

**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**

**JOHN J. SPANOS**

*Depreciation*

**On behalf of Public Service Company of New Hampshire**

**d/b/a Eversource Energy**

**March 10, 2025**

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2 **I. INTRODUCTION**

3 **Q. Please state your name and address.**

4 A. My name is John J. Spanos. My business address is 207 Senate Avenue, Camp  
5 Hill, Pennsylvania 17011.

6 **Q. By whom are you employed and in what position?**

7 A. I am President, Gannett Fleming Valuation and Rate Consultants, LLC (“Gannett  
8 Fleming”). I have been associated with the firm since June 1986.

9 **Q. On whose behalf are you testifying in this case?**

10 A. I am testifying on behalf of Public Service Company of New Hampshire d/b/a  
11 Eversource Energy (“PSNH” or the “Company”).

12 **Q. Have you previously provided testimony in this proceeding??**

13 A. Yes. I provided direct testimony in June 2024.

1 **II. PURPOSE AND SUMMARY OF TESTIMONY**

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

3 A. I am responding to the direct testimony filed by Office of the Consumer Advocate  
4 (“OCA”) witness, Marc Vatter on depreciation related issues. New Hampshire  
5 Department of Energy (“DOE”) witness, Stephen R. Eckberg presents depreciation  
6 rates and expense consistent with the Company Depreciation Study. Specifically,  
7 the issues I will address relate to the most appropriate method and procedures to  
8 develop depreciation rates by plant account which includes Witness Vatter’s  
9 unconventional method.

10 **Q. Can you summarize the impact in depreciation rates and expense between the**  
11 **parties?**

12 A. Yes. The recommendation in the Depreciation Study and agreed to by DOE is to  
13 utilize the remaining life method to determine depreciation rates as of December  
14 31, 2023 that supports \$91.7 million in depreciation expense. DOE witness  
15 Eckberg agrees with the remaining life method and all the parameters to arrive at  
16 the same depreciation expense. OCA witness Vatter has arrived at a depreciation  
17 expense level of \$73.6 million using his newly created method which is based on  
18 the remaining life technique.

19 **III. OCA METHODOLOGY FOR DEPRECIATION**

20 **Q. Could you explain the primary purpose of depreciation in utility accounting?**

21 A. Standard regulatory practices, as outlined by the National Association of  
22 Regulatory Utility Commissioners (NARUC), define depreciation as a systematic

1 process of allocating the cost of tangible capital assets over their estimated useful  
2 lives. This approach ensures that the expense associated with using the asset is  
3 distributed across the periods benefiting from its service. NARUC emphasizes that  
4 depreciation is a process of cost allocation, not valuation.

5 **Q. Is Mr. Vatter’s definition of depreciation consistent with NARUC’s and**  
6 **industry standards?**

7 A. No, Mr. Vatter’s definition of depreciation is not consistent with NARUC’s and  
8 widely accepted industry standards. In his testimony<sup>1</sup>, he defines depreciation as  
9 *“a monetary measure of the decline in value of a productive asset between when it*  
10 *is acquired and when it is retired.”*

11 However, NARUC and standard regulatory accounting principles define  
12 depreciation as a cost allocation process, not a valuation method. Depreciation  
13 systematically allocates the historical cost of an asset over its useful life.  
14 Depreciation is not a way to track changes in market value, as Mr. Vatter suggests.

15 **Q. What does NARUC cite as reasons for preferring a cost allocation approach**  
16 **versus a valuation approach?**

17 A. NARUC highlights the challenges and impracticalities of attempting annual  
18 valuations of complex utility plants, noting that such practices are cumbersome and  
19 inadequate for utilities that need to record depreciation on a monthly basis for

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1 <sup>1</sup> Vatter Direct Testimony at Bates Page 486.

1 earnings and expense reports. On the valuation methodology, NARUC states the  
2 following:

3 “It would (...) be a staggering undertaking to attempt such estimates  
4 on an annual basis for a complex and extensive utility plant.  
5 Therefore, the practice of conducting annual estimates has found  
6 little application in the utility industry. It is particularly cumbersome  
7 and inadequate because utilities need to record depreciation on a  
8 monthly basis for earnings and expense reports. A further  
9 complication, of course, is that major technological improvements  
10 tend to make questionable any year-to-year measure of depreciation  
11 that is determined by this process.”<sup>2</sup>

12 On the cost allocation methodology, NARUC states:

13 “The cost allocation concept satisfies the accounting principle of  
14 matching expense and revenues. On the income statement, the  
15 inflow of resources is revenue. The outflow is expense. Using up the  
16 productive capacity of assets in an accounting period is recorded in  
17 accounting records as depreciation expense. The amount of money  
18 used to purchase the asset is the basis for the entry in accounting  
19 records. This amount is regarded as being definite and immediately  
20 determinable. The accounting objectives of verifiability and  
21 neutrality are also satisfied.”<sup>3</sup>

22 **Q. Has Mr. Vatter’s method been used in any other regulatory jurisdiction?**

23 A. No. I am not familiar with any other jurisdiction that has used his method.

24 **Q. How does Mr. Vatter’s proposal to use the weighted average cost of capital**  
25 **(WACC) to compute depreciation conflict with these principles?**

26 A. The WACC is a financial metric that represents a company's average cost of capital  
27 from all sources, including debt and equity. It is commonly used in valuation  
28 models to discount future cash flows to their present value, thereby determining the

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2 NARUC (1996, p. 11-12).

3 NARUC (1996, p. 12).

1 value of a business or asset. Incorporating WACC into depreciation calculations  
2 shifts the focus from systematically allocating the historical cost of an asset over its  
3 useful life—a cost allocation approach—to estimating the asset's value based on  
4 expected future returns, which aligns with valuation methodologies.

5 **Q. Will Mr. Vatter's approach be more costly to customers than the traditional**  
6 **approach to depreciation?**

7 A. Yes. While Mr. Vatter's approach would reduce depreciation in the short-term, it  
8 will lead to a lower accumulated depreciation balance, higher rate base and higher  
9 return on rate base. This will, in turn, be more costly to customers than the  
10 traditional straight line method.

11 **Q. What are the potential implications of integrating WACC into depreciation**  
12 **calculations?**

13 A. WACC is subject to market fluctuations. Incorporating it into depreciation could  
14 lead to unpredictable utility rates, adversely affecting both the utility's financial  
15 stability and ratepayer expectations. If WACC decreases due to favorable market  
16 conditions, this approach may result in lower depreciation charges, potentially  
17 leading to under-recovery of the asset's cost over its useful life. This scenario could  
18 necessitate future rate increases to compensate for the shortfall, placing an undue  
19 burden on future ratepayers.

20 **Q. Are there additional challenges associated with this approach?**

21 A. Yes, incorporating WACC into depreciation calculations adds unnecessary  
22 complexity and may require frequent adjustments to reflect market conditions. This

1 complexity can complicate regulatory oversight and the utility's financial planning  
2 processes.

3 **Q. Does Mr. Vatter consider the straight-line remaining life approach to**  
4 **depreciation reasonable?**

5 A. Yes, Mr. Vatter acknowledges that the straight-line remaining life method is a valid  
6 approach to depreciation. In his testimony, he explicitly states:

7 I do not challenge the method of straight-line remaining life  
8 depreciation; rather, I combine it with another analysis based on  
9 fundamental concepts of corporate finance and regulatory  
10 economics.<sup>4</sup>

11 (Vatter Testimony, at Bates Page 486).

12 **Q. Has Witness Vatter proposed depreciation expense that is determined**  
13 **consistent with standard methodology?**

14 A. No. The determination of the net salvage percentage and development of life cycles  
15 are not consistent with the standard practices of all authoritative texts for regulated  
16 utilities.

17 **Q. Has Witness Vatter interpreted the life estimation and net salvage parameters**  
18 **in Mr. Spanos' depreciation study accurately?**

19 A. No. Witness Vatter establishes composite life cycles in his testimony Table 2, at  
20 Bates Page 493 that is not representative of a survivor curve life cycle in the  
21 depreciation study by account. Survivor curve life cycles are not linear.

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4 Vatter Direct Testimony (p. 5)



1 **Q. Has Witness Vatter interpreted the net salvage component of the depreciation**  
2 **rate accurately by account?**

3 A. No. First, it should be understood that the cost of removal component for each  
4 distribution account should be higher than the gross salvage component. This is  
5 because the effort to remove or retire distribution assets is and will be higher than  
6 the scrap value received. Therefore, distribution accounts will generally be  
7 negative as is the case for every utility across the United States. Second, the net  
8 salvage in the future will most likely be more negative than what has been  
9 experienced to date because the age of retirements to date have been less than the  
10 average age of retirements recommended by account. Consequently, when there is  
11 more time between installation and retirement the relationship of labor (cost of  
12 removal) will increase as compared to the retirement amount.

13 **Q. Is the process that I utilized for the Company to conduct the depreciation study**  
14 **consistent with those utilized by other regulated utilities across the United**  
15 **States?**

16 A. Yes. The determination of life estimation which includes the retirement rate method  
17 to establish survivor curves is consistent in all state jurisdictions and the Federal  
18 Energy Regulatory Commission (FERC). The determination of the net salvage  
19 component is consistent with most state jurisdictions , including this Commission,  
20 based on a relationship of cost of removal and gross salvage to the associated  
21 retirements.

1 **Q. Does Witness Vatter utilize a definition of depreciation that is consistent with**  
2 **the Uniform System Of Accounts (“USOA”) or other authoritative texts for**  
3 **regulated utilities?**

4 A. No. Witness Vatter references that assets can appreciate in value which is not  
5 accurate since the original cost does not change from the time an asset is placed  
6 into service and when it is retired. The net book value could change over time  
7 based on the life and net salvage parameters in place but that does not mean an asset  
8 appreciates.

9 **Q. Should the reduction in depreciation expense recommended by OCA be**  
10 **considered reasonable for this case?**

11 A. No. OCA has recommended a reduction in annual depreciation expense of  
12 approximately \$18 million from the depreciation study and \$16.5 million from the  
13 existing rates with substantial plant investment. His recommended method is not  
14 based on sound depreciation methods and procedures.

15 **Q. Does this conclude your rebuttal testimony?**

16 A. Yes.