / (Decrease) - Expense & Revenue Adjustments	**(4,076,622)**	
	Adjustments to Rate Base and Cost of Capital from Initial Filing		
15	Plant In Service, Depreciation Reserve, Accumulated Deferred Income Taxes and Property Taxes	(36,016)	Updated to remove distributed generation ("DG") projects identified in discovery.
16	Plant In Service, Depreciation Reserve, Accumulated Deferred Income Taxes and Property Taxes	(40,809)	Updated to remove Energy Park PV project identified in discovery.
	Total Increase / (Decrease) - Rate Base and Cost of Capital Adjustments	**(76,826)**	
	Total Increase / (Decrease) to Overall Deficiency	**$ (4,153,448)**	

Test Year

Q. What test year has the Company proposed in this case?

A. The Company based its request for a revenue increase on a test year ending December 31, 2023 ("Test Year").[8]

[7] Eversource's 12/17/24 Updated Revenue Requirements (Attachment DHM-3).

Q. Did the Department use the same historical Test Year as the Company?

A. Yes. The Department's calculations use the same historical 12 months ended December 31, 2023, for the Test Year.

Q. Did the Company adjust its historical Test Year?

A. Yes, the Company stated that its Test Year activity to identify non-recurring, out-of-period, or otherwise inappropriate items for inclusion in the revenue requirements. It made "normalizing" adjustments to establish a "normalized" revenue requirement and incorporated pro forma or post-Test Year adjustments to reflect known and measurable changes. The Company refers to these adjusted results as the Test Year Pro Forma.[9]

Q. Did the Department audit the Company's historical Test Year results?

A. Yes. The Division of Enforcement Audit Staff conducted an audit of the historical financial results and issued its report on January 31, 2025. The audit report is included in Department witness Jay Dudley's testimony.

Q. Please summarize the issues identified by the Division of Enforcement Audit Staff that are reflected in the Department's recommended revenue requirement.

A. The Division of Enforcement Audit Staff identified the following issues in its report. The table summarizes these issues on the Department's recommended adjustments:

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[8] Direct Testimony of Douglas W. Foley, Robert S. Coates, and Douglas P. Horton at 32:3 (Bates 1376).
[9] Direct Testimony of Botelho and Chen at 10:16:11:9 (Bates 01528–01529).

Table 5: Division of Enforcement Audit Staff—Audit Issues in Revenue Requirements

Audit Issue #4 Power Production and Transmission Related Accounts	
555 Purchase Power Energy	$ 1,540
556 Miscellaneous Transmission Expense	4,760
569 Trans Maint of Structures—Main IT	1,926
Audit Issue #5 Expenses to be Booked Below the Line	
Personalized Years of Service Plaque	13
Audit Issue #6 Expenses Recorded to Wrong Account	
921 Meals s/b charged as donations (Company agrees)	10,269
Audit Issue #8 State Education Taxes	
State Education Tax-Epping	2,159
State Education Tax-Franklin	190
State Education Tax-Hooksett	3,435
State Education Tax-Woodstock	5
Total Audit Issue Adjustments in Revenue Requirements	$ 24,297

As shown on Schedule 5.A, the Audit Issue adjustments *reduce* expenses by $24,297.

Q. Does the Company agree with the Audit Issue adjustments reflected in revenue requirements?

A. Based on my review of the Audit Report, the Company has agreed to make the adjustments reflected in the Department's recommended revenue requirements.

__Adjustments to Rate Base__

Q. What is included in the Company's Adjusted Test Year Rate Base?

A. The Company's rate base includes the December 31, 2023, balances for these items: Utility Plant in Service, Reserve for Depreciation, Materials & Supplies, Prepayments, Regulatory Assets, Reserve for Deferred Income Taxes (ADIT), Regulatory Liabilities, and Customer Deposits/Advances.

The Company incorporates a pro forma adjustment to increase Utility Plant in Service, Reserve for Depreciation, and Reserve for Deferred Income Taxes to reflect the impact of forecasted 2024 capital additions on the Company's rate base. The Company has stated it will provide actual balances for utility plant in service, reserve for depreciation, and reserve for deferred income taxes through December 31, 2024, during the appropriate revenue requirement update. Additionally, the Company includes changes to Cash Working Capital based on the Company's Lead Lag Study. The pro forma rate base amount of $1,852,291,891[10] filed with the Company's application was updated to $1,854,152,033 in the December 17, 2024, update.[11]

Q. Is the Department proposing any adjustments to the Company's proposed rate base?

A. Yes. The Department proposes adjustments to these rate base items:

- Disallowed Plant in Service and associated Reserve for Depreciation and Deferred Income Taxes. The effect on Depreciation Expense is also included.
- Materials and Supplies
- Prepayments
- Regulatory Liabilities–Renewable Liability
- Cash Working Capital

Plant in Service

Q. What plant-in-service balance is included in the Company's rate request for the Adjusted Test Year?

[10] Application Attachment ES-REVREQ-1, Schedule ES-REVREQ-36 (Bates 01734).
[11] Eversource's 12/17/24 Updated Revenue Requirements (Attachment DHM-3).

A. The Company's pro forma net plant as of December 31, 2023, is shown in the table below:

Table 6: Company's 12/17/24 Updated Pro Forma Net Plant in Service as of 12/31/2023

Plant in Service	$ 2,982,815,857
Accumulated Depreciation	(752,667,420)
Net Plant	$ 2,230,148,437

Q. Please explain the Department's recommended adjustment to Plant in Service.

A. The Department's adjustments to Plant in Service incorporates adjustments supported by the testimony of Department witness Jay Dudley and the testimony of Department witnesses Jacqueline Trottier and Elizabeth Nixon.

Q. What is the effect of the Department's recommended adjustments to Plant in Service?

A. The Department's recommended adjustments to Plant in Service, along with associated estimated adjustments to accumulated depreciation and accumulated deferred income taxes, *reduce* rate base by $51,847,397. These adjustments also *reduce* depreciation expense by $1,761,306. The Department's recommended adjustment is detailed on Schedule 5.1.

Materials & Supplies

Q. What has the Company included in Rate Base for Materials & Supplies (M&S)?

A. The Company included M&S as of December 31, 2023, of $38,753,665.[12]

[12] Eversource Attachment ES-REVREQ-36 (12/17/24 Update) (DHM Attachment-3).

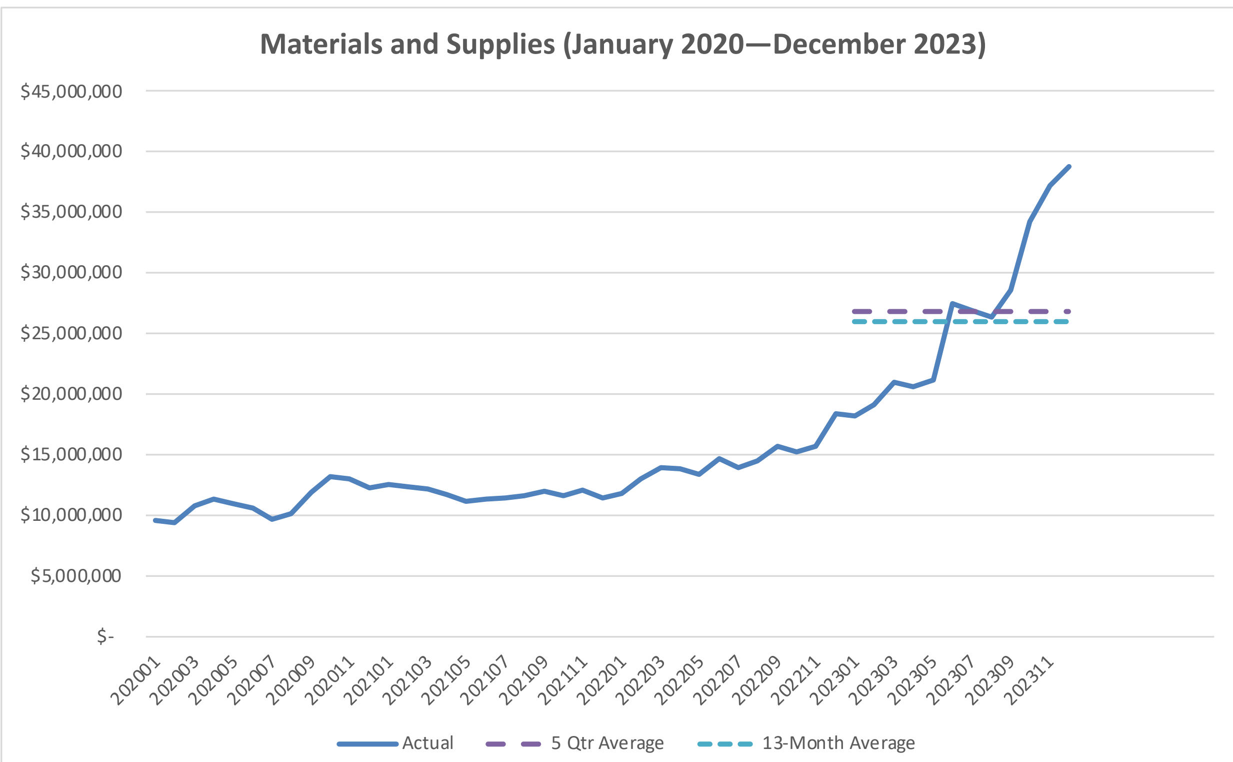
Q. How does this compare to the M&S in prior years?

A. In the prior rate case (DE 19-057), the rate base included the actual December 31, 2018, balance of $12,213,448.[13] The balance has increased significantly, as illustrated in the following table and graph.[14]

Table 7: Company's M&S Balances (2018–December 2023)

Year	YE Amount	$ Change	% Change
2018	$ 12,213,448		
2020	$ 12,264,250	$ 50,802	0.42%
2021	$ 11,429,207	$ (835,043)	-6.81%
2022	$ 18,351,589	$ 6,922,382	60.57%
2023	$ 38,753,665	$ 20,402,076	111.17%

Figure 1: Company's M&S (January 2020–December 2023)



[13] Docket No. DE 19-057, Attachment EHC/TMD-1 (Perm), Schedule EHC/TMD-36 (Perm).
[14] Eversource response to DOE 4-086 (Attachment DHM-4) and DHM-WP M&S Attachment DOE 4-086 R1.

Q. What was the Company's explanation for the dramatic increase in M&S?

A. The Company attributed the increases to these factors:

- Pre-buying material: Long lead times, constrained commodities, and unprecedented demand from all utilities for similar materials led to pre-purchasing. Component shortages for engineered equipment such as poles, reclosers, and capacitors have also contributed to delays. These shortages have kept lead time consistently long for these commodities.
- Price increases: Item prices have risen by an average of 30%. Manufacturers are paying more for raw materials, which has caused the cost of manufactured equipment to continue increasing.[15]

Q. What does the Department recommend regarding the amount of M&S to include in rate base?

A. The Department recommends using a five-quarter average to determine the amount of M&S to include in rate base. This method has been approved in prior cases and is more appropriate because M&S balances fluctuate from month-to-month. Using a single month's balance can be unrepresentative.

For example, the Company stated that "in 2023, there was a $10 million tripsaver (recloser) order made for PSNH. At the end of 2023, $6.5 million of tripsavers remained in the materials and supplies balance and are still present in inventory today."[16] This illustrates how relying on a single month's balance can be misleading, whereas an average provides a more accurate picture of the overall level for a given year.

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[15] Eversource response to DOE 11-220 (Attachment DHM-5).
[16] Eversource response to DOE 11-220 (Attachment DHM-5).

Additionally, the Department's adjustment reflects the removal of $16,891 in obsolete inventory included in requested rates but written off for Sarbanes-Oxley compliance.[17] As shown on Schedule 5.2, the Department's adjustment to M&S *reduces* Rate Base by $11,940,971.

Prepayments

Q. What has the Company included in Prepayments?

A. The Company's rate base includes the following prepayments as of December 31, 2023:

Table 8: Prepayments Included in Rate Base[18]

Prepaid Other	$	1,040,828
Prepayments-Insurance		819,964
Prepaid Lease Payments NUCLARKs		139,425
Prepaid Revolver Renewal Fees		59,190
Prepaid Property Taxes		98,864
Prepaid State Regulatory Assessments		(999)
Renewable Energy Cert-Prepaid		(94,905)
Prepaid Vehicle Costs		3,779
Prepayments	$	2,066,146

Q. What is included in Prepaid Other?

A. The Company stated that the $1,040,828 in Prepaid Other, "reflects PSNH's share of the Eversource 'PowerClerk' Enterprise Distributed Generation (DG) Licensing agreement with Clean Power Research. This agreement covers the five-year term January 1, 2024, to December 31, 2028. PowerClerk is a SaaS platform software program the Eversource Customer Care group uses to process DG interconnection applications. This was the first

[17] Eversource response to DOE 4-085 (Attachment DHM-6).
[18] Eversource response to DOE 4-087 (Attachment DHM-7).

multi-year DG Licensing software support agreement entered into for the purpose of processing DG interconnection applications."[19]

Q. What does the Department recommend regarding PSNH's share of the Eversource 'PowerClerk' Enterprise Distributed Generation (DG) Licensing agreement that is included in Prepaid Other?

A. As discussed in the testimony of Department witness Jay Dudley, it is my understanding that DE 22-060 is the appropriate venue for addressing DG interconnection application fees, including outside services for vendors providing specialized services and/or technology solutions to support utility interconnection processes, such as consulting services and license fees. Therefore, the Department recommends removing $1,040,828 from the distribution rate base.

Q. What does the Department recommend regarding the remaining amounts included in Prepayments?

Based on prior Commission precedent, the Department recommends removing prepayments from rate base. Order No. 26,122 (April 27, 2018) stated "The Commission finds that the detailed lead/lag study captures all the working capital requirements related to property taxes and other prepaid expenses. To also include prepayments in rate base would be allowing for a double recovery of the working capital related to those items. Consequently, prepayments may not be included in rate base."[20] The remaining items in

[19] Eversource response to DOE 11-221 (Attachment DHM-8).
[20] Docket No. DG 17-048, Order 26,122 (April 27, 2018), page 19.

Prepayments include items that are also included in cash working capital. As shown on Schedule 5.3, the Department's adjustment to Working Capital *reduces* rate base by $2,066,146.

Regulatory Liabilities–Renewable Liability

Q. Please explain the Regulatory Liabilities–Renewable Liability.

A. The Company included a December 31, 2023, Renewable Liability balance of $8,124,302 in rate base.[21] However, as discussed in the testimony of Department witness Stephen Eckberg, it is my understanding that the balance should be included in the Energy Supply rates. As shown on Schedule 5.4, the Department's adjustment to Regulatory Liabilities *increases* rate base by $8,124,302.

Cash Working Capital

Q. Please explain the Department's recommended Cash Working Capital adjustment.

A. Cash Working Capital was calculated using a lead-lag study, which identifies a net lag of 13.91 days, or 3.81 percent.[22] The lead-lag factor is applied to each component of the cost of service to quantify the cash working capital requirement for that cost-of-service item. The Cash Working Capital balance must be updated to reflect the Department's adjustments. As shown on Schedule 5.5, the Department's adjustment to Working Capital *increases* rate base by $3,968,265.

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[21] Eversource Attachment ES-REVREQ-1 (12/17/24 Update) (Attachment DHM-3), Schedule ES-REVREQ-36 and Eversource response to DOE 4-088 (Attachment DHM-9)

[22] Direct Testimony of Botelho and Chen at 92:10–13 (Bates 01610) and Attachment ES-REVREQ-1, Schedule ES-REVREQ-41 (Bates 01742). In the prior distribution rate case (DE 19-057), the net lag days were 21.91 or 6.00% (see Schedule DHC/TMD-41 (Perm) November 4, 2019, Update (Bates 000108).

Impact of Rate Base Adjustments

Q. What is the impact of the Department's recommended adjustments to the Company's requested rate base?

A. The Company's requested rate base in the December 17, 2024, update is $1,854,152,033. The Department's recommended adjustments *reduce* the rate base to $1,800,390,086.

<u>Adjustments to Operating Income</u>

Q. What net operating income has the Company proposed?

A. The Company's application proposed an adjusted pro forma test year operating income of $5,728,545.[23] The amount was later updated to $8,882,302.[24]

Q. Is the Department proposing any adjustments to the Company's proposed operating income?

A. Yes. The Department recommends adjustments to these operating income components:

- Weather Normalized Revenue
- Placeholder Payroll Expense
- Incentive Compensation
- Payroll Tax
- Supplemental Executive Retirement Benefits
- Director and Officer (D&O) Liability Insurance
- Projected Inflation
- Rate Case Expenses

[23] Eversource Attachment ES-REVREQ-1, Schedule ES-REVREQ-5 (Bates 01643).
[24] Company's 12/17/24 Updated Revenue Requirements (Attachment DHM-3).

- Fee Free
- New Start
- Depreciation Expense
- Unrecovered Storm Costs
- Vegetation Management
- Interest Synchronization

Weather Normalized Revenue

Q. Please explain the Department's adjustment to weather normalized revenues.

A. As discussed in the testimony of Department witness Mike Clark, the Department has included an adjustment to revenues to reflect weather normalization. As shown on Schedule 5.6, the Department's adjustment *increases* revenues by $6,360,344.

Placeholder Payroll Expense

Q. What is the Company requesting regarding Payroll Expense?

A. The Company's payroll includes straight-time and overtime wages for active, filled positions as of December 31, 2023. It is adjusted to annualize Test Year payroll increases as if they were in effect for the entire year, along with actual union and non-union payroll changes in 2024 and anticipated increases in 2025. The 2024 payroll merit increase for non-union employees was granted on March 17, 2024. The Company also included an expected 3% merit increase for non-union employees, effective March 2025. Union wage increases are based on collective bargaining agreements.[25]

[25] Direct Testimony of Botelho and Chen at 40:1–41:13 (Bates 01558–01559).

Q. Are the wage increases known and measurable?

A. The wage increases are known and measurable, except for the 3% non-union increase anticipated for March 17, 2025. The Company has stated it will supplement the record with a written management commitment or confirmation letter during this proceeding to confirm the change as known and measurable.[26]

Q. Does the Department recommend a change to the annual wage increases?

A. Not at this time. Annual wage increases for union and non-union employees have consistently been 3% over the last several years,[27] and there is no indication the Company will change this amount for 2025. However, if the Company does not provide a written management commitment or confirmation letter confirming the 2025 increase as known and measurable, the Department will recommend *reducing* payroll expense by $1,348,212, as shown on Schedule 5.7 as a placeholder.

Incentive Compensation

Q. Please describe the Company's Incentive Compensation Plans.

A. The Company offers these variable or incentive compensation plans:

- Annual Variable Cash Compensation: This plan provides cash compensation as a component of employee compensation for eligible employees at all levels, depending on the individual's position and the terms of his or her respective collective bargaining agreement, if applicable.

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[26] Direct Testimony of Botelho and Chen at 40:1–41:13 (Bates 01558–01559) and Eversource response to DOE 11-222 (Attachment DHM-10).
[27] Eversource response to DOE 4-056 (Attachment DHM-11).

- Long-Term Stock Grants: Delivered as Performance Share Units and Restricted Stock Units, these grants are a component of compensation for employees at the Director level and above, as further describe in the Company's proxy statements.[28]

Q. What expenses has the Company included in its rate request for these incentive compensation plans?

A. The Company has included the following total incentive compensation (expensed and capitalized) in its rate request:[29]

Table 9: Incentive Compensation Expenses in Cost of Service

Description	Pro Forma Test Year
Employee Incentive	$ 8,806,686
Executive Incentive	1,253,597
Executive Stock Incentive	1,229,456
Director RSU's	434,879
Total Variable Compensation	$ 11,724,618

Source: DOE 4-067

Q. How does the Company determine whether payouts are made under each bonus program?

A. According to Eversource's proxy statement, annual incentive and long-term incentive compensation are provided under the Company's Incentive Plan, which was approved by shareholders in 2018. The annual incentive program provides cash compensation to reward performance under the annual operating plan.[30] Eversource's Compensation Committee sets performance goals for the Company, which determine the Annual Cash

[28] Eversource response to DOE 4-066 (Attachment DHM-12).
[29] Eversource response to DOE 4-067 (Attachment DHM-13).
[30] Eversource response to DOE 4-066, Attachment DOE 4-66(d), page 55 (Attachment DHM-12).

Incentive Awards paid to executive employees.[31] The long-term stock-based incentive program is designed to reward demonstrated performance and leadership, motivate future performance, align executive interests with those of shareholders, and retain executives during the term of the grants.[32]

Q. What is the stated purpose of the 2018 Incentive Plan?

A. The purpose of the Eversource Energy Incentive Plan, as stated in the Plan document, is:

> "to attract and retain employees of the Company, to provide an incentive for Participants to generate shareholder value by contributing to the appreciation of shares of Company Stock, to enable Participants to share in the growth of the Company through the grant of Awards, and to provide non-employee Trustees with Equity Awards."[33]

Q. What goals and objectives did the 2023 Performance Goals incentivize?

A. The table below shows the 2023 performance goals and their weighting:[34]

[31] Eversource response to DOE 4-066, Attachment DOE 4-66(a), page 1 (Attachment DHM-12).
[32] Eversource response to DOE 4-066, Attachment DOE 4-66(d), page 55 (Attachment DHM-12).
[33] Eversource response to DOE 4-066, Attachment DOE 4-66(a), page 1 (Attachment DHM-12).
[34] Eversource response to DOE 4-066 (d), pages 55–64 (Attachment DHM-12).

Table 10: 2023 Performance Goals

2023 Performance Goals	Weighting of Goals		
Financial	70%		
Earnings per Share		60%	42.0%
Dividend Growth		10%	7.0%
Advancement of Strategic Growth Initiatives and Regulatory Outcomes		30%	21.0%
*Maximize investment in offshore wind			
*Obtain constructive regulatory outcomes			
*Grow the water business			
*Advance 5 remaining DER			
*Secure clean energy funding			
Operational	30%		
Reliability		25%	7.5%
Restoration		25%	7.5%
Safety, Gas Response, Diversity and Key Customer and Sustainability Initiatives		50%	15.0%
	100%	100%	100.0%

Source: DOE 4-066, Attachment DOE 4-066(d), pages 55–64

The Company confirmed that employees and executives' incentive goals were the same.[35]

Q. Does the Department have a concern about these goals?

A. The Department's concern is not with the program or its rewards but with the proposal that ratepayers bear full responsibility for the costs. Many of the goals focus on the Company and its shareholders, who should bear a larger portion of the costs.

For instance, 42% of the goal weighting is tied to earnings per share, and 7% relates to dividend growth—objectives that are shareholder-focused. Additionally, 21% of the goal weighting is attributed to the Advancement of Strategic Growth Initiatives and Regulatory Outcome Goals, which include goals such as these examples:

- Maximizing investment in offshore wind through divesture of assets

[35] Eversource response to DOE 11-225 (without Confidential attachment) (as corrected during the 12/11/24 Technical Session) (Attachment DHM-14).

- Obtaining constructive regulatory outcomes in various proceedings at the FERC, the Connecticut Management Audit and the Aquarion rate case
- Growing the water business
- Advancing five remaining DER
- Securing clean energy funding[36]

These goals have minimal relevance to New Hampshire ratepayers, and it is inappropriate for them to bear the associated costs.

Q. Please explain the Advancement of Strategic Growth Initiatives and Regulatory Outcome Goals and why New Hampshire ratepayers should not bear the costs associated with those awards.

A. The Company's 2023 Proxy describes the Advancement of Strategic Growth Initiatives and Regulatory Outcome Goals:

<u>Maximize Investment in Offshore Wind</u>

- Eversource completed the strategic review regarding the sale of our offshore wind investment in a very challenging market, having determined that full divesture was in the best long-term interest of the Company and shareholders. We completed the sale of our 50 percent share of the uncontracted lease area to our partner, Orsted for $625 million, representing a substantial gain, executed a memorandum of understanding with 0rsted to potentially sell our interest in Sunrise Wind, and entered into a finance tax equity agreement relating to the South Fork Wind project for $530 million. The tax equity investment enables the partnership to maximize the economics of this project, including tax incentives earned by South Fork in the 12–18 months following the projects' commercial operations dates. In addition, on February 13, 2024, the Company entered into an agreement with Global Infrastructure Partners to sell its interest in the South Fork and Revolution Wind projects. Divesture will significantly lower our risk profile and enhance our balance sheet strength.
- Revolution Wind obtained approval for construction of a 701 MW wind farm by the Department of the Interior.

[36] Eversource response to DOE 4-066 (d), page 58 (Attachment DHM-12).

Obtain Constructive Regulatory Outcomes

- Eversource achieved many constructive regulatory outcomes in 2023, including our Massachusetts PBR/Kbar filing approval, which provided for a $105 million base distribution revenue increase and recovery of $16 million in exogenous property taxes; successful storm cost recovery in Massachusetts and New Hampshire, with no disallowances, of $135 million and $45 million, respectively; acceptance in Massachusetts of our comprehensive Grid Modernization regulatory filing and testimony, providing for recovery of our investments; and successful execution of the Massachusetts EV infrastructure program, which led the Massachusetts DPU to approve the next phase of the program, allowing us to move forward with additional investment to expand EV charging capabilities to over 24,000 stations.
- Eversource successfully advanced solar power in Massachusetts through the filing of three additional solar and battery projects at our Area Work Centers in Brockton, Lawrence and Yarmouth.
- Eversource effectively supported its investments in the $300 million Connecticut Electric System Improvement program with no disallowances.
- PURA's Aquarion Rate Case decision resulted in a $2 million rate reduction versus current rates. The Company appealed the decision and received a permanent stay of the decision while the appeal works through the courts. We expect a final ruling in early 2024.

Grow the Water Business

- Our Aquarion companies continued to grow the water business by completing the acquisition of Pinehills Massachusetts Water System as well as the purchase of the Town of New Hartford Connecticut's municipal water and wastewater treatment systems.

Advance 5 remaining DER

- We successfully advanced our five remaining DER interconnection upgrades through filings and proceedings in Massachusetts.

Secure clean energy funding

- Construction of our geothermal pilot project in Framingham, Massachusetts is well underway. The project was one of 11 nationwide that will receive federal funding as part of a $13 million geothermal grant initiative announced in late April by the U.S. Department of Energy. This $715,000 award will help us explore the feasibility of expanding our demonstration pilot.
- Eversource developed and submitted several transmission and distribution grant requests to the Federal Department of Energy for clean energy projects in the region worth several million dollars.[37]

[37] Eversource response to DOE 4-066(d), Attachment DOE 4-066(d), pages 58–59 (Attachment DHM-12).

Very few, if any, of these accomplishments are relevant to New Hampshire distribution cost of service. Therefore, New Hampshire ratepayers should not bear the costs associated with the incentive awards tied to the achievement of these goals. The Department believes these costs should be borne by the Company and its shareholders rather than included in the ratepayer-funded cost of service.

Q. What does the Department recommend regarding who should fund incentive compensation?

A. Since 70% of the performance goals driving the incentive plans are focused on the Company and its shareholders, they should bear the costs of the incentive compensation plant.

Q. Does the Department have any other concerns regarding how the Company's pro forma adjustment for incentive compensation was calculated?

A. Yes. The pro forma incentive compensation includes a 6.09% non-union base payroll escalation, which increases the Company's pro forma incentive compensation by $467,078. This escalation reflects two pay increases on March 17, 2024, and March 17, 2025, as shown in the table below:

Table 11: Incentive Compensation with Labor Escalator

Payroll Increase		6.09%	
	Test Year	Payroll Escalation	Pro Forma Test Year
Employee Incentive	$ 5,353,644	$ 326,037	$ 5,679,681
Executive Incentive	747,146	45,501	792,647
Executive Stock Incentive	1,158,880	70,576	1,229,456
Director RSU's	409,915	24,964	434,879
Total Variable Compensation	$ 7,669,585	$ 467,078	$ 8,136,662

Source: Schedule ES-REVREQ-15 (12/17/24 Update), page 2

Payroll Increase		3.00%		3.00%	
	Test Year	3/16/24 Increase	Subtotal	3/16/25 Increase	Pro Forma Test Year
Employee Incentive	$ 5,353,644	$ 160,609	$ 5,514,253	$ 165,428	$ 5,679,681
Executive Incentive	747,146	22,414	769,560	23,087	792,647
Executive Stock Incentive	1,158,880	34,766	1,193,646	35,809	1,229,456
Director RSU's	409,915	12,297	422,212	12,666	434,879
Total Variable Compensation	$ 7,669,585	$ 230,088	$ 7,899,673	$ 236,990	$ 8,136,662
Total Increase				$ 467,078	

Source: Schedules ES-REVREQ-14 (12/17/24 Update), page 3 and ES-REVREQ-15, page 2

As discussed in the Payroll Expense section, the Department expects the Company to provide support showing that the March 17, 2025, increase is known and measurable. While the Department is not recommending an adjustment to payroll expense for the 2025 increase, incentive compensation is awarded based on performance and is not known and measurable until after the performance period concludes.

The lack of certainty is evident in the Company's December 17, 2024, updated revenue requirements, where incentive compensation was adjusted by $(3,399,921) to "reflect actual 2024 payout based on 2023 performance."[38] The actual award, if any, is likely to change. Until the amount is known and measurable, it should not be included in cost of service. The Department recommends removing $236,990 from the pro forma incentive compensation related to the 2025 payroll increase.

[38] Eversource 12/17/24 Updated Revenue Requirements, Summary of Changes (Attachment DHM-3).

Q. What does the Department recommend regarding the recovery of incentive compensation expenses?

A. The Department recommends two adjustments to the Company's pro forma incentive compensation:

1. Incentive compensation is awarded based on performance, and the award is not known and measurable until the performance period concludes at the end of 2025. The Department recommends removing $236,990 from the pro forma incentive compensation related to the 2025 payroll increase.
2. Since 70% of the performance goals driving the incentive plans are focused on the Company and its shareholders, they should bear the costs of the incentive compensation plan. The Department recommends removing $5,529,771.

As shown on Schedule 5.8, the Department's adjustment *reduces* A&G Expense by $5,766,761.

Payroll Tax

Q. What adjustment did the Department make to Payroll Taxes?

A. The cash-award incentive compensation is subject to payroll taxes. A reduction in the cash award would correspondingly reduce the associated payroll taxes. As shown on Schedule 5.X, Payroll Taxes were *reduced* by $330,613.

Supplemental Executive Retirement Benefits

Q. What retirement plans are available to employees and officers?

A. The Company offers several retirement benefits available to employees and officers:

- 401K: Employees may participate in the qualified Eversource 401k Plan on a pre-tax or Roth basis. Eversource matches 100% of the first 3% of an employee's deferral and provides a non-elective contribution calculated using the sum of the eligible employee's age and service multiplied by their eligible compensation.
- Pension/PBOP: Grandfathered employees participate in the qualified Eversource Pension Plan, which is currently closed to new entrants.
- SERP and Non-Qualified Pension Plan: Officers who participate in the Eversource Pension Plan are eligible for the Supplemental Executive Retirement Program (SERP) or the Non-Qualified Pension Plan.[39]
- Non-SERP: Non-SERP benefits are related to specifically negotiated post-employment benefits, including pension enhancements not covered by other retirement plans or SERP.[40]

Q. What is SERP?

A. SERP is a supplemental retirement benefit designed for a select group of highly compensated employees. It provides benefits that exceed the limits set by the Internal Revenue Service for qualified pension plans, offering additional discretionary benefits beyond the Company's standard retirement plan.

Q. What employees are eligible for SERP?

[39] Eversource response to DOE 4-63 (Attachment DHM-15).
[40] Eversource response to DOE TS2-015 (Attachment DHM-16).

A. Officers participating in the Eversource Pension Plan are eligible for SERP.[41] The Company explained that the difference in the SERP and Non-Qualified Pension benefits is related to different employee populations. Both plans provide excess retirement benefits for current and prior senior executive officers.[42]

Q. What is the non-SERP, who is eligible, and who is currently receiving the benefit?

A. Non-SERP benefits refer to specifically negotiated post-employment benefits, including pension enhancements not covered by other retirement plans or SERP. The Company stated that these benefits are typically included in some employment agreements to compensate mid-career hires for benefits lost with previous employers or as part of a separation agreement with Northeast Utilities. Non-SERP benefits are governed by employment agreements, and any employee could be eligible. Currently, 63 former employees (or surviving spouses) receive non-SERP benefits.[43]

Q. Should these supplemental retirement benefit expenses be recovered from ratepayers?

A. No. Employees covered by SERP, Non-Qualified Pension plans, and Non-SERP plans already benefit from ratepayer-funded retirement plans. Ratepayers should not bear the cost of these additional discretionary benefits, which are intended to reward already highly compensated executives. These costs are not necessary for the provision of utility service.

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[41] Eversource response to DOE 4-043 (Attachment DHM-17).
[42] Eversource response to DOE 4-047 (Attachment DHM-18).
[43] Eversource response to DOE TS2-015 (Attachment DHM-16).

Q. What does the Department recommend regarding the Non-Qualified Pension, SERP, and Non-SERP retirement benefits?

A. The Department recommends removing Non-Qualified Pension, SERP, and Non-SERP expenses from the cost of service. Ratepayers should fund the senior executive benefits included in the Company's regular retirement plan, while shareholders should cover the additional benefits provided through these supplemental plans. As shown on Schedule 5.10, the Department's adjustment *reduces* A&G Expense associated with the allocated Non-Qualified Pension and SERP by $890,645.

Director and Officer (D&O) Liability Insurance

Q. Please explain the D&O Liability Insurance that the Company has included in its cost of service.

A. Eversource allocated $105,596 to the Company for D&O Liability Insurance.[44] According to the Company,

> Eversource purchases Directors & Officers insurance to protect the financial assets of the Company and individuals who serve in roles as directors and officers. Maintaining Directors & Officers insurance assists in attracting top talent to these positions.[45]

The Company stated that the polices provide coverage for:

a. Entity coverage for securities claims made against the corporation
b. Amounts the corporation is required to pay to defend and/or indemnify its trustees, officers and directors

[44] Eversource Attachment ES-REVREQ-1 (12/17/24 Update), ES-RVRQ-13, page 2 of 2 (Attachment DHM-3).
[45] Eversource response to DOE 4-051 (Attachment DHM-19).

c. Coverage pays for the personal liability of trustees, officers, and directors[46]

Q. What is the purpose of D&O Liability Insurance?

A. D&O Liability Insurance protects the Company's directors and officers from lawsuits that arise as a result of their actions. These lawsuits are often brought by the Company's own shareholders.

Q. Are you aware of the argument that because D&O Liability Insurance is a legitimate business expense, its costs should be fully recovered from ratepayers?

A. Yes. However, this argument is not persuasive. In ratemaking, not all legitimate business expenses are recoverable from ratepayers. For instance, both lobbying and advertising aimed at building a company's image are considered legitimate business expenses but not typically recoverable from ratepayers.

Q. What does the Department recommend regarding D&O Liability Insurance?

A. The Department recommends that the cost of D&O Liability Insurance be split 50/50 between ratepayers and shareholders, as the insurance benefits both groups.

- Shareholders benefit: D&O insurance protects officers and directors from liability, and when utilized, payouts reduce costs that would otherwise not be recoverable from ratepayers.
- Ratepayer benefit: The insurance enables directors and officers to make decisions without fear of personal liability, which benefits ratepayers indirectly.

[46] Eversource response to DOE 4-051 (Attachment DHM-19).

As a result, it is reasonable for shareholders to bear a portion of the cost. The Department's adjustment removes 50% of the D&O Liability Insurance expense. As shown on Schedule 5.11, this adjustment *reduces* A&G Expense by $52,798.

Projected Inflation

Q. What does the Company propose regarding increasing its Test Year cost of service for Inflation?

A. In its application, the Company applied a projected inflation rate of 5.348% to various Test Year expenses. In the December 17, 2024, update, the projected inflation rate was increased to 5.570%. The table below shows the total adjustments for inflation:

Table 12: Inflation Reflected in Company's O&M Expenses

Projected Inflation Rate 5.570%

Description	Test Year Adjusted	Inflation	Other	Test Year Pro Forma	Source
Information Services	$ 10,462,203	$ 582,745		$ 11,044,947	ES-REVREQ-7
Customer Service	5,426,351	302,248		5,728,599	ES-REVREQ-10
Environmental	578,805	32,239		611,044	ES-REVREQ-17
Field Operations	7,581,395	391,241		7,972,636	ES-REVREQ-18
Facilities Expense (less Utilities)	2,056,134	114,527	1,628,436 *	3,799,097	ES-REVREQ-19
M&S Expense	1,563,814	87,104		1,650,918	ES-REVREQ-23
Vehicles (less Depreciation and Labor)	3,652,906	203,467		3,856,373	ES-REVREQ-24
Residual O&M	1,853,578	103,244		1,956,822	ES-REVREQ-28
Total	$ 33,175,186	$ 1,816,815	$ 1,628,436	$ 36,620,437	

*Other includeds add-back of TY Actual Utilities of $1,676,824 and reduction for Company Use $(48,388)

The Company's projected inflation adjustment increases O&M expenses by $1,816,815.

Q. How did the Company derive the projected inflation factor?

A. The Company stated that the projected inflation factor is calculated from the mid-point of the Test Year to the mid-point of the rate year. The December 17, 2024, update reflects a more recent inflation forecast. The Company's calculation of its projected inflation factor is shown below.[47]

Table 13: Company's Projected Inflation Factor

	Application	12/17/24 Update
NIPA: Chain-type Price Index - GDP mid-point of test year		
2nd Quarter 2023 GDP Index	121.79	121.81
3rd Quarter 2023 GDP Index	122.79	122.79
Midpoint of Test Year GDP Index - July 1, 2023	122.29	122.30
NIPA: Chain-type Price Index - GDP mid-point of rate year		
4th Quarter 2025 GDP Index	128.51	128.78
1st Quarter 2026 GDP Index	129.15	129.44
Midpoint of Rate Year GDP Index - January 1, 2026	128.83	129.11
Projected Inflation Factor	5.348%	5.570%
Source:		
Bureau of Economic Analysis; Moody's Analytics	Feb. 2024	Nov. 2024

Sources: Application and 12/17/24 Update Attachment ES-REVREQ-1, Schedules ES-REVREQ-28

Q. What is the Department's position regarding an inflation adjustment?

A. The Department's position is that increasing the cost of service for projected inflation is not appropriate. A projected inflation factor is not a known and measurable adjustment because it is based on predictions and estimates of future economic conditions, which are inherently uncertain. There are several key reasons why projected inflation is not known and measurable:

- Uncertainty in Economic Factors: Inflation depends on numerous variables, such as government policies, interest rates, supply and demand, global events, technological

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[47] Direct Testimony of Botelho and Chen at 57:11–12 (Bates 01575), Attachment ES-REVREQ-1, Schedule ES-REVREQ-28, page 2 (Bates 01704), and Attachment ES-REVREQ-1 12/17 Update), Schedule ES-REVREQ-28, page 2 (Attachment DHM-3).

advances, and changes in consumer behavior, all of which can fluctuate unpredictably.

- Forecasting Limitations: Predictive models are based on assumptions that may not hold true, particularly in the face of external shocks such as natural disasters, geopolitical events, and financial crises.
- Dynamic Variables: Inflation rates can change rapidly with new data, making even short-term projections unreliable.
- Behavioral Influence: Inflation projections are partly shaped by consumer and business expectations, which are subjective and unpredictable.

Q. Do you have any other concerns about the Company's application of an inflation factor to its proposed cost of service?

A. Yes. Applying a projected inflation factor to a collection of expenses does not result in specific, individual components becoming known and measurable costs. Known and measurable adjustments should be applied to specific items. The Company's blanket adjustment ignores other factors that may affect individual costs and may not accurately represent specific cost changes. Additionally, using an estimated inflation factor diminishes the responsibility of management to control costs. Arbitrarily inflating O&M expenses based on projections undermines prudent cost management.

Q. What does the Department recommend regarding an inflation adjustment to Test Year O&M expense?

A. The Department recommends rejecting the Company's inflation adjustment. The Company should adhere to traditional ratemaking practices by applying adjustments that are known and measurable to specific, individual components within one year past the end of the test year. As shown on Schedule 5.12, the Department's adjustment *reduces* O&M Expense by $1,816,815.

Rate Case Expenses

Q. What does the Company propose regarding recovery of Rate Case Expenses?

A. The Company proposes to recover estimated rate case expenses of $1.27 million based on a five-year amortization period, resulting in $253,771 per year included in its distribution cost of service.[48] Since the Company plans to recover these expenses over five years, it has stated that it would propose a one-time adjustment, if necessary, after the conclusion of this rate. This adjustment would occur following the Company's expense filing, submitted within 30 days of the final order on permanent rates by the Department of Energy, to align actual expenses with the amount included in the revenue requirement submitted during hearings.[49]

Q. How have rate case expenses been recovered in the prior case?

A. In the prior rate case, DE-19-057, the Company was authorized to recover $1.763 million through the Regulatory Reconciliation Adjustment (RRA) over five years, beginning on August 1, 2022.[50]

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48 Eversource Attachment ES-RVREQ-1 (12/17/24 Update), Schedule ES-REVREQ-27 Attachment DHM-3).
49 Direct Testimony of Botelho and Chen at 55:4–56:1 (Bates 01573–01574).
50 DE-19-057, Order No. 26,634 (May 27, 2022), page 1.

Q. What is the Department's position regarding the Company's proposed change in how rate case expenses are recovered?

The Department does not support including rate case expenses in base rates. The Department recommends that rate case expenses continue to be recovered through the RRA over a five-year period. The RRA, a component of distribution rates, is adjusted annually. Once audited and approved rate case expenses are fully recovered, the RRA is adjusted to remove the expense. For this reason, the Department has removed rate case expenses from base rates. As shown on Schedule 5.13, the Department's adjustment *reduces* Amortization by $253,771.

Amortization of Deferred Assets–Rate Case Expense

Q. Please explain the Company's proposed recovery of rate case expenses from DE-19-057.

A. The Company has included an amortization expense of $211,537 for Allowed Rate Case Expenses in its cost of service. These expenses represent unrecovered rate case costs from the Company's previous rate case, DE-19-057. The Commission approved a settlement agreement authorizing the Company to recover $1,762,807 through its RRA over five years, beginning on August 1, 2022 (Order No. 26,634, May 27, 2022). As part of the PBR proposal, the Company proposes to simplify the RRA by eliminating the rate case expense element of the reconciling mechanism. Instead, the Company suggests amortizing the remaining balance of the DE-19-057 rate case expenses in base rates under the Amortization of Deferred Assets expense.[51]

Q. What does the Department recommend?

A. The Department does not support including rate case expenses in base rates. The Department recommends that the unrecovered rate case expenses continue to be recovered through the RRA. As shown on Schedule 5.13, the Department's adjustment *reduces* Amortization by $211,537.

Fee Free

Q. Does the Department have any recommendation with respect to the Company's Fee Free Payment Processing?

A. Yes. Department witness Stephen Eckberg testifies to the Department's position on the Company's Fee Free Payment Processing. Based on his testimony, the Department has adjusted the Fee Free Payment Processing pro forma expense from $792,100 to $600,000. As shown on Schedule 5.14, this adjustment *reduces* O&M expense by $192,100.

New Start

Q. Does the Department have any recommendation with respect to the Company's New Start Program Expense?

[51] Direct Testimony of Botelho and Chen at 52:12–22 (Bates 01570).

A. Yes. Department witness Stephen Eckberg testifies to the Department's position on the Company's New Start Program. Based on his testimony, the Department has adjusted the New Start Program expense from $3,988,737 to $3,500,000. As shown on Schedule 5.15, this adjustment *reduces* O&M expense by $488,737.

Depreciation Expense

Q. Please explain the Departments adjustment to Depreciation Expense.

A. The Department recommends several adjustments to disallow certain plant assets, as discussed earlier. The impact of these disallowances on Depreciation Expense is reflected in Schedule 5.1.

Unrecovered Storm Costs

Q. Please explain the Department's recommended adjustment to Unrecoverd Storm Costs.

A. The Department's adjustment to unrecovered storm costs is supported by the testimony of Department witness Jay Dudley. As shown on Schedule 5.16, this adjustment *reduces* Amortization by $54,695,387.

Vegetation Management

A. The Department's adjustment to vegetation management is supported by the testimony of Department witness Jay Dudley. Based on his testimony, the Department has adjusted the Vegetation Management expense from $43,200,000 to $43,000,000. As shown on Schedule 5.17, this adjustment *reduces* O&M Expense by $200,000.

Interest Synchronization

Q. Please explain the Department's recommended adjustment to Interest Synchronization.

A. The Interest Synchronization adjustment aligns the rate base and cost of capital with the tax calculation, using the Department's recommended weighted cost of debt. The adjustment is detailed on Schedule 5.18 and *reduces* income taxes by $491,290.

Impact of Net Operating Income Adjustments

Q. What is the impact of the Department's recommended adjustments to the Company's net operating income?

A. The Company's updated December 17, 2024, filing reflected net operating income of $8,882,302. The Department's recommended adjustments *increase* operating income to $62,751,306.

Conclusions

Q. What revenue increase does the Department recommend?

A. The Department recommends an *increase* of no more than $82,197,706 for PSNH's Distribution base rates.

Q. Does your silence on any issue in this rate filing preclude you from addressing that issue in future testimony?

A. No, it does not.

Q. Does this conclude your testimony?

A. Yes.