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

Robert S. Coates, Jr. and Douglas P. Horton

Case Overview and Performance Based Ratemaking

On behalf of Public Service Company of New Hampshire

d/b/a Eversource Energy

March 10, 2025

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d/b/a EVERSOURCE ENERGY**

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I. INTRODUCTION

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

A. My name is Robert S. Coates. Jr. I am the President, Electric Operations – New Hampshire. My business address is 780 North Commercial Street, Manchester, New Hampshire.

Q. What are your principal responsibilities in your current position?

A. As the President of New Hampshire Electric Operations, I am responsible for assuring that Public Service Company of New Hampshire ("PSNH" or the "Company") provides safe and reliable electric service to over half a million customers in 211 cities and towns throughout New Hampshire, as well as for overseeing the construction, operation and maintenance of the Company's electric distribution infrastructure in the state.

Q. Please summarize your professional and educational background.

A. I have been employed by Eversource Service Company ("ESC") and its affiliates for over 38 years, holding various leadership positions in the safety and electric operation organizations. I began serving as President in July 2024. Previously, I held the position of Vice President of Project Management and Construction from December 2021 until July 2024 and have been an officer within the Electric Operations organization for over a decade. I have a Bachelor of Science degree in Occupational Safety and Health from the University of New Haven and a Master of Business Administration degree from American International College.

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

A. I have not testified before the Commission previously, however I have testified in other cases before the Massachusetts Department of Public Utilities.

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

A. My name is Douglas P. Horton. I am Vice President, Distribution Rates & Regulatory Requirements for ESC. My business address is 247 Station Drive, Westwood, Massachusetts 02090.

Q. What are your principal responsibilities in this position?

A. ESC provides centralized services to the natural gas and electric operating subsidiaries of parent company Eversource Energy. In this role, I have overall responsibility for rates and rate-related policies and procedures, as well as preparation and presentation of regulatory filings made by the Eversource Energy operating affiliates to the respective regulatory authorities in Connecticut, Massachusetts and New Hampshire. In this proceeding, I am responsible for supervising and presenting the Company's calculations and supporting exhibits pertaining to the request for approval of temporary and permanent base distribution rates and approval of the Company's Performance Based Ratemaking ("PBR") plan.

Q. Please summarize your professional and educational background.

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

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

A. Yes. I testified before the Commission in support of the Company's Petition for Permanent Rates in Docket No. DE 19-057; the audit of Company's generation divestiture costs, Docket No. DE 20-005; the Company's joint petition with Consolidated Communications of Northern New England Company, LLC for approval of a pole asset transfer, Docket No. DE 21-020; and a couple other rate-related dockets. In addition, I have testified on numerous occasions before other regulatory commissions, including the Massachusetts Department of Public Utilities and the Connecticut Public Utilities Regulatory Authority.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of our testimony is to provide an overview and context as to the reasons why this case is so important to the Company and its customers, particularly in relation to continuing investments to maintain and improve reliability. Specifically, We discuss the Company's performance based ratemaking ("PBR") proposal to respond to concerns raised in various intervenor testimony, and describe why the Company's PBR proposal is a superior regulatory framework to alternatives.

II. REBUTTAL TESTIMONY OVERVIEW

Q. Do the Company's various rebuttal testimony submissions discuss all of the issues raised in the parties' testimony?

A. No, the Company's rebuttal testimonies address specific recommendations by the parties that are relatively significant. The fact that we do not respond to a particular recommendation, argument or representation does not mean that we agree with the given party's testimony, only that the current state of the evidentiary record is sufficient to support the Company's position or that it did not require additional rebuttal.

Q. Have you reviewed the direct testimony of the parties filed in this proceeding?

A. Yes, we have reviewed the timely filed joint testimonies filed by AARP New Hampshire ("AARP"), the Department of Energy ("DOE"), Roger D. Colton on behalf of Mary Ellen O'Brien Kramer, Walmart Inc. ("Walmart"), and the Office of the Consumer Advocate

("OCA"). We have also reviewed the late-filed testimonies filed by DOE on February 10, 2025.

Q. Based on your review of the party testimonies, does the Company have any overarching response or concerns with the statements made by the party witnesses?

A. Yes. The Company appreciates the party witnesses' perspectives and recognizes fully the efforts required to develop testimony and the value of thoughtful analysis and transparency of issues affecting customers. The Company welcomes the opportunity to engage directly and substantively on issues important to the operation of the system and the provision of service to customers. To the extent party witnesses raise earnest concerns with the Company's rate case proposals or have differing views, the Company takes those concerns seriously and makes an concerted effort to thoughtfully address those concerns set forth in party testimony through our various rebuttal submissions.

Legitimate differences in positions notwithstanding, the Company is troubled in this docket by accusations regarding the Company's earnest and diligent efforts to consider stakeholder concerns and improve the administrative review process. Specifically, throughout the Testimony of Jay E. Dudley, Ronald D. Willoughby, and Joseph J. DeVirgilio, the witnesses impugn the Company with false and misleading statements that are unproductive and counter to responsible regulatory oversight to address legitimate issues regarding the Company's proposals. For example, these witnesses question the Company's "commitment" and "level of seriousness" to implementing recommendations outlined in a final business process audit ("BPA") report filed in August 2023 (well into the test year for this proceeding) (Testimony of Dudley, Wiloughby, and DeVirgilio at

Bates Pages 16-18). These witnesses base their accusations on their review of documentation completed prior to or just after the BPA report, inaccurate assertions regarding the presentation of project documentation provided by the Company in this docket, and out of context statements provided in the Company's response to the BPA report. And the "concerns" ignore the considerable evidence to the contrary, including the efforts made by the Company in this docket which entailed an additional technical session to those in the procedural schedule dedicated solely to discussing progress on the implementation of the BPA recommendations.

The Company is particularly disappointed by several hyperbolic and disingenuous statements throughout that testimony given the Company's earnest efforts to engage with the DOE on the BPA and implement its recommendations. The Company does not claim that it has perfected every element identified in the BPA, as it continues to strive to make improvements arising out of the BPA report. The Company addresses these specific assertions in the Rebuttal Testimony of Landry, Devereaux, Dickie, and Kilgore; however, it is worth noting that these baseless accusations based loosely on overblown and stale events have actively impeded productive dialogue with the DOE in this proceeding, as discussions about genuine differences in positions become derailed by presumptions of motives and posturing over red herring issues. Successful process improvement will require cooperation and participation of both the regulated entity and the parties, as the BPA states all parties must "make the necessary structural and attitude changes" to improve communication.[1] The Company is committed to doing its part to achieve successful process improvements in light with the recommendations and spirit of the BPA.

III. PERFORMANCE BASED RATEMAKING

Q. Please summarize the principal issues raised in the parties' testimony with respect to the Company's proposal to implement PBR.

A. The consultants for AARP, DOE, and OCA raise concerns about certain elements of the PBR design, particularly the K-bar. These concerns are summarized and addressed in the Rebuttal Testimony of Mr. Kolesar and Dr. Ros.

AARP's witness, Mr. Cebulko, does not expressly oppose adoption of a PBR Plan but recommends that the Commission reject the Company's proposed K-bar because he argues that it erodes the cost control aspects of the PBR (Cebulko Testimony at 26). Mr. Cebulko asserts that K-bar dilutes the I-X's formula's ability to regulate cost increase to external economic and productivity conditions (id.). As support for the assertion that K-bar doesn't encourage an utility to control costs, Mr. Cebulko notes that utilities in Alberta Canada with PBR Plans that included a K-bar, the utilities on occasion earned more than their allowed return on equity (id. at 26). Since the K-bar is adjusted annually to provide revenue support for capital beyond the cast off revenue requirement, Mr. Cebulko claims the Company will benefit from a significant reduction in administrative burden due to holding off on prudence reviews until the end of the PBR term and reduces the cost control on capital additions (id. at 27-28). If the Commission approved the Company's K-bar, Mr.

[1] See Docket No. DE 19-057, Tab 272, Audit Report at 9 (August 11, 2023).

Cebulko recommends a few modifications including capping the K-bar based on the Company's Distribution Solutions Plan ("DSP") instead of the Company's five-year capital plan (id. at 30-32).[2]

Despite DOE's expert consultants Mr. Crowley and Dr. McLeod finding that the Company's PBR framework is generally aligned with other PBR plans and recommending approval of most aspects of the proposed PBR framework (Crowley and McLeod Testimony at Bates Page 63), other DOE witnesses Mr. Dudley, Mr. Willoughby, and Mr. DeVirgilio state that DOE does not support the PBR proposal and instead recommend that the Commission retain a traditional rate-making scheme. Mr. Dudley, Mr. Willoughby, and Mr. DeVirgilio's recommendation is based on unfounded claims of aggressive and poorly managed capital investments, and lack of effective cost control based on the former-PUC Staff's analysis in DE 19-057, the Company's rate case filed six years ago (Dudley, Willoughby, DeVirgilio Testimony at Bates Page 80). These DOE witnesses also express concern with the proposed K-bar, which is based on a three year rolling average of actual capital investments, because they claim the first K-bar adjustment will be based on capital expenditures during 2022 and 2023 which the witnesses allege were "skewed by the extraordinary events and market impacts" of the COVID pandemic (id.). Mr. Dudley, Mr. Willoughby, and Mr. DeVirgilio state that the Company anticipates that the three-year average of plant additions for use in the K-bar formula will be $251 million in 2026 and

[2] Mr. Cebulko's testimony includes additional recommendations regarding the cap on K-bar and a proposed discount rate. The Company addresses these issues in the Rebuttal Testimony of Mr. Kolesar and Dr. Ros.

$301 million in 2028, which they claim is a significant increase from actual plant additions in 2023 of $196 million.[3] Mr. Dudley, Mr. Willoughby, and Mr. DeVirgilio claim that this will allow the Company to collect revenue that may exceed the rate of growth in the industry (id.). Instead of PBR, Mr. Dudley, Mr. Willoughby, and Mr. DeVirgilio recommend the Commission maintain traditional ratemaking but allow the Company one step adjustment increase for limited capital investments made in 2024 or 2025 for non-growth, non-blanket projects with a 120-day review period for prudency reviews (id. at 81). As we discuss in detail later on, this approach is significantly less efficient for both the Company and the reviewing regulatory authorities, and given this and the past contentiousness and protracted process of recent step adjustments, the Company is not willing to agree to this approach. This means in the absence of PBR the Company will only be left with the option of filing a full distribution rate case as soon as feasible after the current case proceeds.

Like the DOE's experts Mr. Crowley and Dr. McLeod, the OCA's expert consultant, Mr. Havumaki, believes it is reasonable for the Commission to establish a PBR framework for the Company with certain adjustments to the K-bar (Havumaki Testimony at Bates 730-731). With respect to K-bar, Mr. Havumaki asserts that a K-bar should be approved if the Company has shown the reasonableness of its capital investment spending plans, since if

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[3] Mr. Dudley, Mr. Willoughby, and Mr. DeVirgilio misrepresent that the $251 million in 2026 and $301 million in 2028 represent projected actual rate base in those years. As explained in response to data request DOE 6-121, these values represent the Company's forecast of the three-year average of capital investments that would be used in the K-bar formula (*see* Testimony of Dudley, Willoughby, and DeVirgilio, Attachment JED/RDW/JJD-24 DOE Data Responses DOE 6-121).

additional capital spending is required the K-bar would provide revenue support to stem earnings erosion during the PBR stay out period (id.). Mr. Havumaki conditions any support of K-bar to a determination that supplemental revenue is needed beyond the revenue provided in the I-X formula (id. at 735). Mr. Havumaki expresses concerns that a K-bar could erode some of the cost control incentives under a PBR; however, he states that K-bar "***is as good as or better*** than several flawed options for providing supplemental revenues" during a PBR term (id. at 733, emphasis added). In particular, Mr. Havumaki states that step adjustments and capital trackers are likely worse options than K-bar, since step adjustments reduce regulatory lag and a capital tracker effectively removes regulatory lag (id. at 733). If K-bar is approved, Mr. Havumaki recommends certain modifications (id. at 737-738).[4]

Walmart's witness, Ms. Perry, argues that the Commission should reject the Company's PBR proposal because it does not align with the fundamental principles of public utility ratemaking, fails to produce just and reasonable rates, and does not serve the public interest (Perry Testimony at 6). Walmart is concerned that the PBR would "effectively guarantee" the Company can earn its authorized ROE due to the annual adjustment in rates without traditional determination of prudence of capital assets in rate base prior to a rate adjustment (id. at 21). Ms. Perry states that the deviation from established regulatory practices raises questions about the appropriateness of the PBR plan (id. at 21-22). Ms. Perry asserts that

[4] Mr. Havumaki recommends including: (1) an annual review of the next year's capital forecast and K-bar calculation, during which the Commission can selectively review some of the capital additions, (2) set the cap for the K-bar to the capital forecast in the DSP instead of 10 percent about the forecast proposed by the Company, and (3) not excluding co-optimization projects from the K-bar (id. at 15-16).

the Company is fixing elements during the PBR term, like ROE, capital structure, and depreciation rates, providing itself an "allowance" based on industry-wide trends that is divorced from its actual costs and performance (id. at 22). Walmart recommends traditional cost-based rates because they are tied to actual utility expenses, approved after a prudency review, and provides Commission with direct oversight (id. at 22-23).

Q. Please explain the Company's overarching observations of the recommendations regarding PBR provided in the testimony submitted by DOE, AARP, OCA, and Walmart.

A. The Company observes that none of the parties' third party expert consultant recommend rejection of the PBR Plan; in fact—all other party experts recommend approval of some version of the Company's proposed PBR Plan. While the DOE, OCA and AARP consultants recommend some targeted modifications to the PBR, primarily in relation to K-bar, the consultants indicate support for the cost control and reduction of administrative burdens provided by the Company's proposed PBR Plan.[5] Even Walmart's testimony explains that it opposes PBR generally, rather than the Company's specific PBR plan, indicating that Walmart favors traditional cost of service ratemaking to any alternative form of ratemaking.

DOE, as discussed more below, opposes the Company's PBR plan primarily due to the inclusion of the K-bar DOE also explains that they have a general preference for traditional cost of service ratemaking with step adjustments. DOE's expert consultants, Mr. Crowley

[5] The Company responds to specific recommendations related to the PBR Plan in the Rebuttal Testimony of Mr. Kolesar and Dr. Ros.

and Mr. McLeod, however, propose an alternative capital revenue mechanism called the F-factor.

Fundamentally and understandably, the parties are concerned with increasing rates to customers and a desire to control costs and the Company shares those concerns. As discussed in our initial direct testimony and further explained below, the Company is proposing the PBR Plan to address those concerns because based on the capital investments needs of the distribution system, in the current operating environment, traditional ratemaking does not avoid rate shock to customers with big jumps in rates due to base rate proceedings, but PBR will avoid such volatility and smooth out any rate increases to both provide the Company adequate rate support while minimizing sharp impacts to customers and lowering total costs to customers over time.

Q. In consideration of the concerns raised by Walmart and DOE, please explain how the Company's PBR Plan provides benefits over traditional cost of service ratemaking.

A. The Company's proposed PBR Plan is designed to enable investment to address the needs of the distribution system identified in the DSP while affording customers the level of rate stability that does not occur through a cycle of sequential base rate proceedings. PBR provides an incentive for utilities to control cost and provides a level of rate stabilization for customers over an extended period, supporting capital investment without the sharp jumps and unpredictability of sequential base-rate filings and associated step adjustments.

The Company's experience with PBR is that the following benefits are achievable:

1) Rate Stability for Customers

The need for capital investment on the PSNH distribution system is increasing as it continues to age—which the Company flagged in its last base-rate proceeding Docket No. DE 19-057—and the impacts to customers of periodic full base-rate proceedings coupled with step adjustments will not achieve the level of rate stabilization and predictability that the PBR Plan can provide, nor has this approach proven administratively practical for any party involved. Even with annual step adjustments, the cost-of-service increases between rate cases outpaces those steps, as demonstrated by the notable revenue deficiency that triggered this proceeding. The Company's proposed rate change resulted in a distribution rate increases of 14.64 percent for the temporary rate request and, if approved, as originally filed would result an additional 20.21 percent increase proposed for permanent phase of this proceeding (4.02 and 6.12 percent on a total bill basis, respectively).[6]

More frequent rate cases would alleviate revenue deficiencies temporarily, but the rate increases brought by base-rate proceedings will be more significant and apparent to customers given that base-rate increases adjust rates for both operating expense and capital investment based on latest actual costs, but even these adjustments are almost immediately stale by the time permanent rates are approved a year after the case is filed. Additionally, the costs of a complete base rate proceeding are not in any way insignificant for a company

[6] The Company has proposed some adjustments to the revenue requirement in the Rebuttal Testimony of Ashley Botelho and Sasha Lazor, which if approved will result in a lower bill impact than originally proposed.

the size of PSNH, and in this case will total well into the millions, compounding the rate shock of these proceedings. By comparison, the PBR mechanism with a K-bar approach (or even the alternative approach suggested by the DOE expert witness) strongly incentivizes cost efficiency and smooths out the impacts for customers, while reducing regulatory and administrative costs for repeated rate cases.

The Company's experience is that the smaller, annual PBR adjustments mitigate rate shock for customers both during the PBR term and when rates are reset in a future rate case proceeding because the annual adjustments maintain more consistent and adequate revenue support in the interim. For example, as part of PSNH's sister subsidiary NSTAR Electric's first generation PBR, the average total bill impact for a residential customer associated with the annual PBR rate adjustments ranged from 0.8-0.9 percent per year from 2019 through 2022. Upon expiration of the PBR period NSTAR Electric filed for a base distribution rate resulting in only a 3.8 percent increase for the average residential customer (note that Massachusetts does not have the "temporary rate" step that New Hampshire has, and so the 3.8 percent total bill increase for Massachusetts is akin to the total, all in bill increase in New Hampshire of the permanent rate change inclusive of the temporary to permanent rate reconciliation.). The Company provided these rate impacts as an attachment in response to data request OCA 1-068, included as Attachment ES-DPH-Rebuttal-1.

2) Greater Cost Control Incentives

The Company agrees with Mr. Havumaki that compared to capital cost recovery mechanisms, such as the step adjustments previously approved by the Commission, PBR can provide strong incentives to the electric utility to control costs and promote performance that furthers safe and reliable service at the lowest cost. Cost control, in particular, is a critical objective in an environment where electric utilities are having to address the increased costs of aging energy infrastructure, and are not supported by commensurate growth of customer sales and revenues that would naturally support the increasing costs. This is due to several factors beyond the fact that replacing aging infrastructure is not tied to growth; these factors include: increased distributed energy resource ("DER") deployment, successful energy efficiency efforts, and increasing customer awareness and actions to conserve energy consumption.

The PBR construct challenges the Company to find better, more innovative ways to achieve cost reductions while still providing customers with safe and reliable service, which benefits the overall system. In addition, because PBR comes with a commitment by PSNH to "stay-out" for at least four years, a commitment that is not possible with step adjustments in their current form, the Company has greater incentives under PBR to pursue cost efficiencies in the short and long run, which produce customer benefits with lower rate increases than would otherwise occur, and benefit the Company by maintaining greater revenue support. PBR thus results in a harmonious balancing of utility and ratepayer interests.

Further, PBR is designed to provide a level of incremental revenue to support electric operations without ascribing a one-to-one assignment of costs to particular assets included in the cost of service.[7] This is a critical difference between PBR and a cost-tracking or capital reimbursement mechanism because PBR allows the Company to allocate financial resources optimally to support business functions, programs and projects that are necessary to provide safe and reliable service to customers at all times. At the same time, if the Company is able to find areas where it can cut expenses, or slow increases in costs through management initiatives, organizational changes, systems implementation, or any other means, it retains the benefit of those cost reductions until the next rate case. Consequently, all of the cost savings embedded in operations are reflected in the cost of service for the next base-rate period resulting in a smaller increase in base rates than a rate case would otherwise create, and lower rates for customers overall compared with a rate case without a previous PBR period. In some cases, it may cost the utility more money in the short term to implement long-term cost reduction initiatives. PBR affords the utility the flexibility to make these types of cost-saving strategic decisions because it has the benefit of sustained revenue predictability. During a PBR term, a company may be more willing to bear the expense of a cost-cutting initiative knowing the company will retain savings over a multi-year period to offset the expense. In this way, PBR aligns the interests of the utility with the interests of the ratepayer, as savings for the former results in lower costs for the latter.

[7] This is possible because PBR is permitted under the alternative regulation statute RSA 374:3-a, which allows the Commission to approve a ratemaking schema that departs from being tied to rate base requiring a prior prudence determination, and instead requires simply that rates are set at a just and reasonable level, and the utility is able to earn a sufficient rate of return.

3) Improved Administrative Efficiency

One of the objectives of the Company's PBR Plan is to provide increased administrative efficiencies that will likewise reduce costs, adding to greater customer benefits, as well as easing the administrative burden of the Commission, the DOE and OCA. Under traditional ratemaking, reconciling mechanisms provide ongoing revenue support to the Company in between rate cases for certain specific and targeted cost elements. If the Company's proposed PBR Plan is approved as filed, the Company will receive more cohesive revenue support through annual PBR adjustments that will support the cost trajectory both reconciling rate components as well as general operational revenue support as previously discussed. Although it is certainly possible for reconciling mechanisms to coexist in a PBR framework without impairing the efficiency attributes inherent in the PBR Plan, the Company will be in a position with the adoption of the PBR Plan to eliminate current reconciling mechanisms to incorporate those costs in base rates, eliminating several annually recurring rate dockets. Administrative burden is further reduced by the elimination of annual step adjustment reviews and the frequent base rate case cycle that would be required under the current framework. Bottom line is PBR will result in a lot less docket work for the regulators and regulatory Company staff alike, reducing costs to customers and freeing up regulatory resources for both regulator and regulated entity to advance other state energy priorities.

4) Increased Transparency of Service Quality and Reliability

The Company's proposed PBR Plan includes performance metrics that provide financial consequences to ensure the Company operates at a consistently high service-quality level while achieving cost efficiencies. To assure that the Company is continuing to meet its service-quality obligations under a PBR framework, PSNH is proposing to implement enforceable reliability metrics, including corresponding penalties and incentives associated with the Company's SAIDI and MBI performance. In addition, the Company is proposing five additional informational performance metrics in the categories of customer satisfaction, solar interconnection, customer work requests, and active demand response to ensure accountability during the PBR Plan term and provide the Commission, the DOE and key stakeholders insight into the Company's actual performance.

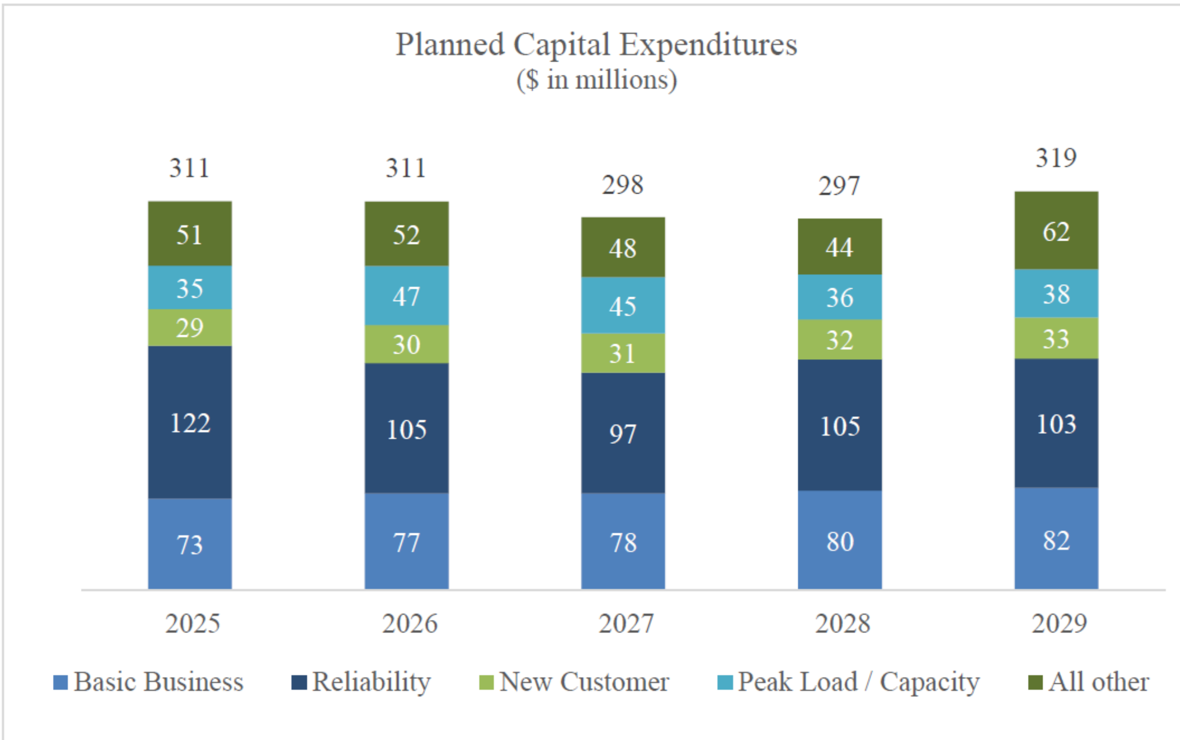
While not expressly stated in testimony, we understand that some may have concerns that there is the potential for manipulation of these metrics to the Company's advantage. We want to unequivocally clarify that (1) the metrics are based on objective, quantifiable data that are calculated on established industry standard, and (2) the metrics are not tied to the PBR rate formula. Separate from the proposed metrics, the Company's proposed PBR Plan builds in numerous safeguards against potential overearnings.[8] The Company is aware of sensitivity toward a novel ratemaking structure in New Hampshire, and took pains to

[8] For example, the Company has included an earnings sharing mechanism that will shift a significant portion of any earnings above the allowed return on equity to customers. The earnings sharing mechanism is described in our initial testimony at Bates Pages 1408-1410.

ensure that the proposed PBR Plan thoroughly accounts for the interests and needs of PSNH's customers as much as those of the Company itself.

To provide transparency into the operational needs of the system, the Company has included a Distribution Solutions Plan (DSP) in this proceeding. The DSP describes the forecasting and planning process to meet the demands on the PSNH electric system as Attachment ES-DSP-1. As discussed in that testimony, the Company will need to continue a steady ramping of necessary investments on the system to address aging infrastructure and improve resiliency of the system to sustain and enhance system reliability going forward, ss shown in Figure 1 below. The capital plan is primarily driven by substation reliability and obsolescence as discussed in the DSP. The Company, however, is mindful of the potential rate impact for customers and will continue to employ disciplined cost management and continuous efficiency improvements to keep the cost of business operations down. But this is another reason why the Company sees its proposed PBR Plan as imperative at this point in time for the PSNH distribution system and PSNH customers.

Figure 1: 2025-2029 Planned Capital Expenditures



In sum, the Company forecasts that the operation of a PBR Plan is in the best interests for New Hampshire customers providing (1) annual changes that present more modest and predictable rate changes over time, rather than larger increases resulting from base distribution rate cases every two to three years, (2) greater cost control incentives during the stay-out term which are ultimately reflected in lower overall customer rates, (3) eliminated administrative burden of annual reconciling rate mechanism dockets and step adjustment reviews, as well as less frequent rate cases and (4) increased transparency and associated financial consequences related to the quality of service that PSNH provides.

Q. With respect to the K-bar, does the Company agree with Mr. Havumaki's assertion that a K-bar should be approved only if supplemental revenue support is needed during the PBR Term?

A. Yes. The purpose of the K-bar is to provide supplemental revenue increases above the I-X formula to support capital investments. This mechanism is appropriate when a utility's capital investment needs are increasing compared to historical levels. If the going-forward distribution system needs are relatively consistent with historical levels, or if revenue support provided through growth in the number of customers or in the usage per customer is adequate to cover the cost of service, than additional capital revenue support may not be needed. However, that is not the current case for PSNH.

As Mr. Cebulko suggests, the Company has developed a DSP that details the need for an elevated level of infrastructure investment in the aging system, for the reasons described above. The Company's capital plan for the PBR is based on the DSP[9] and is driven by substation reliability and obsolescence. As DOE's witnesses Dudley, Willoughby, and DeVirgilio note, the Company is projecting the need for significant system investments between 2025 and 2028, and the level of test year capital needs (i.e., 2023) is not reflective of the needs going forward (Dudley, Willoughby, and DeVirgilio Testimony at Bates Page at 81 (DOE notes that using prior years of expenditures, including 2023, is not a reliable indicator of future rate base growth)).[10] Without adequate additional revenue support

[9] Mr. Cebulko incorrectly suggests that the Company's capital plan is not based on the DSP. The Company agrees with Mr. Cebulko that the forecast used for the K-bar should be the capital plan based on the DSP.

[10] The Company acknowledges that Mr. Dudley, Mr. Willoughby, and Mr. DeVirgilio imply that they believe rate base growth may be lower but they provide no support for their assertion.

during the PBR term, the Company will suffer earnings erosion and will not be able to commit to a stay out period, and instead have to file another full rate case at the earliest date permitted by statute. DOE's PBR experts, Mr. Crowley and Mr. McLeod, as well as OCA's consultant, Mr. Havumaki, agree with this principle and endorse some kind of mechanism that provides such additional revenue support (*see* Crowley and McLeod Testimony at Bates Page 40 and Havumaki Testimony at Bates Page 732).

For these reasons and the reasons set forth in the Company's initial filing, the Company respectfully requests that the Commission approve the Company's PBR Plan with a capital revenue adjustment mechanism that will provide the necessary revenue support to allow the Company to meet the necessary capital investment needs outlined in the DSP and commit to a four-year stay out period. Specifically, the Company requests approval of its K-bar with the proposed three-year rolling average of capital investments subject to a 10 percent variance cap based on the capital plan in the DSP.

Q. With respect to the Testimony of Cebulko, does the Company have any additional response to the arguments raised by Mr. Cebulko regarding the Company's PBR Plan?

A. As discussed above, Mr. Cebulko does not oppose the Company's PBR Plan but raised concerns regarding the Company's K-bar proposal. Mr. Cebulko's arguments are fundamentally that a PBR without a K-bar will provide more cost control incentives because the Company will not receive additional revenue support beyond the cast-off rates and the I-X formula during the PBR term, in the Company's case this represents adjustment for inflation. As discussed above, the infrastructure investment needs of the Company's distribution system, as outlined in the DSP, will require increasing levels of investment that can not be supported under a PBR Plan without additional capital support. If the K-bar is not adopted, the Company will not be able to commit to the PBR Plan stay out period and instead will be forced to file for changes in distribution rates at more regular intervals in order to attempt to maintain alignment of the Company's revenues with its cost structure.

Q. With respect to the Testimony of Dudley, Willoughby, and DeVirgilio and Testimony of Crowley and McLeod, does the Company have any additional response to the arguments raised by DOE regarding the Company's PBR Plan?

A. The Company finds DOE's arguments confusing and conflicting. Despite some conflicting statements, the DOE recommends that if the Commission were to adopt PBR, that it also adopt the recommendations set forth in Mr. Crowley and Mr. McLeod's testimony. This recommendation notwithstanding, the testimony of Dudley, Willoughby, and DeVirgilio contains inaccurate information regarding the Company's proposals and directly conflicts with DOE's experts. Mr. Crowley and Mr. McLeod. Dudley, Willoughby, and DeVirgilio assert three fallacious arguments for why a PBR Plan is not appropriate: (1) the Company capital investments have been overly aggressive, poorly managed, and lack effective cost controls, (2) prudency reviews will be overly burdensome, and (3) the K-bar would not be reasonable under the Company's proposed three-year rolling average (Dudley, Willoughby, and DeVirgilio Testimony at Bates Pages 80-81).

Mr. Dudley, Mr. Willoughby, and Mr. DeVirgilio's argument that the Commission should retain a more traditional rate-making scheme in light of DOE's historical observations that the Company capital investments have been overly aggressive and lack cost control is unsupported (*see* Dudley, Willoughby, and DeVirgilio Testimony at Bates Page 80). DOE relies on accusations they raised (as PUC Staff at the time) in the Company's 2019 rate case and based on investments from over six years ago. DOE doesn't support this proposition by referencing this current proceeding because there is no support to do so. While DOE recommends the Commission disallow over $50 million in capital additions in this proceeding, as explained in the Company's Rebuttal Testimony of Landry, Devereaux, Dickie, and Kilgore, the reasons for the disallowance of the overwhelming majority of the costs are unrelated to imprudence. Of the allegedly imprudent investments, DOE agrees that nearly all investments were appropriate. DOE rather argues that investments should be disallowed because they are either (1) not currently used and useful or must be excluded under their novel theories of plant in service, (2) should be recovered through other mechanisms or in another manner, or (3) too costly (*see* Dudley, Willoughby, and DeVirgilio Testimony *passim*). DOE retreads stale allegations that are not reflective of actual Company operations or invents new and inappropriate standards of review that should be wholly disregarded.

The Company has prudently invested in the distribution system to maintain system reliability, and no party has identified unnecessary reliability investments nor challenged the Company's assessment in the DSP of upcoming capital investments to address aging infrastructure and overloaded circuits. The Company's PBR Plan, based on the evidence and testimony in this docket, best addresses these investments and the concerns of party testimony.

Regarding DOE's concern regarding a prudency review of Company investments, we'd first like to reiterate that under the alternative regulation statute RSA 374:3-a, a prior prudency review is not necessary—since rate adjustments are based on inflation and not rate base, rate adjustments need only be just and reasonable and earn the Company a reasonable rate of return.[11] Nevertheless, the Company has proposed to provide project documentation with its annual PBR adjustment to allow parties including the DOE, to timely review capital documentation over the course of the PBR term. This process will provide ample opportunity for DOE review project documentation and alleviate the burden of reviewing multiple years of documentation in a consolidated timeframe at the conclusion of the PBR term.

Finally, Dudley, Willoughby, and DeVirgilio's claims about the reasonableness of the three-year rolling average for the calculation of the K-bar are illogical and contrary to DOE's expert testimony. First, Dudley, Willoughby, and DeVirgilio claim that the extraordinary events and market impacts due to COVID in 2022 and 2023 resulted in an increase of nearly 33% over 2021, and therefore are not a reasonable basis for calculating rate base growth going forward (id. at 81). Assuming that the entire cost increase in 2022 and 2023 was due to impacts of COVID, which is not necessarily the case, under the Company's proposed three-year rolling average 2022 will not impact the K-bar calculation and 2023 would only impact the calculation for 2026. However, Dudley, Willoughby, and DeVirgilio's argument falsely relies on an assumption that capital investment costs are

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[11] RSA 374:3-a.

decreasing – they are not. DOE points to no evidence of declining costs, nor asserts any reason why the Company's forecasted capital plan is not reasonable. Dudley, Willoughby, and DeVirgilio's only justification for their assertion is to rely on the statement that Mr. Crowley and Mr. McLeod make that the K-bar would allow the Company to collect revenue that may exceed the rate of growth taking place in the industry (id. at 81 citing Crowley and McLeod Testimony at 20). Mr. Crowley and Mr. McLeod, however, did not reach the conclusion that the K-bar would provide too much revenue. Mr. Crowley and Mr. McLeod instead agree with the Company that the three-year rolling average is reasonable given that the industry is in transition and capital additions are now more difficult to forecast, and recognize that capital needs are growing (Crowley and McLeod Testimony at Bates Page 40). Mr. Crowley and Mr. McLeod also state that, if anything, the Company's proposed K-bar is questionable because the three-year average provides ***insufficient*** revenue relative to the Company's spending plan (id. at 40). In other words, DOE's expert consultants found that Dudley, Willoughby, and DeVirgilio's claims are incorrect. Accordingly, the Commission should disregard Dudley, Willoughby, and DeVirgilio's recommendations since they are not supported and contrary to the recommendations from DOE's experts on PBR.

Q. With respect to the Testimony of Ms. Perry, does the Company have any additional response to the arguments raised by Walmart regarding the Company's PBR Plan?

A. As discussed above, Ms. Perry's argument is essentially that Walmart prefers traditional cost of service ratemaking over a PBR. Above and in our initial filing the Company has explained why traditional cost of service ratemaking is insufficient to support the cost of service and provide a reasonable rate of return that would allow the Company to avoid frequent rate cases, as well as reasons why traditional ratemaking is not otherwise in the Company's or customers' best interests. The Company fully appreciates Ms. Perry's concerns with significant rate increases and the need for costs controls, but as discussed above the Company's PBR Plan is specifically designed to achieve the goal of rate continuity by avoiding significant rate increases that may cause rate shock and encourage cost savings.

Q. Does the Company support step adjustments in lieu of the K-bar as proposed by DOE?

A. No. As OCA's consultant Mr. Havumaki states (and with whom the Company agrees), step adjustments and capital trackers are likely worse options than the K-bar. (Havumaki Testimony at Bates Page 733).

The PBR construct challenges the Company to find better and more innovative ways to achieve cost reductions while still providing customers with safe and reliable service. In addition, the Company's PBR comes with a commitment by PSNH to stay-out for at least four years. The Company could not make this commitment with step adjustments in their current form. The Company has greater incentives under PBR to pursue cost efficiencies in the short and long run. This produces customer benefits in the form of smaller rate increases than those of full rate cases and steps. Step adjustments would not provide the same benefits and therefore is not sufficient.

If the Commission decided to implement traditional cost of service ratemaking with step adjustments, the Company could not commit to a stay out and would likely need to file its next rate case in two years; as soon as practical and allowable by statute. The Company recognizes the administrative burden this would place on all stakeholders and the Commission, and it is why the Company seeks to avoid such a result by urging implementing PBR as an alternative ratemaking structure consistent with RSA 374:3-a.

As mentioned earlier, under this section of law the Commission may approve an alternative method for establishing rates other than the traditional method based on cost of service, rate base, and rate of return. In other words, the Commission may approve a PBR with K-bar or other capital adjustment mechanism like the F-factor proposed by DOE, without requiring a prudency review of capital additions until the Company files for a change in permanent rates under RSA 378:28. DOE's expert witnesses consider the Company's PBR design to be reasonable and generally aligned with other comparable PBR plans, and therefore recommend accepting most aspects of the proposed PBR framework, with some modifications (Crowley and McLeod Testimony at Bates Page 63), as this will result in just and reasonable rates and reduces the burdens of step adjustments and frequent full rate cases.

The Company explains the drawbacks and challenges of step adjustments in our initial testimony and we reiterate the Company's strong opposition to continuing the practice (*see* Direct Testimony of Foley, Coates and Horton at Bates Pages 1417-1430). If the Commission wishes to implement a step adjustment process, the Commission should reform step adjustments to a reconciling mechanism, allow all prudently incurred capital to be reflected in the step adjustment subject to review and reconciliation, and allow rate changes to take effect on August 1st each year (id. at 1429-1430). But even with these modifications, the Company would likely not be able to commit to a stay-out period due to the conditions stated throughout our testimony.

IV. CONCLUSION

Q. Does this conclude your testimony?

A. Yes. On behalf of PSNH, we appreciate the Commission's consideration of the Company's proposals in this case.