STATE OF NEW HAMPSHIRE

BEFORE THE

NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

DOCKET NO. DE 24-070

REQUEST FOR CHANGE IN DISTRIBUTION RATES

REBUTTAL TESTIMONY OF

Ashley N. Botelho

and

Sasha Lazor

Revenue Requirements

On behalf of Public Service Company of New Hampshire d/b/a Eversource Energy

March 10, 2025

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STATE OF NEW HAMPSHIRE

BEFORE THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

REBUTTAL TESTIMONY OF ASHLEY N. BOTELHO

PETITION OF PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE d/b/a EVERSOURCE ENERGY

REQUEST FOR CHANGE IN RATES

March 10, 2025

Docket No. DE 24-070

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1 **I. INTRODUCTION**

2 ***Ashley N. Botelho***

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

4 A. My name is Ashley N. Botelho. My address is 247 Station Drive, Westwood,
5 Massachusetts 02090. I am the Director of Revenue Requirements, Distribution for
6 Eversource Energy Service Company ("ESC").

7 **Q. What are your principal responsibilities in this position?**

8 A. In this position, I am responsible for the oversight, coordination and implementation of
9 revenue requirement calculations in base distribution rate proceedings as well as other
10 proceedings before our state regulatory agencies. I have previously supported base
11 distribution rate proceedings for the Connecticut operating subsidiaries of Eversource
12 Energy. I am also responsible for the oversight, coordination and implementation of
13 revenue requirement calculations for the Massachusetts operating subsidiaries of

Eversource Energy, including NSTAR Electric Company, NSTAR Gas Company, and Eversource Gas Company of Massachusetts each d/b/a Eversource Energy. In addition, I have the overall responsibility for regulatory interfaces for all revenue requirement-related filings before the Massachusetts Department of Public Utilities.

Q. Please provide your educational and professional background.

A. I graduated from Drexel University in Philadelphia, Pennsylvania in 2010 with a Bachelor of Science in Business Administration with a concentration in finance. In 2013, I graduated from the Bryant University Graduate School of Business with a Master of Business Administration. I began working as a contractor for NSTAR Electric in July 2010 in support of NSTAR Electric's Smart Grid programs. In October 2011, I was hired as a Smart Grid Associate Project Manager. In December 2012, I assumed the role of Analyst in Revenue Requirements. In July 2014, I was promoted to a Senior Revenue Requirements Analyst. In January 2018, I was promoted to Manager, Revenue Requirements. In July 2022, I was promoted to my current role of Director, Revenue Requirements, Distribution.

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

A. Yes. I have testified on behalf of Public Service Company of New Hampshire ("PSNH" or the "Company") in various proceedings, most recently in the Stranded Cost Recovery Charge ("SCRC"), Docket No. DE 24-112.

1 ***Sasha Lazor***

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

3 A. My name is Sasha Lazor. My address is 247 Station Drive, Westwood,
4 Massachusetts 02090. I am the Vice President of Compensation, Benefits Strategy and
5 Human Resources Shared Services.

6 **Q. What are your principal responsibilities in this position?**

7 A. In this position, I am responsible for developing and implementing strategies for employee
8 compensation paid to the employees of Eversource Energy and the operating companies it
9 serves, including PSNH. I am also responsible for the development and implementation
10 of benefit programs for employees working within the Eversource Energy system.

11 **Q. Please provide your educational and professional background.**

12 A. I graduated from Connecticut College in 1988 with a Bachelor of Arts degree in
13 Government and Russian Studies. In 2004, I earned a Master of Business Administration
14 in Finance from Sacred Heart University. From 1997 to 2009, I worked as a Senior
15 Consultant on human resources for Hewitt Associates and the Hay Group in Norwalk,
16 Connecticut. As a Senior Consultant at both Hewitt Associates and the Hay Group, I
17 advised a variety of businesses in assessing the market competitiveness of their
18 compensation and benefit practices, and developed and implemented compensation plans
19 and strategies to support their businesses. I joined Eversource Energy in 2010

20 **Q. Have you previously testified before the New Hampshire Public Utilities Commission**
21 **(“Commission”)?**

22 A. No.

1 **Q. What is the purpose of your joint rebuttal testimony?**

2 A. The purpose of our joint rebuttal testimony is to respond to the direct testimonies of the
3 Department of Energy ("DOE") Staff's consultant, Ms. Donna H. Mullinax and utility
4 analyst, Mr. Stephen R. Eckberg. Both testimonies recommend various revenue
5 requirement adjustments to rate base, capital structure and operating income. This rebuttal
6 testimony serves to address certain of those recommended adjustments.

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

8 A. In its Petition for a change in distribution rates filed on June 11, 2024, the Company
9 requested a total distribution revenue increase of $181.9 million, effective August 1, 2025.
10 On December 17, 2024, the Company updated its revenue requirements to reflect
11 adjustments and corrections identified during discovery and technical sessions, and
12 provided the update to the parties. The updated revenue requirement requests a total
13 distribution revenue increase of $177,745,424. With the submission of this testimony the
14 Company has made further adjustments as discussed herein. Attachment
15 ES-REVREQ-Rebuttal-1 reflects all the adjustments made during the course of this
16 proceeding resulting in a requested base distribution revenue increase of $119,410,435 (a
17 $62,488,447 reduction from the Company's original request) and $55 million of
18 unrecovered storm costs to be recovered through a reconciling mechanism pending the
19 approval in Docket No. DE 24-041.

1 **Q. Please summarize the Department of Energy's recommended disallowances as it**
2 **relates to the Company's revenue requirement.**

3 A. The Department of Energy recommends an adjustment to the Company's revenue
4 requirement of $95,547,728, which would reduce the Company's revenue deficiency to
5 $82,197,706, as summarized in the Testimony of Donna H. Mullinax in Table 2[1] and re-
6 produced below. Note that both the Company and the DOE recommend that unrecovered
7 storm costs totaling $55 million annually be removed from recovery in base rates, to be
8 recovered through a separate storm factor.

1 Mullinax Testimony at Bates Page 7.

1 **Table 1: Reproduction of Summary of DOE's Recommended Adjustments**

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

2

3 **Q. Are there additional adjustments reflected in the updated revenue requirement that**
4 **the Company has made that were not recommended in the DOE's testimony?**

5 A. Yes. As shown in the Summary of Revenue Requirements Changes schedule in
6 Attachment ES-REVREQ-Rebuttal-1, the Company has made some adjustments to the
7 revenue requirement to reflect: (1) commitments made in the initial filing to update certain
8 cost components with more up-to-date information; (2) corrections or modifications
9 identified in discovery; and (3) other costs identified by the Company as needing to be

1 adjusted. The referenced Summary of Revenue Requirement Changes schedule identifies
2 each adjustment, why they are being adjusted for, and the overall impact to the revenue
3 deficiency of the adjustment. The table below summarizes the overall change to the
4 Company's initial proposal.

5 **Table 2: Summary of Company Additional Revenue Requirement Changes**

Summary of Changes	
REVENUE DEFICIENCY	
Company's Initial Filing - 6/11/24	$181.9
Unrecovered Storm Balance	(55.0)
2024 Actual Plant Activity, Incl Depreciation	(7.4)
Variable Compensation	(3.4)
Pole Attachment Revenues	(2.2)
Energy Service Regulatory Liability	0.8
2024 Actual Enterprise IT Projects Expense	1.2
Regulatory Assessments	1.9
Fiscal Year 2024 Property Tax Bills	2.1
All Other Adjustments	(0.6)
Company's Revised Filing - 3/10/25	$119.4

6

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

9 A. No, this testimony addresses only the revenue requirements elements impacting operating
10 income, specifically, Adjustments 2 through 5, 7 through 15 and 18, and any adjustments
11 resulting from the Division of Enforcement Audit Staff's final report issued on January 31,
12 2025. Mr. Edward Davis addresses the adjustment associated with the weather

1 normalization of revenues (Adjustment 6) in his rebuttal testimony. With respect to DOE's
2 adjustments to rate base (Adjustment 1 above), these consist primarily of disallowances of
3 certain utility plant additions and are addressed in detail in the rebuttal testimony of
4 Company witnesses Leanne M. Landry, James Devereaux, Brian Dickie and Gregory B.
5 Kilgore. Depreciation adjustments recommended by intervenors are addressed in the
6 testimony of John Spanos. The Company addresses the storm and vegetation management
7 adjustments in the rebuttal testimony of Robert D. Allen, Ian J. Farley, Adam V. Mierzwa,
8 and Brian Dickie (Adjustments 16 and 17). Lastly, return on equity and capital structure
9 adjustments recommended by the parties is addressed in the rebuttal testimony of Vincent
10 V. Rea.

11 **Q. Are you presenting any Attachments in support of your rebuttal testimony?**

12 A. Yes, we are presenting the following Attachments in support of the Company's filing.
13 Please note, Attachment ES-REVREQ-Rebuttal-1 at page 1 provides a summary of
14 changes from our initial filing to the updated revenue requirement for items that have been
15 identified during the discovery phase of this proceeding, any issues discussed with the DOE
16 at technical sessions that the Company was in agreement with, and adjustments the
17 Company committed to in its initial filing. It is important to note many schedules have not
18 changed since the initial filing, but for ease of reference, the Company produces the
19 distribution cost of service in it entirety with this update, so this version can be referred
20 throughout evidentiary hearings.

Exhibit	Schedule	Purpose/Description
Attachment ES-REVREQ-Rebuttal-1	**Revenue Requirement Analysis**	
	Summary Financial Schedules	
	Schedule ES-REVREQ-1	Overall Financial Summary
	Schedule ES-REVREQ-2	Computation Of Gross Revenue Conversion Factor
	Schedule ES-REVREQ-3	Revenue Requirement
	Schedule ES-REVREQ-4	Operating Revenue Summary
	Schedule ES-REVREQ-5	Summary Of Proposed Utility Adjustments
	O&M Adjustment Schedules	
	Schedule ES-REVREQ-6	Postage Expense
	Schedule ES-REVREQ-7	Information Services
	Schedule ES-REVREQ-8	Uncollectibles / Bad Debts
	Schedule ES-REVREQ-9	Fee Free Payment Processing
	Schedule ES-REVREQ-10	Customer Service
	Schedule ES-REVREQ-11	Dues & Memberships
	Schedule ES-REVREQ-12	Employee Benefits
	Schedule ES-REVREQ-13	Insurance Expense & Injuries & Damages
	Schedule ES-REVREQ-14	Payroll Expense
	Schedule ES-REVREQ-15	Variable Compensation
	Schedule ES-REVREQ-16	Enterprise It Projects Expense
	Schedule ES-REVREQ-17	Environmental
	Schedule ES-REVREQ-18	Field Operations
	Schedule ES-REVREQ-19	Facilities Expense
	Schedule ES-REVREQ-20	Vegetation Management
	Schedule ES-REVREQ-21	Lease Expense
	Schedule ES-REVREQ-22	Regulatory Assessments
	Schedule ES-REVREQ-23	Materials & Supplies
	Schedule ES-REVREQ-24	Vehicles
	Schedule ES-REVREQ-25	New Start Program Expense
	Schedule ES-REVREQ-26	Storm Reserve Accrual
	Schedule ES-REVREQ-27	Rate Case Expense
	Schedule ES-REVREQ-28	Residual O&M Inflation Adjustment
	Other Adjustment Schedules	
	Schedule ES-REVREQ-29	Depreciation & Amortization Expense
	Schedule ES-REVREQ-30	Amortization Of Deferred Assets
	Schedule ES-REVREQ-31	Property Tax Expense
	Schedule ES-REVREQ-32	Payroll And Other Taxes
	Schedule ES-REVREQ-33	Current Income Tax Expense

Exhibit	Schedule	Purpose/Description
	Schedule ES-REVREQ-34	Deferred Income Tax Expense
	Schedule ES-REVREQ-35	Investment Tax Credit
	Rate Base Schedules	
	Schedule ES-REVREQ-36	Rate Base And Return On Rate Base
	Schedule ES-REVREQ-37	Plant In Service By Major Property Grouping
	Schedule ES-REVREQ-38	Depreciation Reserve
	Schedule ES-REVREQ-39	Accumulated Deferred Income Taxes
	Schedule ES-REVREQ-40	Cost Of Capital
	Schedule ES-REVREQ-41	Cash Working Capital
Attachment ES-REVREQ-Rebuttal-2	**Confirmation Letter for Non-Union Merit Increase**	
Attachment ES-REVREQ-Rebuttal-3	**Directors and Officers Liability Insurance Endorsement for Policy Exclusions**	
Attachment ES-REVREQ-Rebuttal-4	**Company's response to data request DOE 11-220**	
Attachment ES-REVREQ-Rebuttal-5	**Company's response to data request DOE 14-248**	
Attachment ES-REVREQ-Rebuttal-6	**Company's response to data request DOE 4-065**	
Attachment ES-REVREQ-Rebuttal-7	**Company's response to data request DOE 4-042**	
Attachment ES-REVREQ-Rebuttal-8	**Company's responses to OCA 2-011 and OCA -2-012**	
Attachment ES-REVREQ-Rebuttal-9	**Company's response to data request DOE 4-067**	
Attachment ES-REVREQ-Rebuttal-10	**Company's Attachment DOE 4-066(d)**	

1 **Q. How is your testimony organized?**

2 A. Our testimony is organized into the following sections:

3 - **Section I** – provides the introduction to our testimony.
4 - **Section II** – provides an overview of the results of the Division of Enforcement Audit
5 Staff's final audit report issued on January 31, 2025.
6 - **Section III** – describes the adjustments to rate base.
7 - **Section IV** – describes the adjustments to operating income..
8 - **Section V –** describes the adjustments to depreciation.
9 - **Section VI –** describes the Company's employee benefits, variable compensation and
10 corporate insurance programs as it relates to the DOE's recommendations.
11 - **Section VII** – describes the adjustments to storm cost recovery.
12 - **Section VIII** – describes the adjustments to the vegetation management program.
13 - **Section IX** – describes the adjustment for interest synchronization.
14 - **Section X** – provides the conclusion.

15 **II. SUMMARY OF FINAL AUDIT REPORT**

16 **Q. Please summarize the Division of Enforcement Audit Staff's Final Audit Report.**

17 A. On February 10, 2025, the DOE filed the Final Audit Report (the "Audit Report").[2] The
18 Audit Report details the Audit Staff's findings and recommendations based on their audit
19 of the Company conducted over the course of several months. Additionally, as part of the

[2] The Audit Report was filed as Attachment JED-RDW-JJD-1 to the Testimony of Dudley, Willoughby & DeVirgilio.

1 audit process, DOE issued several audit requests to which the Company provided complete
2 responses. The Audit Report concluded with a total of eight audit issues for which the
3 DOE provided their recommendations. The Company notes their appreciation for the
4 Audit Staff's review and productive dialogue throughout the audit process.

5 **Q. What adjustments has the Company reflected in the updated revenue requirement**
6 **submitted with this rebuttal testimony as it relates to the Final Audit Report?**

7 A. The Company's updated revenue requirement reflects adjustments for Audit Issue numbers
8 4, 5, and 6.[3] These adjustments result in a decrease to the overall revenue deficiency of
9 $35,600, as reflected in the Summary of Revenue Requirements Changes schedule in
10 Attachment ES-REVREQ-Rebuttal-1.

11 **<u>Audit Issue 4</u>**

12 In Audit Issue 4, Audit Staff disputes charges made to Power Production and Transmission
13 related accounts and included in the revenue requirement. The Company agreed that a
14 subset of the charges should have been recorded in different accounts and therefore agreed
15 to remove them from the revenue requirement. The adjustments for these charges are
16 reflected in Attachment ES-REVREQ-Rebuttal-1, Schedules ES-REVREQ-7, 14, and 28.
17 Although the Company agrees that the costs should have been recorded in different
18 accounts, the Company explained to the Audit Staff that the costs should remain in the
19 revenue requirement,. In the final Audit Report, the DOE ultimately agreed with the

3 As explained below, the Company's updated revenue requirement includes updated property tax expense to reflect fiscal year 2024 property tax bills. State Education Taxes have been removed from the property tax expense. By way of this adjustment, the Company has reflected an adjustment in adherence to the agreed upon adjustment described in Audit Issue 8.

1 Company's comment, although it reiterated its recommendation to accurately reflect
2 expenses in the appropriate FERC accounts (Testimony of Dudley, Willoughby, and
3 DeVirgilio, Att. JED-RDW-JJD-1, at Bates Page 254).

4 **<u>Audit Issue 5</u>**

5 In Audit Issue 5, Audit Staff objected to the inclusion of certain costs in the revenue
6 requirement that DOE felt should be charged below the line and therefore excluded from
7 the revenue requirement. Of these costs, the Company agrees to reflect a $12.90
8 adjustment for a personalized plaque honoring an employee's length of service (Testimony
9 of Dudley, Willoughby, and DeVirgilio, Att. JED-RDW-JJD-1, at Bates Page 255-256).
10 The adjustment for this charge is reflected in Attachment ES-REVREQ-Rebuttal-1,
11 Schedule ES-REVREQ-18.

12 **<u>Audit Issue 6</u>**

13 In Audit Issue 6, Audit Staff recommended adjustments for several employee-related costs
14 included in the revenue requirement. Much of the recommended adjustment was based on
15 a misunderstanding of an adjustment already reflected in the initial revenue requirement.
16 The Company did, however, agree to reflect adjustments to exclude costs associated with
17 meals related to a charitable event and costs associated with embroidered shirts and
18 speakers with the Company's logo. Once clarified with the Audit Staff that this adjustment
19 had already been reflected, it was concluded that no further adjustment was needed
20 (Testimony of Dudley, Willoughby, and DeVirgilio, Att. JED-RDW-JJD-1, at Bates Page

258). The adjustment for these charges is reflected in Attachment ES-REVREQ-Rebuttal-1, Schedule ES-REVREQ-28.

Q. Were there any recommended adjustments included in the Audit Report that were not adopted in this updated revenue requirement?

A. Yes, the Company did not adopt the full recommendations in Audit Issue 2 and Audit Issue 5 for the reasons below.

Audit Issue 2

In Audit Issue 2, Audit Staff recommends that land costs be excluded from the depreciation expense calculation. In its Audit Report comment, the Company explained that the amounts in question are related to land rights (right of ways/easements). The Company reiterated its view that land rights are depreciable and therefore should be included in the calculation of depreciation expense (Testimony of Dudley, Willoughby, and DeVirgilio, Att. JED-RDW-JJD-1, at Bates Pages 249-250).

Audit Issue 5

In Audit Issue 5, Audit Staff recommends that certain costs related to employee physical therapy sessions be borne by the shareholders rather than the ratepayers. In its Audit Report comment, the Company reiterated that these costs are part of its safety program, which is designed to prevent and mitigate injuries for its workers. Ultimately, the Audit Staff deferred to the DOE's Regulatory Staff in determining whether these costs should be borne by the ratepayers (Testimony of Dudley, Willoughby, and DeVirgilio,

1 Att. JED-RDW-JJD-1, at Bates Page 257). DOE did not include this recommendation in
2 their testimony filed on February 10, 2025.

3 **III. ADJUSTMENTS TO RATE BASE**

4 **Q. Does the Company's updated revenue requirement include updates to the rate base**
5 **calculation?**

6 A. Yes. Attachment ES-REVREQ-Rebuttal-1, Schedule ES-REVREQ-36 presents a
7 summary of the rate-base computation. As shown therein, the distribution rate base balance
8 is $1,818,202,907. As discussed in the Joint Testimony of Ashley N. Botelho and Yi-An
9 Chen, at Bates Page 01608, the Company committed to updating the revenue requirement
10 with 2024 plant-in-service actuals once available. As such, the rate base calculation has
11 been updated to reflect the Company's actual 2024 plant-in-service. As discussed in the
12 Rebuttal Testimony of Leanne M. Landry, James Devereaux, Brian Dickie and G. Brent
13 Kilgore, the Company has provided the project documentation to support the 2024 plant
14 additions. The Company respectfully requests that the Commission adopt a procedural
15 schedule to allow the parties to investigate the prudency of the 2024 plant additions to
16 include in rate base effective August 1, 2024. The Company has also made additional
17 updates to rate base for corrections identified during the discovery phase of this proceeding,
18 as well as the adjustments to rate base discussed below and in the Rebuttal Testimony of
19 Leanne M. Landry, James Devereaux, Brian Dickie and Gregory B. Kilgore .

1 **Q. Does the DOE recommend disallowances to the Company's proposed rate base**
2 **computation?**

3 A. Yes. The testimony of Department witness Donna H. Mullinax recommends five
4 adjustments to rate base, including adjustments for: (1) disallowed plant in service;
5 (2) materials and supplies; (3) prepayments; (4) regulatory liabilities; and (5) cash working
6 capital. As discussed above, Audit Staff's adjustments to rate base for certain utility plant
7 additions are addressed in detail in the rebuttal testimony of Company witnesses Leanne M.
8 Landry, James Devereaux, Brian Dickie and Gregory B. Kilgore.

9 **Q. Please describe the DOE's recommended adjustment to Materials and Supplies.**

10 A. The DOE argues that the Company's Materials and Supplies ("M&S") balance has
11 increased significantly in the years following the prior rate case, Docket No. DE 19-057
12 (Mullinax Testimony at Bates Pages 17-19). Furthermore, the DOE argues that using a
13 single month's balance can often be unrepresentative of the typical M&S balance (id. at
14 18). Therefore, the DOE has recommended using a five-quarter average to determine the
15 amount of M&S to include in rate base.

16 **Q. Does the Company agree with this recommended adjustment for M&S?**

17 A. No. The Company included M&S in the rate base calculation in a manner consistent with
18 the approved DE 19-057 settlement agreement. Additionally, in its response to data request
19 DOE 11-220,[4] the Company details the factors contributing to the 2023 year end balance,
20 which stem largely from the COVID-19 pandemic related supply chain crisis that continue

[4] The Company's response to data request DOE 11-220 is included in Attachment ES-REVREQ-Rebuttal-4.

1 to impact the Company. Specifically, long lead times, constrained commodities, and
2 unprecedented demand from all utilities for the same materials has made it necessary for
3 the Company to pre-buy materials. There have been component shortages for engineered
4 equipment that the Company requires (poles, reclosers, capacitors, etc.). These engineered
5 commodities have a long lead time still because the components are not available to
6 complete units. Lead times have stayed consistently long for these type commodities. In
7 addition, item prices increased 30 percent, on average. Manufacturers are continuing to
8 pay more for raw material, causing the cost of the manufactured equipment to continue to
9 increase. Therefore, the Commission should reject the DOE's recommendation and
10 include the Company's proposed M&S amount in the rate base calculation.

11 **Q. Please describe the DOE's recommended adjustment to Prepayments.**

12 A. Ms. Mullinax recommends two adjustments to Prepayments. The first adjustment DOE
13 witness Dudley recommends is removing a prepayment for the Company's share of the
14 Eversource 'PowerClerk' Enterprise Distributed Generation Licensing agreement and
15 argues that outstanding Docket No. DE 22-060 is a more appropriate venue for addressing
16 DG interconnection application fees (Mullinax Testimony at Bates Page 19). Mr. Dudley's
17 testimony, however, does not include this specific recommendation.

18 The second adjustment recommends removing the remaining prepayments from rate base
19 in their entirety. The DOE bases this recommendation on Order No. 26,122 (April 27,
20 2018), which states,"[t]he Commission finds that the detailed lead/lag study captures all
21 the working capital requirements related to property taxes and other prepaid expenses. To

1 also include prepayments in rate base would be allowing for a double recovery of the
2 working capital related to those items. Consequently, prepayments may not be included in
3 rate base."

4 **Q. Does the Company agree with this recommended adjustment?**

5 A. No. The Company included prepayments in rate base in a manner consistent with the
6 approved DE 19-057 settlement that occurred after the DG 17-048 ruling in its initial filing.
7 Further, the Commission's decision in DG 17-048 was based on the specific facts in that
8 proceeding, where the Commission concluded prepayment costs were already captured in
9 the proposed revenue requirement and therefore also including prepayments would be a
10 double recovery. The DOE does not provide any support for how the Company's
11 prepayments are already reflected in the revenue requirement resulting in a double
12 recovery. Accordingly, the Commission should reject DOE's unsupported argument and
13 approve the inclusion of the costs incurred in the test year.

14 **Q. Please describe the DOE's recommended adjustment to Regulatory Liabilities.**

15 A. DOE witness Stephen R. Eckberg proposed a correction be made to the Company's rate
16 base calculation to remove the regulatory liability related to Eversource's Renewable
17 Portfolio Standard ("RPS") obligation.

1 **Q. Does the Company agree with this recommendation related to Regulatory Liabilities?**
2 A. Yes. As explained in the Company's response to data request DOE 14-248,[5] the accounting
3 of the RPS liability resulted in activity in multiple lines of business on the Company's
4 balance sheet. The annual process establishes the liability and relieves the liability to net
5 zero in total. The balance sheet activity should have been only to the Energy Service line
6 of business 12790, and therefore, was incorrectly recorded to the distribution segment line
7 of business 11100. As such, the Company has reflected an adjustment to remove the RPS
8 regulatory liability from the revenue requirement, as reflected in Attachment ES-
9 REVREQ-Rebuttal-1, Schedule ES-REVREQ-36.

10 **Q. Please describe the DOE's recommended adjustment to Cash Working Capital.**
11 A. Mr. Eckberg concludes that the Company's updated lead-lag study closely aligned with the
12 results of the prior study in the Company's last rate case, DE 19-057 (Eckberg Testimony
13 at Bates Pages 17-19). As a result, the DOE recommends that the Commission accept the
14 results of the Company's lead-lag study for the purpose of calculating distribution related
15 Cash Working Capital (id.).

16 The DOE's recommended adjustment to Cash Working Capital stems from the fact that
17 Cash Working Capital must be updated to reflect the additional revenue requirement
18 adjustments detailed in the Testimony of Mullinax.

[5] The Company's response to data request DOE 14-248 is included in Attachment ES-REVREQ-Rebuttal-5.

1 **Q. Does the Company agree with this recommendation regarding Cash Working**
2 **Capital?**

3 A. Yes, in part. The Company agrees that changes to operating expenses should result in
4 adjustments to cash working capital. Although the Company shares this view with the
5 DOE, it does not agree with the amount of the recommended adjustment. As explained in
6 detail further in this testimony, the Company disagrees with many of the adjustments to
7 operating income recommended by the DOE which contribute to their cash working capital
8 adjustment.

9 **Q. Has the Company reflected an adjustment to Cash Working Capital in the updated**
10 **Revenue Requirement?**

11 A. Yes. As stated above, the Company does agree that cash working capital should be adjusted
12 to reflect changes in operating expenses. As such, cash working capital has been adjusted
13 in the updated revenue requirement to reflect the changes to operating income discussed in
14 detail below. These changes are reflected in Attachment ES-REVREQ-Rebuttal-1,
15 Schedule ES-REVREQ-41.

16 **IV. ADJUSTMENTS TO OPERATING INCOME**

17 **Q. Please list the recommended adjustments to operating income recommended by the**
18 **DOE in the direct testimony of Donna H. Mullinax.**

19 A. The DOE recommends adjustments to the operating income items listed below:

20 - Weather Normalized Revenue
21 - Placeholder Payroll Expense
22 - Incentive Compensation
23 - Payroll Tax

1 • Supplemental Executive Retirement Benefits
2 • Director and Officer ("D&O") Liability Insurance
3 • Projected Inflation
4 • Rate Case Expenses
5 • Fee Free
6 • New Start
7 • Depreciation Expense[6]
8 • Unrecovered Storm Costs[7]
9 • Vegetation Management[8]
10 • Interest Synchronization[9]

11 **A. Weather Normalized Expense**

12 **Q. Please explain the DOE's adjustment to weather normalized revenues.**

13 A. Based on the testimony of DOE witness Mike Clark, the DOE has included an adjustment
14 to revenues to reflect weather normalization (*see* Clark Testimony at Bates Pages 6-14 and
15 Mullinax Testimony at Bates Page 23). The Department's recommended adjustment
16 increases revenues by $6,360,344, which would result in a decrease to the revenue
17 deficiency in an equal amount (Mullinax Testimony at 23).

18 **Q. Has the Company implemented the DOE's adjustment to weather normalized**
19 **revenues in its latest revenue requirement update?**

20 A. No. As described in the testimony of Edward A. Davis, the Company is not required nor
21 does it find that implementation the DOE's weather normalization adjustment is

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6 The Company addresses the Depreciation Expense Adjustment in Section V.

7 The Company addresses the Unrecovered Storm Costs Adjustment in Section VII.

8 The Company addresses the Vegetation Management Adjustments in Section VIII.

9 The Company addresses Interest Synchronization in Section IX.

appropriate. The Company is especially concerned about the overstated amount of adjustment indicated by the analysis presented.

B. Payroll Expense Adjustment

Q. How was the payroll O&M expense determined for the Company's revenue requirement?

A. To determine the appropriate payroll expense, the Company first examined the test year payroll amounts to determine whether those amounts would continue to be the same in the Rate Year,[10] or whether any known and measurable changes would occur. First, the Company reflected an annualization adjustment to the Adjusted Test Year payroll expense to reflect actual employee salaries for active and filled positions as of December 31, 2023 as if the payroll increase would have been in effect for the entire year. Next, the Company determined whether there were any known changes that will occur for both union and non-union payroll expense for PSNH prior to the midpoint of the Rate Year, February 1, 2026. The Company identified that payroll expense would increase due to 3 percent merit increases for non-union employees, effective March 17, 2024 and March 16, 2025, as well as the union wage increases based on the collective bargaining agreements.[11]

Q. What was the DOE's recommendation as it relates to the annual wages increases?

A. Ms. Mullinax does not recommend any adjustments to the Company annual wage increases based on the understanding that the Company will supplement the record with a written

[10] The Rate Year is the first full year that Permanent Rates will be in effect, i.e., August 1, 2025 through July 31, 2026.

[11] Direct Testimony of Botelho and Chen at Bates Page 1558.

1 management commitment or confirmation letter confirming the 2025 increase as known
2 and measurable (Mullinax Testimony at Bates Page 24).

3 **Q. Are the wage increases now known and measurable?**
4 A. Yes. The last annual wage increase for non-union employees is included in the Company's
5 payroll adjustment effective on March 16, 2025. The Company has included the written
6 management commitment letter as Attachment ES-REVREQ-Rebuttal-4 to confirm this
7 change is now known and measurable and should be reflected in the Company's final
8 revenue requirement reviewed and approved in this proceeding.

9 **C. Variable Compensation**

10 **Q. Please explain the DOE's recommendation regarding variable compensation.**
11 A. The DOE recommends removing $236,990 from the pro forma incentive compensation
12 related to the 2025 payroll increase (Mullinax Testimony at Bates Pages 31-32). The DOE
13 claims that since incentive compensation is awarded based on performance, the amount is
14 not known and measurable until the performance period concludes at the end of 2025 (id.
15 at 32).

16 **Q. How does the Company account for variable compensation?**
17 A. The Company accounts for variable compensation by recording a monthly accrual
18 representing an estimated amount of variable compensation to be paid in the subsequent
19 year for the current performance year (Attachment ES-REVREQ-Rebuttal-1, Schedule ES-

1 REVREQ-15).[12] Once the actual variable compensation payouts are determined, the
2 Company records true-up entries to adjust the accrued estimate and reflect actual paid
3 variable compensation (id.). These true-up entries generally occur in the late first quarter
4 or early second quarter timeframe, and therefore, any given calendar year of variable
5 compensation expense may contain out-of-period accounting adjustments (id.).

6 **Q. Please explain the Company's proposal for variable compensation.**

7 A. The Company's variable compensation plan represents the variable portion of the wages
8 and salaries paid to non-union employees serving PSNH. Variable compensation is paid
9 to employees in the first quarter for performance in the prior year ending December 31st
10 based on corporate and individual performance criteria. First, the Test Year level of
11 expense was normalized to remove out-of-period accounting entries that relate to the 2022
12 performance year, so that the test year included in the initial filing of this proceeding
13 represented an estimate of the actual 2023 variable compensation expected to be paid in
14 2024. The Company was not able to reflect the actual 2024 payout in its initial filing as
15 the final accounting true-ups and entries occurred following after the finalization of the
16 revenue requirement schedules in this proceeding. Therefore, as discussed in the
17 Company's initial filing, the Company has reflected the actual 2024 paid variable

[12] The Company explains the accounting of variable compensation in response to data request DOE 4-065, provided in Attachment ES-REVREQ-Rebuttal-6.

1 compensation (for the 2023 performance year) in its revenue requirement update submitted
2 to the parties on December 17, 2024.[13]

3 **Q. Has the Company reflected any reductions to variable compensation expense?**

4 A. Yes. Because their individual goals are largely financial based, the Company removed the
5 cash incentive expense for both the Chief Executive Officer ("CEO") and the Chief
6 Financial Officer ("CFO") from its cost of service, which reduces the executive incentive
7 compensation by $115,797, representing the actual payment in 2024 for the 2023
8 performance year.

9 **Q. Has the Company continued to include the payroll escalation rate in the pro forma**
10 **adjustment to variable compensation?**

11 A. Yes. An adjustment of $467,078 was made to increase the Rate Year variable
12 compensation expense for expected increases in overall payroll expenses that rise
13 commensurate with the salary increases each year. As discussed above, these changes are
14 all known and measurable since the last non-union wage increase is effective March 16,
15 2025 and should be reflected in the final approved revenue requirement in this proceeding.

16 **Q. Given the accounting process described above and that the last payroll increase is now**
17 **known and measurable, is it reasonable for the Company to remove the pro-forma**
18 **adjustment for incentive compensation?**

19 A. No. The Company accounts for variable compensation based on payroll increases and
20 makes the pro forma adjustments to align with its internal accounting processes.
21 Additionally, increasing the Rate Year variable compensation expense for known and

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[13] Direct Testimony of Botelho and Chen at Bates 01561.

1 measurable increases in overall payroll expenses that rise commensurate with the salary
2 increases each year is reasonable. Therefore, the Commission should reject the DOE's
3 recommendation and allow the Company to include the $467,078 pro forma adjustment to
4 incentive compensation related to the 2025 payroll increase in its cost of service.

5 The combination of these adjustments is shown on Attachment ES-REVREQ-Rebuttal-1,
6 Schedule ES-REVREQ-15, page 2, Column F. The Company's proposal is to reflect total
7 variable compensation of $8,136,662 for the pro forma test year as shown in Attachment
8 ES-REVREQ-Rebuttal-1, Schedules ES-REVREQ-14, page 3, and .ES-REVREQ-15,
9 page 2.

10 **D. Employee Benefits – Supplemental Retirement Plans**

11 **Q. Does the DOE propose adjustments to the Company's SERP and non-SERP expense?**

12 A. Yes. The DOE proposes to disallow expenses associated with the Company's
13 Supplemental Employee Retirement Plan ("SERP") and non-SERP post-retirement plans,
14 based on the assertion that these costs should be borne by shareholders (Mullinax
15 Testimony at Bates Pages 34-35).

16 **Q. Does the Company agree with the proposed adjustments to SERP and non-SERP**
17 **expense?**

18 A. No. As discussed below in Section VI, it is common practice among utilities with qualified
19 defined benefit pension plans, such as the Eversource Retirement Plan, to provide
20 executives with a benefit that makes them whole for the limits on pensionable earnings that
21 the Internal Revenue Service imposes on qualified pension plans. Non-SERP plans are

1 typically included in some employment agreements to compensate mid-career hires for
2 benefits lost with previous employers or as part of a separation agreement with Northeast
3 Utilities. Non-SERP benefits are governed by employment agreements, and any employee
4 could be eligible. The Commission should approve the Company's proposal to reflect total
5 SERP and non-SERP expense of $890,645 in the revenue requirement as shown in DOE
6 4-042, provided as Attachment ES-REVREQ-Rebuttal-7.

7 **E. Director's and Officer's ("D&O") Liability Insurance**

8 **Q. Does the Company agree with the DOE's recommendation to eliminate 50 percent of**
9 **D&O liability insurance from the distribution cost of service?**

10 A. No. As discussed further in Section VI, the Company is proposing to include the full cost
11 of the D&O liability insurance, totaling $105,596 (Attachment ES-REVREQ-Rebuttal-1).

12 **F. Payroll Tax**

13 **Q. Please describe the how Payroll Taxes were included in the Company's cost of service.**

14 A. The pro forma adjustment for payroll and other taxes is an increase of $524,768 as shown
15 on Attachment ES-REVREQ-Rebuttal-1, Schedule ES-REVREQ-32, page 2, line 29. The
16 adjustment was necessary to reflect the change in the Federal Insurance Contribution Act
17 ("FICA") and Medicare payroll tax expense for changes in overall payroll expenses based
18 on known and measurable increases to union and non-union payroll. The test year pro
19 forma payroll tax expense was calculated by multiplying the test year FICA and Medicare
20 payroll tax expense by 6.08 percent, which is the percent increase in overall payroll
21 expense, which is now known and measurable as described above. The calculation of the
22 6.08 percent is shown on Attachment ES-REVREQ-Rebuttal-1, Schedule ES-REVREQ-

1 32, Page 2, Lines 48 through 53. After the gross test year pro forma payroll tax expense is
2 calculated, a capitalized portion is removed for a net test year pro forma payroll and other
3 taxes expense of $372,925 as shown on Attachment ES-REVREQ-Rebuttal-1, Schedule
4 ES-REVREQ-32, Page 1, Line 23.

5 **Q. Does the Company agree with the DOE's adjustment to payroll tax expense?**

6 A. No. The DOE recommends a reduction to payroll taxes of $330,613 as it is tied to
7 recommended disallowance of the variable compensation (Mullinax Testimony at Bates
8 Pate 32). For the reasons described in Section VI, the Company does not recommend the
9 Commission adopt the DOE's recommendation on variable compensation, therefore, any
10 adjustment for payroll taxes associated with the cash incentive compensation would also
11 not be warranted. The Company agrees that any reduction in the cash incentive
12 compensation would correspondingly reduce the associated payroll taxes.

13 **G. Projected Inflation**

14 **Q. Has the Company reflected an inflation adjustment for certain expenses?**

15 A. Yes. Attachment ES-REVREQ-Rebuttal-1, Schedule ES-REVREQ-28, page 1, reflects
16 the post-test year adjustment associated with Residual O&M Inflation. The Company also
17 reflected an inflation adjustment for: (1) Information Services, (2) Customer Services, (3)
18 Environmental, (4) Field Operations, (5) Facilities, (6) Materials & Supplies and (7)
19 Vehicles. (Attachment ES-REVREQ-Rebuttal-1, Schedule ES-REVREQ-7, 10, 17, 18, 19,
20 23 and 24, respectively).

1 **Q. How did PSNH develop the post-test year adjustment for Residual O&M Inflation?**

2 A. An inflation allowance is applied based on the projected inflation factor of 5.570 percent
3 from the mid-point of the test year to the mid-point of the Rate Year using the most recent
4 forecast of the gross domestic product implicit price deflator ("GDPIPD") (as sourced from
5 the Bureau of Economic Analysis of Moody's Analytics). The resulting inflation
6 allowance for residual O&M expense is $77,599.[14] The inflation adjustment for the other
7 expense items listed above totals $1,713,433.

8 **Q. What is the DOE's recommendation regarding the Company's inflation adjustment?**

9 A. The DOE recommends rejecting the Company's inflation adjustment (Mullinax Testimony
10 at Bates Pages 38-40). The DOE claims that the Company's inflation adjustment is not
11 known and measurable and is instead subject to uncertainty based on predictions and
12 estimates of future economic conditions (id. at 39). The DOE also argues using an
13 estimated inflation factor diminishes the responsibility of management to control costs and
14 undermines prudent cost management (id.).

15 **Q. Should the Commission adopt the DOE's recommendations?**

16 A. No. The inflation allowance recognizes that inflationary pressures tend to affect the
17 Company's expenses in a manner that can be measured reasonably. The inflation
18 allowance is intended to adjust certain O&M expenses for inflation where the expenses are
19 heterogeneous in nature and include no single expense large enough to warrant specific

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[14] Attachment ES-REVREQ-Rebuttal-1, Schedule ES-REVREQ-28, page 2.

1 focus and effort in adjusting. The inflation measure is published by a widely accepted price
2 index from the Federal Bureau of Economic Analysis.

3 The inflation allowance recognizes the fact that known inflationary pressures tend to affect
4 a company's expenses in a manner that can be measured reasonably. Inflationary pressures
5 on utility operations in the future are consistent with a historical observed inflation rate for
6 the general economy. The adjustment reflects the likely cost of providing the same level
7 of service in the future as was provided in the test year. Further, it would never be the case
8 that the Company's overall cost of service would decline, even in a deflationary period,
9 particularly where the Company's annual investment plan continues.

10 The Company has also demonstrated to the DOE that it is routinely working to contain
11 costs and the inflation adjustment is in recognition that there are cost pressures outside of
12 the Company's control as described in the Company's responses to OCA 2-011 and OCA
13 -2-012, provided here as Attachment ES-REVREQ-Rebuttal-8.

14 Absent an inflation adjustment, these expense schedule would remain unadjusted from the
15 test year per books level of expense, which is not likely to occur. Given the nature of the
16 expenses included in these schedules, the Company finds it appropriate to include a pro
17 forma adjustment mirroring inflation through the midpoint of the Rate Year.

1 **H. Rate Case Expenses**

2 **Q. What is the Department's recommendation as it relates to the previously reviewed**
3 **and approved rate case expense from the Docket No. DE 19-057 rate case?**

4 A. The Commission approved a settlement agreement relating to the Company's motion to
5 recover rate case expenses. Pursuant to that agreement, the Company is authorized to
6 recover $1,762,807 through its RRA over five years, beginning on August 1, 2022. Order
7 No. 26,634 (May 27, 2022) at 1. The Department indicated that it does not support
8 including any rate case expenses in base rates and that the rate case expenses continued to
9 be recovered in the RRA and did not provide a rationale. As part of the PBR proposal, the
10 Company proposes to simplify the RRA by eliminating the rate case expense element of
11 the reconciling mechanism. Instead, the Company proposes to amortize the remaining
12 balance of the DE-19-057 rate case expense in base rates through the Amortization of
13 Deferred Assets expense, totaling $211,537 annually for the next five years.[15]

14 **Q. Was it necessary for the Company to retain outside consultants and legal services for**
15 **this case?**

16 A. Yes. The Company retained the services of four expert consulting firms and one law firm
17 to assist with the presentation of this case. All of these services were retained through a
18 competitive bid process.

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[15] As contemplated by the Order, this amount will not be amortized fully until 2027. Therefore, the Company proposes to move this amortization amount into base distribution rates for cost and efficiency purposes. The remaining balance is projected to be at $1 million on July 1, 2024, with $211k per year to be amortized over five-years. This will also minimize the bill impacts for customers.

1 **Q. Please describe the process that was utilized to retain the Company's external**
2 **witnesses and service providers.**

3 A. The Company invited a set of skilled service providers to participate in each RFP and
4 established an electronic bidding process. The Company designated an internal review
5 committee for each RFP to evaluate submitted bids. The bid evaluation included a review
6 of the potential service providers' qualifications and relevant experience, capabilities and
7 personnel to support the Company's rate petition, proposed fee structure, and other factors.
8 In some cases, the committees conducted interviews with service providers as part of the
9 overall evaluation process. The Company's external witnesses and service providers were
10 ultimately selected based on this evaluation process and determination of the service
11 provider that could best provide the necessary service at a reasonable price.

12 **Q. What has the Company included for rate case expense related to the current**
13 **proceeding, Docket No. DE 24-070?**

14 A. PSNH is proposing to recover actual rate-case expense through November 2024 totaling
15 $1,268,854 based on a 5-year amortization period, or $253,771 per year, as shown on
16 Attachment ES-REVREQ-Rebuttal-1, Schedule ES-REVREQ-27, page 2[16]. The amounts
17 reflected in this schedule are preliminary and reflect the estimated pricing reflected in each
18 respective contract. PSNH will file the required updates reflecting actual rate case
19 expenses to the docket every 90 days as required by Puc 1905.01(a), and make all necessary
20 rate case expense filings consistent with the Puc 1900 rules to ensure that the Company

[16] As reflected in the 90-day rate case expense update filed December 11, 2024.

1 recovers the appropriate amount of revenue to align with final, actual rate case expenses in
2 base rates.

3 In support of this approach, the Company has updated its revenue requirement to
4 incorporate actual rate case expenses incurred during the pendency of this proceeding.
5 Since the Company is proposing to recover these expenses over a five-year period, the
6 Company would propose a one-time adjustment, if necessary, after the conclusion of the
7 rate case after review of the expense filing made by the Company within 30 days of the
8 final order on permanent rates to align actual expenses with the amount included in the
9 revenue requirement submitted at the time of hearings in this docket. Incorporating rate
10 case expenses in permanent base rates as a part of the permanent rates proceeding is the
11 most administratively efficient approach for incorporating recovery of these expenses. The
12 Company anticipates that sufficient actual expenses will be known by the time of the
13 hearings on permanent rates that, when combined with Company estimates for the
14 remaining expenses, the updated revenue requirement will reflect an appropriate level of
15 recovery for the Commission to approve as just and reasonable.

16 **I. Fee Free Payment Processing**

17 **Q. What is the Company's Fee Free Program?**

18 A. The Company's Fee Free Program was first implemented in 2021, following its approval
19 through the Settlement Agreement in Company's Rate Case in DE 19-057, allows
20 residential customers to pay their electric bill with a credit or debit card without incurring
21 an incremental transaction processing fee. The transaction fees are charged directly to the

1 Company by its third-party payment processing vendor, and subsequently recovered
2 through distribution rates.

3 **Q. Under the DE-19-057 Settlement Agreement, what can the Company recover for Fee**
4 **Free Credit and Debit Card payments?**

5 A. Pursuant to Section 12.3, the Company may recover $375,000 of program-related costs in
6 base rates annually beginning January 1, 2021, subject to reconciliation at the time of the
7 Company's next rate case, with carrying charges on the over- or under-recovered balance
8 calculated using the prime rate. If the actual costs resulting from customers' adoption of
9 the fee free option exceed the $375,000 allowed in rates in the first year, the Company shall
10 increase the amount in rates to an amount reflecting the estimated costs, but not more than
11 $520,500 effective February 1, 2022.

12 **Q. What is the Company's proposal as it relates to the Fee Free Program?**

13 A. In this proceeding, the Company has reflected an adjustment to reconcile the historical
14 amounts for the Fee Free Credit and Debit Card payments in Amortization of Deferred
15 Assets in accordance with the DE-19-057 Settlement Agreement, totaling $89,547 to be
16 recovered annually over five years. The Company has also reflected pro-forma
17 adjustments for the known and measurable changes for the Fee Free program on a going
18 forward basis, totaling $792,100. Similar to the DE-19-057 Settlement Agreement, the
19 Company proposes an annual amount to be recovered in base distribution rates, beginning
20 on August 1, 2024, subject to reconciliation at the time of the Company's next rate case,
21 with carrying charges on the over- or under-recovered balance calculated using the prime
22 rate.

1 **Q. What is the DOE's recommendation as it relates to the Fee Free Program?**

2 A. The DOE proposes an annual funding level of $600,000 to be included in base distribution
3 rates and any over- or under-collection be reconciled annually in a reconciling rate
4 mechanism, such as the RRA (Eckberg Testimony at Bates Pages 21-22; Mullinax
5 Testimony at Bates Page 42). The DOE also recommends a shorter amortization period of
6 two-years given the relatively small total amount to reduce carrying costs paid by
7 customers (Eckberg Testimony at Bates Pages 21).

8 **Q. Does the Company agree with the DOE's recommendation?**

9 A. Yes, in part. The Company could reduce the annual funding level to $600,000, but based
10 on the expected level of expense going forward this will result in a future under-recovery
11 to be collected from customers, which naturally will increase the carrying charges to be
12 recovered from customers in the future. Additionally, the Company's proposal to amortize
13 the costs over five years subject to reconciliation at the time of the Company's next rate
14 case, with carrying charges on the over- or under-recovered balance is more
15 administratively efficient. The Company has proposed the adoption of PBR in this
16 proceeding that would allow for the elimination of the reconciliation of certain costs that
17 are currently reconciled outside of base distribution rates in the RRA.

18 **Q. Can the Company confirm it has reflected the increased funding in base rates that**
19 **occurred on February 1, 2022 in its reconciliation?**

20 A. Yes, it has. The DOE requested the Company to confirm that the under-collection
21 proposed to be amortized in this proceeding reflects the fact that the amount of funding in
22 base rates increased to $520,500 effective on February 1, 2022 (id. at 22).

1 **J. New Start Program**

2 **Q. What is the New Start Program?**

3 A. New Start is an arrears forgiveness program that provides assistance for residential
4 customers with a financial hardship. For every monthly payment a customer on New Start
5 makes, the Company forgives one twelfth of their past due balance. New Start has helped
6 many customers make significant reductions to their total past due balance and their service
7 remains protected while they are on it. The intent of the program is to: enable the customer
8 to develop consistent bill payment habits; protect the customer from service disconnection
9 while participating in the program; and enable the customer to get a fresh start as the arrears
10 are forgiven with each payment made.

11 **Q. Please describe the costs recovered for the New Start Program pursuant to the**
12 **Settlement Agreement in Docket No. DE 19-057.**

13 A. Pursuant to Section 13 of the Settlement Agreement, the Company is permitted to recover
14 $1,077,356 in base rates annually beginning February 1, 2022, subject to reconciliation at
15 the time of the Company's next rate case, with carrying charges on the over- or under-
16 recovered balance calculated using the Prime Rate.

17 **Q. What is the Company's proposal as it relates to the New Start Program?**

18 A. In this proceeding, the Company has reflected an adjustment to reconcile the historical
19 amounts for the New Start program in Amortization of Deferred Assets in accordance with
20 the DE-19-057 Settlement Agreement, totaling $949,431 to be recovered annually over
21 five years. The Company has also reflected pro-forma adjustments for the known and
22 measurable changes for the New Start program on a going forward basis, totaling

1 $3,988,737. Similar to the DE-19-057 Settlement Agreement, the Company proposes an
2 annual amount to be recovered in base distribution rates, beginning on August 1, 2024,
3 subject to reconciliation at the time of the Company's next rate case, with carrying charges
4 on the over- or under-recovered balance calculated using the prime rate.

5 **Q. What is the DOE's recommendation as it relates to the New Start Program?**

6 A. The DOE supports the continuation of the New Start Program suggesting that the program
7 is effective and accomplishing its goals as evidence by the Company's regular reporting.
8 The DOE proposes an annual funding level of $3,500,000 to be included in base
9 distribution rates and any over- or under-collection be reconciled annually in a reconciling
10 rate mechanism, such as the RRA (Eckberg Testimony at Bates Pages 24; Mullinax
11 Testimony at Bates Page 42). The DOE supports the Company's proposal to recover
12 $949,431 annually over five years, but instead is recommending the recovery flow through
13 a reconciling mechanism rather than included in base rates citing that if the Company were
14 not to file its next rate case in five years that it could possibly continue to collect this
15 amount in rates even after the amortization was complete.

16 **Q. Does the Company agree with the DOE's recommendation?**

17 A. Yes, in part. The Company could reduce the annual funding level to $3,500,000, but based
18 on the expected level of expense going forward this will result in a future under-recovery
19 to be collected from customers, which naturally will increase the carrying charges to be
20 recovered from customers in the future. Additionally, the Company's proposal to amortize
21 the costs over five years subject to reconciliation at the time of the Company's next rate

1 case, with carrying charges on the over- or under-recovered balance is more
2 administratively efficient. The Company has proposed the adoption of PBR in this
3 proceeding that would allow for the elimination of certain costs that are currently
4 reconciled outside of base distribution rates in the RRA. The DOE expresses concern with
5 the timing of the Company's next rate case as it relates to this amortization in rates.
6 However, the Company's proposal addresses this concern by returning any over recoveries
7 to customers with carrying charges.

8 **V. ADJUSTMENTS TO DEPRECIATION**

9 **Q. Did the Company prepare a depreciation study for this case?**

10 A. Yes. Company Witness John J. Spanos prepared a detailed depreciation study for this case.
11 PSNH has incorporated the results of that study into its proposed depreciation expense.
12 Please see Mr. Spanos' direct testimony for the detailed support of the updated depreciation
13 rates and the rebuttal testimony of Mr. John Spanos.

14 **Q. What level of depreciation is the Company proposing for its revenue requirement?**

15 A. PSNH has calculated a pro forma depreciation expense of $97,067,198 as shown in
16 Attachment ES-REVREQ-Rebuttal-1, Schedule ES-REVREQ-29, page 1, at line 21,
17 Column (B). This is an increase of $12,490,663 from the test year amount of $84,576,535.

18 **Q. Please describe in more detail the calculation of depreciation expense.**

19 A. We have applied the depreciation rates resulting from the depreciation study performed by
20 Mr. Spanos as of the test year to account balances of depreciable plant. As described in

1 Mr. Spanos' testimony and his accompanying exhibits, the depreciation rates represent a
2 net increase versus current levels.

3 Attachment ES-REVREQ-Rebuttal-1, Schedule ES-REVREQ-29 page 2 provides a listing
4 of the depreciable plant balances by account as of December 31, 2023. In this Workpaper,
5 we have applied the depreciation accrual rates presented in Schedule JJS-3 to the
6 distribution plant in service balance for PSNH. The calculated depreciation expense is the
7 sum of the depreciation expense for each utility plant account. Attachment ES-REVREQ-
8 Rebuttal-1, Schedule ES-REVREQ-29, Page 3 then applies the same proposed depreciation
9 rates in Page 2 to the depreciable plant balances by account as of December 31, 2024. This
10 is the total of $97,067,198 shown on Attachment ES-REVREQ-Rebuttal-1, Schedule ES-
11 REVREQ-29, page 3.

12 **Q. Does the Company agree with the Department's recommendations as it relates to**
13 **depreciation?**

14 A. Yes. The DOE's witness, Mr. Stephen R. Eckberg, presents depreciation rates and expense
15 consistent with the Company's depreciation study. Mr. Eckberg agrees with the remaining
16 life method and the parameters to arrive at the depreciation expense (Eckberg Testimony
17 at Bates Pages 5-6). The rebuttal testimony of John S. Spanos addresses the Office of the
18 Consumer Advocate's witness testimony submitted by Marc Vatter on depreciation-related
19 matters.

1 **VI. EMPLOYEE BENEFITS AND COMPENSATION PROGRAMS**

2 **A. Variable Compensation**

3 **Q. Please summarize the DOE's recommendations regarding the Company's recovery of**
4 **its variable compensation amounts.**

5 A. The DOE recommends removing $5,529,771, which is 70 percent of the Company's
6 variable compensation for employees (Mullinax Testimony at 32). To corroborate this
7 disallowance, the DOE incorrectly asserts that the amount of variable compensation
8 received by employees is directly tied to financial goals for the Company and shareholders
9 (id. at 27-28, 32). Based on this false conclusion, the DOE argues that ratepayers should
10 not bear the costs of 70 percent of the variable compensation plan (id. at 32).

11 **Q. Has the DOE accurately described the operation of the Company's variable**
12 **compensation plan?**

13 A. No. The DOE's conclusions are based on a misunderstanding of the Company's variable
14 compensation plan and cannot form the basis for any valid recommendations regarding the
15 plan's structure or its implementation. The DOE is conflating the overall Eversource
16 Energy 2023 performance goals with the Company's separate, *individual performance*
17 *goals* based on each employee's ***individual job performance***. The Company's variable
18 compensation amounts for its employees as shown in the response to data request
19 DOE 4-067[17] is not directly linked to *Eversource Energy's* 2023 performance goals, as
20 listed in the Company's 2024 Proxy Statement Pursuant to Section 14(a) of the Securities

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[17] The Company has provided a copy of the response to data request DOE 4-067 in Attachment ES-REVREQ-Rebuttal-9.

1 Exchange Act of 1934 at 55-64.[18] The broad financial thresholds the DOE cites from the
2 Proxy Statement are required for Eversource Energy, as a parent company, to gauge
3 whether the overall organization is in a financial position to pay the incentive compensation
4 to individuals. However, the amount of the awards as shown in Attachment DOE 4-067 is
5 based on the individual's performance and successes in their specific job function within
6 the organization.

7 Eversource necessarily uses certain financial thresholds, such as earnings per share, as a
8 metric for determining whether there is enough money to pay incentive compensation to
9 the *entire Eversource Energy employee base*. If Eversource corporate and business unit
10 objectives are reached, a funding pool is established for the purpose of fulfilling variable
11 pay compensation payments for its operating companies (Joint Testimony of Botelho and
12 Chen at Bates Page 01592). This funding is not determined on a company-by-company
13 basis, as the decision to fund annual incentive compensation is applicable to eligible
14 employees on an enterprise-wide basis, representing a commitment of financial resources
15 in the range of approximately $50 million. If Eversource meets its financial goals and has
16 the ability to fund incentive payments, specific customer-centric employee goals are then
17 utilized to determine the amount of the actual payouts. In the alternative, if the financial
18 goals are not met, it is axiomatic that funding the incentive compensation pool at a certain
19 level, if at all, may not be appropriate given the competing uses for capital needed to

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[18] The Company has provided a copy of the Proxy Statement, which was also provided as Attachment DOE 4-066(d) in response to a data request, in Attachment ES-REVREQ-Rebuttal-10.

1 continue to run the business. Therefore, it is imperative that Eversource management have
2 a financial trigger to decide upon plan funding for individual company employees.

3 **Q. How does the Company choose when to award incentive compensation to its**
4 **individual employees?**

5 A. The Company uses individual job performance measures for each employee as the basis
6 for determining the amount of the employee's incentive payment. These individual
7 performance measures are not based on earnings per share or other broad financial goals
8 but instead are based on the performance of the individual as compared to pre-designated
9 goals including customer, employee, process/capability, and other functional activities
10 necessary for PSNH to provide safe, reliable and reasonable cost service to customers. The
11 percentage of an individual employee's compensation tied to the variable pay component
12 is dependent upon their job-scope level, which provides a potential range of payout for
13 each employee at that job scope level (Joint Testimony of Botelho and Chen at Bates Page
14 01592). For exempt employees, the individual performance and achievement of
15 predetermined goals as determined by his or her supervisor is also factored into the amount
16 of the variable compensation granted (id.). Therefore, the payment made to the employee
17 is based 100 percent on the employee's individual performance against pre-designated
18 goals and objectives specifically related to the employee's job position (id. at Bates Page
19 01593).

20 Additionally, as discussed above, because their individual goals are largely financial based,
21 the Company removed the cash incentive expense for both the CEO and the CFO from its

1 cost of service, which reduces the executive incentive compensation by $255,578 (id. at
2 Bates Page 01561).

3 **Q. Does the Company's variable compensation awarded to individual employees benefit**
4 **customers?**

5 A. Yes, the Company's variable compensation is highly beneficial for customers. As stated
6 above, individual employee performance goals are based on the performance of the
7 individual, which includes various goals directly related to safety and reliability as well as
8 customer satisfaction. The use of the performance-review process to establish goals to
9 measure employees' performance against these goals is important in reinforcing the proper
10 focus on key initiatives and goals designed to improve customer service and reinforce cost
11 containment (id. at Bates Page 01594). The variable pay component of employee
12 compensation is designed to drive and reinforce the performance goals set for each
13 employee each year, which generally fall into four key categories, including customer,
14 employee, financial, and process (id.). These goals and the performance-review process
15 are critical in reinforcing key Eversource initiatives, including safety, customer service,
16 and operational efficiency, to the benefit of its ratepayers (id.).

17 Additionally, as the Commission has found in previous proceedings, incentive
18 compensation provides benefits to customers as it allows for a total compensation package
19 that is competitive and enables the Company to attract, retain, and motivate highly qualified
20 and dedicated employees.[19] Use of a variable pay component as part of the total employee

[19] Pennichuck Water Works, Inc., 94 N.H. P.U.C. 442 (2009).

1 compensation is standard labor market practice, both within the utility industry and within
2 the broader employer base. Variable pay remains an increasingly critical and prevalent
3 component of most companies' Total Compensation philosophies (id.). In 2020, the
4 majority (86.5 percent) of the participants in Towers Watson's Salary Budget Survey
5 Report reported that they have an annual performance bonus/short-term variable
6 compensation award program in place (id.). For the energy/utility sector, 88.6 percent of
7 the participants reported an annual short-term variable compensation award program (id.
8 at Bates Pages 01594-01595). In 2020, a median of 100 percent of total US employees
9 who were eligible for a variable pay award actually received an award and a median of 100
10 percent of total energy/utility sector employees who were eligible similarly received an
11 award (id. at Bates Page 01596).

12 As such, a variable pay component as part of a total compensation package is not only
13 beneficial in attracting high quality employees and executives, but also necessary for the
14 Company to remain competitive in the market. When the Company remains competitive
15 and is able to employ skilled and qualified individuals, customers benefit through the
16 provision of safe and reliable electricity and superior customer service. If the Company
17 were to compensate employees only with the level of base pay provided for under the
18 current compensation program, it would not be competitive with others in the market and,
19 over time, customers would be harmed because the Company would be unable to attract
20 and retain the type of qualified employees needed to provide safe, reliable, and efficient
21 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.

Therefore, given the prevalence of incentive programs in the market and the DOE's misunderstanding of the Company's payout criteria and performance goals, the Commission should reject the DOE's recommendations and allow the Company to recover $8,136,662 in total variable compensation.

B. Supplemental Retirement Plans

Q. What are the DOE's recommendations in relation to the Company's supplemental retirement benefits?

A. The DOE recommends the removal of Non-Qualified Pension, the Supplemental Executive Retirement Plan ("SERP"), and Non-SERP expenses from the Company's cost of service (Mullinax Testimony at Bates Pages 33-34). The DOE argues that employees covered by Non-Qualified Pension, SERP, and Non-SERP plans already benefit from ratepayer-funded retirement plans and ratepayers should not bear the costs of these additional benefits (id. at Bates Page 34).

Q. Please describe the Company's supplemental retirement benefits and their importance as part of an overall compensation package.

A. The Company's supplemental retirement benefits such as Non-Qualified Pension and SERP are an important part of an overall competitive compensation package designed to attract and retain skilled, highly qualified individuals, such as the Named Executives listed

1 in the Eversource Energy Proxy Statements. Eversource Energy must be competitive with
2 other employers seeking to retain individuals of the caliber of Named Executives, including
3 the overall compensation package. The Company has carefully and deliberately
4 constructed its compensation package, consistent with industry norms, to ensure that it has
5 access to employees who will advance the Company's overall corporate mission to provide
6 customers with high-quality, safe and reliable service and that it has the means to retain
7 these employees. If the Company failed to offer employees those compensation
8 components that are regularly offered in the marketplace for similar positions, it is likely
9 that employees would accept an employment offer that included a complete, as opposed to
10 piecemeal, compensation package.

11 In fact, it is common practice among companies with qualified defined benefit pension
12 plans, such as the Eversource Retirement Plan, to provide executives with a benefit that
13 makes them whole for the limits on pensionable earnings that the Internal Revenue Service
14 imposes on qualified pension plans. The objective is for executives to receive a pension
15 benefit that is similar to that of non- executives relative to their pay. This expense has been
16 recognized in other jurisdictions, including Massachusetts and Connecticut as a reasonable
17 operating cost, and all other Eversource gas and electric operating companies currently
18 recover 100 percent of their SERP and non-SERP expense in rates by approval of the
19 relevant regulatory commissions.

20 A SERP, which is a non-qualified plan, accomplishes the same objective of other
21 retirement plans and is necessitated for certain, higher-earning employees. Because the

1 Company no longer offers a defined benefit plan to new employees, newly hired executives
2 are not eligible for the SERP. However, since the SERP is linked to the Company's defined
3 benefit pension plan, employees who already participate in the defined benefit pension plan
4 and are promoted to executive roles become eligible for the SERP. The Company will
5 have to maintain its SERP as long as there are officers eligible for a qualified pension.
6 Therefore, it is necessary for the Company to offer SERP benefits to these managers as
7 they hold positions with a substantial amount of responsibility and oversee the work of
8 many other employees. These managers make decisions on a daily basis affecting a range
9 of matters pertaining directly to the cost and quality of service provided to customers.

10 Non-SERP benefits refer to specifically negotiated post-employment benefits, including
11 pension enhancements not covered by other retirement plans or SERP. These benefits are
12 typically included in some employment agreements to compensate mid-career hires for
13 benefits lost with previous employers or as part of a separation agreement with Northeast
14 Utilities. Non-SERP benefits are governed by employment agreements, and any employee
15 could be eligible.

16 **Q. Do customers benefit from the hiring and retention of employees based on the total**
17 **compensation package, including supplemental retirement benefits?**

18 A. Absolutely. Eversource Energy's regulated gas and electric distribution companies operate
19 across three states and serve approximately four million electric, natural gas and water
20 customers. In serving these customers, Eversource Energy leadership manages a
21 workforce of more than 8,000 employees dedicated to providing high-quality, safe, reliable

1 and reasonably priced service. By any standard, the Named Executives have, through their
2 employment at Eversource Energy, accepted a significant obligation to safely and reliably
3 serve nearly four million customers. Given the importance of this obligation, which is a
4 cornerstone of Eversource Energy's operating companies' corporate mission, it is in
5 customers' interests that they be served by highly qualified and skilled individuals, with
6 long-term ties to the gas and electric distribution industry.

7 The Company's customers receive benefits of the Named Executives' and managers' skills
8 and experience on a daily basis. As outlined above, these individuals make important
9 decisions directly to the cost and quality of service provided to customers across all
10 Eversource Energy operating companies, including PSNH. Therefore, it is important that
11 Eversource has the ability to attract and retain the most qualified individuals for these
12 positions in order to continue to provide high quality, safe and reliable service to its
13 customers.

14 **Q. Are the DOE's recommendations to disallow these costs warranted?**

15 A. No. As explained above, supplemental retirement benefits such as SERP and Non-SERP
16 are a standard component of the Company's total compensation package designed to attract
17 and retain qualified employees. Their leadership ensures that the Company's customers
18 are benefitting, on a daily basis, from the provision of safe and reliable service at a
19 reasonable cost. The compensation package must be examined as a whole and focusing on
20 individual components without recognition for how these components complement the
21 whole is a mistake the DOE continues to make through its testimony regarding employee

1 compensation and benefits. Therefore, consistent with past precedent in New Hampshire
2 and current precedent in other states, SERP and non-SERP expenses should be allowed
3 and the DOE's recommendations should be rejected.

4 **C. Director's and Officer's (D&O) Liability Insurance**

5 **Q. Please explain the DOE's recommendation with regard to the Company's D&O**
6 **insurance?**

7 A. The DOE recommends that the cost of the D&O insurance be split 50/50 between
8 ratepayers and shareholders because the insurance benefits both groups (Mullinax
9 Testimony at Bates Pages 35-37). The DOE agrees that D&O insurance is a legitimate
10 business expense but states it should not be fully recoverable by the ratepayer (id. at Bates
11 Page 036).

12 **Q. What is the purpose of D&O insurance?**

13 A. D&O insurance is maintained to protect the Company from claims against it from
14 shareholders related to alleged wrongdoing, including derivative claims. The insurance
15 also protects the personal assets of trustees and officers in a related lawsuit. This insurance
16 coverage does not protect covered individuals in the event that (1) they used their position
17 to gain personal profit, financial advantage or remuneration to which they were not entitled
18 or (2) where the individual committed a deliberately fraudulent or criminal act or omission
19 or any intentional violation of any law, statute or regulation. Please refer to Attachment
20 ES-REVREQ-Rebuttal-3 for the endorsement outlining these exclusions in the Company's
21 D&O insurance policy.

1 **Q. Why is D&O insurance an important and legitimate business expense?**

2 A. Eversource purchases D&O insurance to protect the financial assets of the Company and
3 individuals who serve in roles as directors and officers. Maintaining D&O insurance
4 assists in attracting top talent to these positions. D&O Insurance protects the Company's
5 management should they be personally exposed to liability claims for the business
6 decisions and actions they make while operating the Company and providing service to
7 customers. This type of insurance enables the Company's leadership to make decisions
8 about the provision of service to customers confidently without the complicating fear that
9 business decisions made to benefit customers could lead to personal financial loss.

10 **Q. How does D&O insurance provide benefits to customers?**

11 A. D&O Insurance benefits customers by ensuring that the Company is able to attract and
12 retain skilled, experienced officers and trustees who use their specialized areas of
13 knowledge and expertise to provide safe and reliable service to customers at a reasonable
14 cost. For large corporations, such as Eversource, coverage by D&O insurance is the
15 business norm for upper-level management, executives, and trustees. Eversource, in order
16 to remain competitive with other industries seeking to attract and retain highly skilled
17 personnel, must offer comparable protections, such as those provided by D&O insurance.
18 The individuals covered by D&O insurance, through their employment or decision to serve
19 as a trustee, accepted a significant obligation to safely and reliably serve customers. Given
20 the importance of this obligation, it is in customers' interests that they be served by highly
21 qualified and skilled individuals, with long-term ties to the electric distribution industry.

1 Therefore, customers are benefitting, on a daily basis, from the knowledge, skills and
2 experience these executives and trustees bring to bear on the provision of safe and reliable
3 service at a reasonable cost.

4 **Q. Does the Company agree with the DOE's recommendation to eliminate 50 percent of**
5 **D&O liability insurance from the distribution cost of service?**

6 A. No. As explained above, D&O insurance is reasonable and necessary in order to attract
7 and retain qualified individuals for executive positions within the Company. Additionally,
8 this provides customer benefits because engaging competent and highly skilled employees
9 ensures customers receive safe and reliable service.

10 However, the DOE claims the insurance benefits shareholders as well because "D&O
11 insurance protects officers and directors from liability, and when utilized, payouts reduce
12 costs that would otherwise not be recoverable from ratepayers" (Mullinax Testimony at
13 Bates Page 36). The interests and contributions of shareholders are already factored into
14 the ratemaking paradigm. It is widely accepted that rates for service provided by a
15 regulated public utility must allow a fair rate of return to investors on the value of the
16 property used in providing those services. Appeal of Conservation Law Foundation of
17 New England, Inc. 127 N.H. 606, 635 (1986), citing Bluefield Water Works & Imp. Co. v.
18 Public Serv. Comm'n of W. Va., 262 U.S. 679, 690 (1923). A return is fair and reasonable
19 if it covers utility operating expenses, debt service, and dividends, compensates investors
20 for the risks of investment, and is sufficient to attract capital and assure confidence in the
21 enterprise's financial integrity. The return on equity should be commensurate with returns

1 on investments in other enterprises having corresponding risks. Recovery of only a portion
2 of D&O insurance from shareholders inappropriately reduces the calculated rate of return
3 and would be fundamentally duplicative because shareholders have already contributed the
4 capital to build the infrastructure necessary to serve all customers. Therefore, the Company
5 is proposing to include the cost of the D&O liability insurance, totaling $105,596
6 (Attachment ES-REVREQ-Rebuttal-1).

7 VII. STORM COST RECOVERY

8 **Q. What is the DOE's recommendation as it relates to storm cost recovery?**

9 A. Mr. Dudley, Mr. Willoughby, and Mr. DeVirgilio argue that the Company should not
10 include non-outage events as reported troubles and should only include events involving
11 service interruptions lasting more than five minutes (Dudley, Willoughby, and DeVirgilio
12 Testimony at Bates Page at 75-76). The Company responds to the Department's testimony
13 in the Rebuttal Testimony of Robert D. Allen, Ian J. Farley, Adam V. Mierzwa and Brian
14 Dickie.

15 The DOE also argues that the Company's storm cost balance should be disallowed and
16 argues the five-year amortization rule will result in rate shock and proposes to book the
17 storm cost balance as a regulatory asset to be amortized over a 15-year period with a
18 carrying charge equal to the 10-year U.S. Treasury rate of 4.5 percent with recovery
19 through the storm reserve adjustment mechanism (id. at Bates Page 78). The Company
20 summarizes the impact of those recommendations on the distribution cost of service below.

1 **Q. Please summarize the Company's proposals as it relates to storm cost recovery.**

2 A. There are a few considerations in this case as it relates to storm cost recovery. First,
3 establishing the level of the Major Storm Cost Reserve ("MSCR"). Next, the Company is
4 also proposing to modify the Storm Reserve Adjustment Mechanism.[20] Lastly, the
5 Company's initial filing proposes to begin recovery of the unrecovered major storm costs,
6 totaling $239,533,264 beginning August 1, 2025 to be amortized over five years.[21]

7 **Q. What is the Company's proposal as it relates to the MSCR?**

8 A. Pursuant to Order No. 25,534 (June 27, 2013), the Company's MSCR is currently funded
9 at $12 million annually. The Company is proposing to increase the storm reserve
10 contribution by $7 million annually, from $12 million to $19 million. The $19 million is
11 based on the average annual storm costs for the last ten years excluding events over $25
12 million. The Department has not recommended an adjustment to the Company's proposed
13 MSCR funding of $19 million. Therefore, the Company recommends that the Commission
14 adopts this proposal.

15 **Q. Please describe the Company's Storm Reserve Adjustment Mechanism.**

16 A. The Company has proposed a modification to the current Storm Reserve Adjustment
17 Mechanism where the Company is permitted to file for separate, temporary amortization

[20] This cost recovery mechanism has been previously referred to as the Storm Cost Adjustment Mechanism. The Company is proposing to change the name of this cost recovery mechanism to the "Storm Reserve Adjustment Mechanism" in this proceeding.

[21] $239,533,264 reflects DE 24-041 unrecovered costs and carrying charges at 8/1/2024 as well as DE 22-031 and DE 23-051 unrecovered costs and carrying charges at 8/1/2025. This amount also includes the removal of $39,183 in disallowances agreed to by the Company resulting from the final audit report issued by the Audit Division .

1 of storms events when the storm reserve balance shows a surplus or a deficit of $19 million,
2 which is equal to one year of the MSCR funding level proposed to be established in base
3 rates, referenced above.

4 **Q. What is the current status of unrecovered major storm costs for PSNH?**

5 A. Due primarily to significant storm activity in 2022 and 2023, the net deficit for the
6 Company's storm reserve total approximately $254.5 million at February 28, 2025. The
7 Company filed a petition requesting review of its 2022-2023 Storm Event costs that was
8 docketed as DE 24-041. The costs incurred for the 2022-2023 Storm Events are eligible
9 for recovery through the MSCR mechanism pursuant to the storm event criteria established
10 in DE 99-099 or pre-staging criteria approved in Docket DE 12-320. The review of those
11 costs and associated prudency determination is the subject of DE 24-041.[22]

12 **Q. Are there unrecovered major storm costs for PSNH that have already been reviewed**
13 **and approved?**

14 A. Yes. Resulting from the Docket No. DE 19-057 Settlement Agreement, the Company was
15 recovering $68.5 million over five years associated with unrecovered storm costs as of
16 December 31, 2018 beginning on August 1, 2019. The Company was projected to be fully
17 recovered on these storms by the temporary rate effective date of August 1, 2024 and
18 sought to apply the current recovery in rates of $15,216,947 to previously unrecovered and
19 approved storm costs in Docket Nos. DE 22-031 and DE 23-051. However, as a results of

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[22] The Company filed $222.1 million of direct storm costs for prudent review in docket DE 24-041. The net deficit of $254.5 million reflects the direct costs filed in DE 24-041 with removal of the agreed upon disallowance of $39,183, the remaining unrecovered costs associated with dockets DE 22-031 and DE 23-051 at February 28, 2025, and the cumulative carrying charges associated with these costs as of February 28, 2025.

1 the temporary rate settlement agreement, the Company reduced the $15,216,947 million
2 that was previously included in rates for storm cost recovery to $6,239,102. This has left
3 a remaining balance of approved, unrecovered costs that will be reflected in a future
4 amortization of storm costs as discussed further below. Docket No. DE 24-070, Temporary
5 Rate Settlement Agreement dated July 19, 2024 at 3.

6 **Q. What has the Company reflected in the revenue requirement update submitted with**
7 **this filing as it relates to unrecovered storm costs?**

8 A. With this testimony, the Company has eliminated the storm cost amortization of
9 approximately $55 million from its base distribution cost of service to allow for the
10 completion of the prudency review in Docket No. DE 24-041 to occur on a parallel path
11 with the rate case proceeding. Pursuant to the current procedural schedule for DE 24-041,
12 the DOE will file its reply brief in Docket No. DE 24-041 on March 17, 2025 and the
13 Company will file its sur-reply brief on March 31, 2025. The DOE's testimony in this
14 proceeding reflects the recommendations set forth in DOE's testimony filed on November
15 22, 2024 in DE 24-041. As stated in DOE's testimony, an order in Docket No. DE 24-041
16 is expected in April or May 2025.

17 The Company recommends that the outstanding unrecovered storm costs to be included in
18 rates beginning on August 1, 2025 to be amortized over five years and to be reconciled on
19 an annual basis as part of the Storm Reserve Adjustment Mechanism proposed in this
20 proceeding.

1 **Q. Does the Company agree with the DOE's recommendation to recover storm costs over**
2 **fifteen years with carrying charges at the 10-year U.S. Treasury rate of 4.5 percent?**

3 A. No. Although the Company understands (and shares) the DOE's goal of mitigating rate
4 impacts on customer bills, it is not possible to achieve that objective by recovering storm
5 costs in this manner. The Company has to respond to weather events as they occur and to
6 timely pay its employees and contractor crews utilized in restoring service during and after
7 major storm events. The Company relies upon its available capital resources to do so,
8 initially paying storm-related costs and invoices with available short-term capital resources
9 (e.g., short-term debt and funds from operations), but must eventually rely upon its
10 permanent capital resources (long term debt and equity) given the time lag between initial
11 cost incurrence and ultimate recovery through rates from customers. This time lag can take
12 – and usually does take – several years. For instance, the major storms that contributed to
13 the approximately $255 million proposed for recovery, ($55 million over five years) in this
14 proceeding occurred during 2022 and 2023, two to three years ago by the time new rates
15 are set in this proceeding, and will not be recovered even under the Company's proposal
16 for another five years. This will result in an about seven to eight year lag between paying
17 for the storm restoration and recovering those costs from its customers. Amortizing these
18 costs over an additional decade, as proposed by the DOE, is not reasonable.

19 A 15-year amortization will add a significant tally to customer bills by tripling the period
20 of recovery (and therefore the time over which carrying costs must be calculated) versus
21 the Company's proposal and existing precedent. In fact, the total carrying costs calculated
22 at the Company's proposed 7.44% weighted average cost of capital would be as follows:

1 **Table 3: Carry Charges for Different Storm Amortization Periods**

	Total Carrying Costs at 7.44% WACC	**Total Carrying Costs at US Treasury Rate 4.5%**
5 Years	$33.9 million*	
10 Years	$70.8 million	
15 Year	$110.5 million	$66.4 million**
30 Years	$245.5 million	

**reflects Company's current proposal.*
***reflects DOE's proposal.*

2 While DOE frames the storm costs as unprecedented, the OCA's consultant notes that the
3 level of storm costs is likely not abnormal given recent trends in storms (Underhill
4 Testimony at Bates Page 670). Mr. Underhill correctly indicates that 2024 storm costs are
5 in the same order of magnitude as 2023, and that trend will likely continue. Accordingly,
6 treating these storms expense as effectively a one-time expense is not appropriate and a
7 reasonable five-year amortization period should be used.

8 The Company cannot continue to carry this large balance (and growing) storm cost
9 deferral, on top of basic business infrastructure needs that require significant investments
10 annually and is only expected to increase in the future as system needs continue to increase.
11 The Company cannot continue to utilize its capital resources while simultaneously not
12 recovering adequate amounts to replenish those resources. Prolonging recovery will strain
13 the Company's capital resources, which is not a sustainable strategy. Moreover, the

1 Company is entitled to charge rates that are sufficient to assure confidence in the financial
2 integrity of the enterprise, so as to maintain its credit ratings and its ability to attract capital.
3 Having rates that align closely with our costs enables the Company to operate successfully
4 and maintain its financial integrity, attain capital, and to pay the costs that both debt and
5 equity investors require as compensation for the use of their capital.

6 The Company's five-year amortization period will not result in rate shock to the ratepayer
7 as the Testimony of Dudley, Willoughby and DeVirgilio proposes. First, the five-year
8 amortization period is modeled after the Company's previous rate case Settlement
9 Agreement in Docket No. DE 19-057. In that proceeding the Company was approved to
10 recover its outstanding storm costs over the five years associated with unrecovered storm
11 costs. Therefore, an amortization period of five years is a typical period for recovery of
12 storm costs and a fifteen-year period is far too long, arbitrary, and will increase carrying
13 costs.

14 In addition to the proposed amortization period, the Company's cost to carry this balance
15 is its weighted average cost of capital (i.e., the cost to the Company of long-term debt and
16 equity). The 10-year U.S. Treasury rate of 4.5 percent proposed by DOE is not the
17 Company's cost of capital, and is not appropriate to rely upon for ratemaking as a result.
18 The Company must balance its capitalization resources between debt and equity, and so
19 the calculation of carrying charges applicable over the recovery period must reflect the true
20 cost to the Company of its debt and its equity; the 10-year U.S. Treasury rate of 4.5 percent
21 is not reflective of the Company's WACC, and should not be relied upon.

1 **Q. Please explain further the considerations as it relates to the Company's ability to**
2 **obtain capital resources at reasonable cost.**

3 A. As discussed above, there is a gap between the level of costs required to run the Company
4 and the amount of costs collected through rates from customers. This is not uncommon for
5 utilities, which are extremely capital intensive, with increasing capital investment needs
6 required to serve customers. This gap is the reason utilities need to be able to compete for
7 capital resources (debt and equity) in order to serve our customers. Without the ability to
8 attract the capital necessary to close the gap between cash sources and cash uses, the utility
9 would not be able to adequately serve customers. Capital resources, both debt and equity
10 resources, must be balanced in order for the Company to remain financially stable. Debt
11 and equity lenders evaluate the Company's cash flow position and other factors before
12 providing the Company access to its capital. As capital resources become constrained,
13 there is a limit to the amount of capital resources utilities are able to expend, and a cost to
14 access additional capital as those resources are constrained.

15 There is no question that, eventually, increased borrowing will affect PSNH's credit rating
16 and in turn, its access to more capital to fund its business operations when needed.
17 Furthermore, the credit rating agencies' existing assessments of the Company reflect the
18 function of established mechanisms intended to collect incurred expenses on a predictable
19 basis with collection or refund of any over / under collections in the following period. To
20 change the recovery construct such that the Company continues to incur costs on behalf of
21 its customers, yet the collection of those costs is, by design, extended from concurrent
22 reconciling into more long-term recovery with uncertain timing, would have negative

1 consequences. Moreover, the Company is entitled to charge rates that are sufficient to
2 assure confidence in the financial integrity of the enterprise, so as to maintain its credit
3 ratings and its ability to attract capital commensurate with other utility peers, who are also
4 actively seeking to attract large quantities of capital in service to their own customers.
5 Having rates that align with our costs enables the Company to operate successfully, to
6 maintain its financial integrity, attain capital, and to pay the costs that both debt and equity
7 investors require as compensation for the use of their capital. Issuing additional debt to
8 continue to fund these substantial under recoveries in order to maintain a level of capital to
9 respond to day-to-day operations damages the financial integrity of the business and will
10 become more costly in the long- run.

11 To the extent the Company is not allowed to set rates at a level necessary to recover its
12 costs – both those costs previously incurred by the Company but not recovered in rates,
13 and the costs for storm expenses that have not yet been filed, requiring the Company to
14 undertake additional borrowings, it will have an immediate negative affect on the
15 Company's cash flow, impacting its funds from operation ("FFO") to debt ratio. The FFO-
16 to-debt ratio is the most important metric credit rating agencies consider in establishing a
17 utility's credit rating. A Company whose balance sheet is heavily levered with debt
18 experiences a higher risk of credit downgrades, which will result in higher interest rates
19 and consequent cost increases for customers. A credit downgrade would further limit
20 access to capital resources, with the resources available coming at higher and higher
21 interest rates, resulting in higher costs for customers. This is not feasible, nor a sustainable

1 business model to continue financing the business with additional debt year after year
2 because of these under recoveries without commensurate increases to revenues.

3 Therefore, the Company cannot continue to finance the storm costs over extended periods
4 as these are costs that should be reasonably recovered within a five-year timeframe and
5 proposes the adoption of the Company's proposal to recover storm costs within a five-year
6 timeframe.

7 **Q. Will the Company continue to file its Annual Storm Filing?**

8 A. Yes, with some modifications. Currently, the Company files its Annual Storm Filing each
9 May 1st for recoverable storm events whose majority or all of the associated costs are
10 available and thoroughly reviewed with the supporting documentation such as the invoices
11 from vendors. Going forward, the Company plans to file all recoverable storm events
12 which occur through September 30th annually with the associated costs that are available
13 as of December 31st each year and thoroughly reviewed for submission by April 1st the
14 following year. Any additional costs received or finalized after April 1st will be
15 supplemented at a later date or in the subsequent Annual Storm Filing. If the storm reserve
16 balance net from the storm reserve contribution through base rates shows an (over) or under
17 recovery of more than $19 million as noted above, the Company will file a storm recovery
18 adjustment request separately to request for a refund or surcharge through the Storm
19 Reserve Adjustment Mechanism.

1 **VIII. VEGETATION MANAGEMENT**

2 **Q. What is included in the Company's Vegetation Management expense?**

3 A. As shown in Attachment ES-REVREQ-Rebuttal-1, Schedule ES-REVREQ-20, Page 2, the
4 pro forma test year vegetation management expense is $43,200,00, which reflects the
5 expected budget level for vegetation management activities in 2025. Since the Company
6 fully expects this vegetation management work to continue at this level, it has included the
7 costs in its overall vegetation management program costs.

8 **Q. What is the DOE's recommended adjustment to the Company's vegetation**
9 **management expense?**

10 A. The DOE does not recommend Commission approve the Company's request for an
11 approximate increase of $7 million in Vegetation Management Program ("VMP")
12 spending over the next four years (Dudley, Willoughby, and DeVirgilio Testimony at Bates
13 Page 65). The Company, however, has not requested an approval for $7 million in
14 vegetation management spending expected in the next four years following the conclusion
15 of this proceeding. The DOE also recommends maintaining the level funding of PSNH's
16 VMP budget at 2023 levels in the amount of $43 million and has reduced the Company's
17 pro forma test year by $200,000 (from $43,200,000 to $43,000,000) (Mullinax Testimony
18 at 43). To maintain the level of funding of PSNH's budget at 2023 levels, the correct level
19 of expense cited by the DOE should have been $43,434,258, as shown in the table to the
20 Company's response to PUC 2-031 and reproduced below, which would result in an
21 increase to the Company's current proposal by $234,258.

Table 4: Reproduction of VMP Cost Summary

	PUC 2-031 ES VMP Cost Summary (2019 to 2028)										
		2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast	2028 Forecast
Line	VMP Activity	Gross Cost	Gross Cost	Gross Cost	Gross Cost	Gross Cost	Gross Cost	Gross Cost	Gross Cost*	Gross Cost*	Gross Cost*
1	Scheduled Maintenance Trim	$ 13,541,520	$ 10,320,891	$ 15,502,557	$ 14,956,053	$ 24,169,628	$ 19,292,598	$ 18,986,299	$ 19,202,982	$ 19,971,101	$ 20,769,945
2	METT	833,019	1,177,217	1,541,781	1,629,923	1,520,077	2,689,703	1,998,566	2,315,619	2,408,244	2,504,574
3	Mid Cycle Review		-	22,467	32,016	7,692	300,000	300,000	300,000	300,000	300,000
4	Customer Work	241,202	199,934	136,963	221,923	485,167	200,000	500,000	500,000	500,000	500,000
5	Hot Spot Work		-	31,451	91,688	24,828	200,000	300,000	300,000	300,000	300,000
6	Make Safe		-	-	-	10,377	341				
7	Sub Transmission (Mowing/Side Trim)	586,473	722,262	3,278,863	1,092,145	1,806,318	2,000,000	2,828,834	2,828,834	2,828,834	2,828,834
8	Distribution SMT Total	$ 15,202,214	$ 12,420,304	$ 20,514,082	$ 18,023,748	$ 28,024,087	$ 24,682,642	$ 24,913,699	$ 25,447,435	$ 26,308,179	$ 27,203,353
9	Full Width Clearing	$ 1,710,391	$ 1,204,780	$ 2,097,963	$ 1,462,715	$ 346,237	$ 1,200,000	$ -			
10	Hazard Tree Removal	15,262,134	12,264,182	10,686,632	11,197,958	13,851,606	12,000,000	18,286,301	19,048,565	19,522,701	20,002,453
11	Enhanced Tree Trimming	3,774,021	1,902,024	1,290,173	2,406,112	632,789	1,832,139	-			
12	NH Reliability				-	579,538	167,861	-			
13	Distribution Reliability Total	$ 20,746,546	$ 15,370,986	$ 14,074,768	$ 15,066,786	$ 15,410,170	$ 15,200,000	$ 18,286,301	$ 19,048,565	$ 19,522,701	$ 20,002,453
14	Vegetation Management Program Total	$ 35,948,760	$ 27,791,290	$ 34,588,850	$ 33,090,533	$ 43,434,258	$ 39,882,642	$ 43,200,000	$ 44,496,000	$ 45,830,880	$ 47,205,806

* 3% projected total budget increase PBR

Q. What has the Company reflected in the revenue requirement submitted with this testimony?

A. The Company has reflected vegetation management expense of $43,200,000 consistent with the expected level of vegetation management expense in 2025. Although the Company would support the DOE's recommendation to maintain the level of funding for vegetation management expense at 2023 levels, the amount to be reflected would be $43,434,258 and not the $43,000,000 recommended by the DOE.

Q. What has the DOE recommended as it relates to the reconciliation of vegetation management expense through the RRA?

A. The DOE supports the Company's recommendation to continue to file its yearly VMP plan with the Commission so as to continue the review of management activities and targeted expenditures (Dudley, Willoughby, and DeVirgilio Testimony at Bates Page 71). The Department indicates that it supports the removal of the Company's VMP cost from the

1 RRA (id.). However, the DOE does not characterize the Company's proposal accurately.
2 The Company has proposed the adoption of PBR in this proceeding that would allow for
3 the elimination of certain costs, such as vegetation management expense, that are currently
4 reconciled outside of base distribution rates, which are currently providing on-going
5 support to the Company in between rate cases for specific and targeted cost elements. If
6 the Company's proposed PBR plan is approved as filed, the Company will receive
7 additional revenue support through the annual PBR adjustments that would support the
8 cost trajectory of certain costs that are currently recovered on a reconciling basis. Although
9 it is certainly possible for reconciling mechanisms to coexist in a PBR framework without
10 impairing the efficiency incentives inherent in the PBR Plan, the Company is positioned to
11 eliminate certain reconciling mechanisms that exist today, and instead reflect those costs
12 in base rates, should the PBR Plan be approved. The annual rate adjustments that would
13 come under the PBR framework proposed by the Company are expected to be sufficient
14 for the Company to sustain itself during the four-year PBR Plan and to cover the cost
15 changes associated with the existing reconciling mechanisms, thereby reducing the
16 administrative burden associated with those mechanisms. The Company's proposal absent
17 a PBR framework approved in this proceeding would be to continue the RRA mechanism.

18 **IX. INTEREST SYNCHRONIZATION**

19 **Q. Please explain interest synchronization for purposes of cost of service ratemaking.**

20 A. Interest synchronization is a process used in cost-of-service ratemaking to align a
21 company's rate base with its income tax calculations, specifically in relation to the

1 proposed weighted cost of debt. This adjustment ensures that the rates set for customers
2 accurately reflect the actual interest costs the Company incurs on its debt, preventing the
3 Company from over/under charging customers for the cost of financing its debt. The
4 Company implements interest synchronization by adjusting the income tax calculation to
5 account for the interest expense, ensuring that tax benefits related to interest deductions are
6 properly reflected in the overall revenue requirement. This deduction for interest expense
7 is reflected in Attachment ES-REVREQ-Rebuttal-1, Workpaper ES-REVREQ-33,
8 Line 24.

9 **Q. Has the Company included an adjustment for interest synchronization?**

10 A. Yes. As explained above, the Company has reflected adjustments to its test year pro forma
11 rate base calculation. To align income taxes with these changes, the Company has adjusted
12 the deductible interest expense included in the income tax calculation, as shown in
13 Attachment ES-REVREQ-Rebuttal-1, Workpaper ES-REVREQ-33, Line 24, Column (D).
14 The Company calculated this adjustment by taking incremental rate base of $126,029,230,
15 as shown in Attachment ES-REVREQ-Rebuttal-1, Schedule ES-REVREQ-36, Line 45,
16 Column (C), and multiplying it by the weighted cost of debt of 1.89%, as shown on
17 Attachment ES-REVREQ-Rebuttal-1, Schedule ES-REVREQ-40, Page 1, Line 34.

18 **X. CONCLUSION**

19 **Q. Does this conclude your testimony?**

20 A. Yes, it does.