

ORIGINAL

RE: DE 24-070

PUC HEARING

October 02, 2024



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STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

October 2, 2024, 9:03 a.m.
21 South Fruit Street, Ste. 10
Concord, New Hampshire

ORIGINAL

RE: DE 24-070
Public Service Company of New Hampshire
d/b/a Eversource Energy
Request for Change in Distribution Rates
(Prehearing Technical Conference Day 1)

PRESENT: Chairman Daniel C. Goldner, Presiding
Commissioner Pradip K. Chattopadhyay
Alexander Speidel, Legal Advisor
Tracey Russo, Clerk

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APPEARANCES:

Reptg. Public Service Company of
New Hampshire d/b/a Eversource Energy:

Jessica A. Chiavara, Esq.
Jonathan A. Goldberg, Esq. (Keegan Werlin)

Reptg. Residential Ratepayers:
Office of the Consumer Advocate,

Donald M. Kreis, Esq., Consumer Advocate
Matthew Fossum, Asst. Consumer Advocate
Michael J. Crouse, Esq., Staff Attorney
Marc Vatter, Director of Economics/Finance
Charles Underhill, Director of Rates/Markets

Court Reporter:

Nancy J. Theroux, LCR, RPR
NH Licensed Court Reporter #100
(RSA 310-A:161-181)

1 APPEARANCES: (Continued)

2 Reptg. New Hampshire Dept. of Energy:

3 Office of Administrative Support

4 Paul B. Dexter, Esq.

Alexandra K. Ladwig, Esq.

5 Mary Schwarzer, Esq.

Matthew Young, Esq.

6 Elizabeth Nixon, Utility Analyst

Jay Dudley, Utility Analyst

7 Jacqueline Trottier, Utility Analyst

Amanda Noonan, Director of Regulatory Support

8

9 Reptg. AARP:

10 Christina FitzPatrick, NH Director

Patrick McDermott

11 John Coffman (remotely)

12

13 Reptg. Clean Energy New Hampshire:

14

Chris Skoglund, Director of Energy Transition

15

16 Reptg. Conservation Law Foundation:

17 Nicholas Krakoff, Esq.

18

19 Reptg. Mary Ellen O'Brien Kramer:

20

Raymond Burke, Esq., NH Legal Assistance

21

ALSO PRESENT:

22

23 Reptg. PSNH, Eversource Energy:

24

Doug Horton

25

Robert Coates

Ashley Botelho

26

Jonathan Kallen

1 APPEARANCES - (Continued)

2 Reptg. Eversource Energy: (Cont.)

- 3 Dominick Brescia
- 4 Brian Dickie
- 5 Paul Renaud
- 6 Marc Lemenager
- 7 Sandra Gagnon
- 8 Shamus O'Brien
- 9 Warren Boutin
- 10 Matthew Kolesar
- 11 Augustin Ros

12 Reptg. NH Department of Energy

- 13 Nicholas Crowley (Remotely)
- 14 Donna Mullinax (Remotely)

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1 P R O C E E D I N G

2 CHAIRMAN GOLDNER: Good morning. I'm
3 Chairman Dan Goldner. I'm joined here today with
4 Commissioner Pradip Chattopadhyay. This is day
5 one of the prehearing technical conference
6 attended and presided over by the Commission
7 regarding the Eversource performance-based
8 ratemaking, or PBR proposal, presented to the
9 Commission in its Distribution Rate Case docketed
10 in DE 24-070.

11 These prehearing technical conferences
12 were scheduled by the Commission in its
13 commencement of adjudicative proceeding, Order
14 No. 27,029, issued on June 28th, 2024.

15 The Commission established these
16 prehearing technical conferences pursuant to our
17 authority and duty to keep informed and
18 investigate the Company's proposals, pursuant to
19 RSA 374:4 and other authorities, given the high
20 degree of technical complexity and novelty of the
21 Company's proposals, including those related to
22 PBR.

23 The Commission was also being

1 responsive to the Company's suggestion, made in
2 the cover letter signed by Eversource's outside
3 counsel, that a process should be put in place to
4 allow for active engagement by the Commission at
5 an earlier stage of the proceeding rather than
6 later. We note that we are now nearly four
7 months into the proceeding.

8 The Commission recognizes that the
9 parties to this proceeding will be independently
10 engaged in their own discovery process, including
11 technical sessions in which the Commission will
12 not be involved. However, as the ultimate
13 arbiter of the interests of Eversource and its
14 ratepayers in this proceeding, given the novelty
15 of the PBR proposal, it is critically important
16 for the Commission to ensure that it understands
17 how PBR works generally and would work in the
18 Eversource framework and as to what pieces fall
19 under the rubric of PBR, including some very
20 large pieces of potential capital investment.

21 To that end, at the outset, the
22 Commission views these sessions to be for our own
23 understanding and our own application. The

1 parties have been invited to attend, virtually or
2 in person, to these sessions, but we do not view
3 these sessions to be a substitute or a
4 replacement for the parties' own discovery
5 processes, nor are these sessions meant to be a
6 vehicle for the parties' own litigation on the
7 issues.

8 Rather, the Commission will seek to
9 find grounding on the technical issues presented
10 as we find, having reviewed the Company's filing,
11 there's significant gaps in explanation and
12 information that require more information to
13 complete our understanding.

14 Let's begin today by taking a roll
15 call of the parties and persons here today,
16 beginning with Eversource.

17 MS. CHIAVARA: Good morning,
18 Commission. Jessica Chiavara here on behalf of
19 Public Service Company of New Hampshire, doing
20 business as Eversource Energy.

21 I have with me here today Jonathan
22 Goldberg, Senior Counsel for Keegan Werlin, and a
23 couple others we will -- a few other people that

1 we'll get to them in due time.

2 CHAIRMAN GOLDNER: Okay. Can you --
3 we didn't receive any kind of preliminary filing
4 from the Company. Can you perhaps, at this time,
5 introduce your technical folks, the folks that
6 are here today that provided testimony and would
7 be available for Commissioner questions?

8 MS. CHIAVARA: Yes. Actually, what we
9 had planned on is we did bring the PBR witnesses
10 today. We also brought support staff. And we
11 weren't aware that there be would be a court
12 reporter here. So we thought it was going to be
13 more of an issues discussion, and so we thought
14 that support staff would also answer questions if
15 needed or if it would be helpful. But, I mean,
16 obviously, we'd pivot to the witnesses
17 predominantly.

18 CHAIRMAN GOLDNER: Okay. So just to
19 verify, the witnesses that provided testimony on
20 PBR are all here today?

21 MS. CHIAVARA: That's correct.

22 CHAIRMAN GOLDNER: Including your
23 consultants?

1 MS. CHIAVARA: Yes.

2 CHAIRMAN GOLDNER: And then you -- in
3 addition, you've brought other folks along who
4 could potentially answer questions?

5 MS. CHIAVARA: That's correct.

6 CHAIRMAN GOLDNER: Okay. That's
7 great. Thank you.

8 Okay. AARP?

9 MS. FITZPATRICK: Hello, my name is
10 Christina Fitzpatrick. I'm the State Director
11 for AARP, New Hampshire, and there are two other
12 people here, Patrick McDermott, who is our
13 volunteer State President, and John Coffman, who
14 is joining remotely.

15 CHAIRMAN GOLDNER: Okay. Very good.
16 Thank you.

17 MR. COFFMAN: Hello. I don't know if
18 you can hear me, but -- John Coffman here. Thank
19 you for allowing me to be here.

20 CHAIRMAN GOLDNER: Thank you,
21 Mr. Coffman. Yes, we can hear you perfectly.

22 Alexander Cook? (No response.)

23 Okay. Clean Energy New Hampshire?

1 MR. SKOGLUND: Good morning,
2 Commissioners. Chris Skoglund, Director of
3 Energy Transition with Clean Energy, New
4 Hampshire.

5 CHAIRMAN GOLDNER: Thank you. The
6 Community Power Coalition of New Hampshire?

7 (No response.)

8 Conservation Law Foundation?

9 MR. KRAKOFF: Good morning,
10 Commissioners. Nick Krakoff on behalf of the
11 Conservation Law Foundation.

12 CHAIRMAN GOLDNER: Thank you.
13 Rate LG Customer Consortium?

14 (No response.)

15 Mary Ellen O'Brien Kramer?

16 MR. BURKE: Good morning,
17 Commissioners. Raymond Burke, New Hampshire
18 Legal Assistance, on behalf of O'Brien Kramer.

19 CHAIRMAN GOLDNER: Thank you. New
20 England Connectivity and Telecommunications
21 Association, NECTA?

22 (No response.)

23 CHAIRMAN GOLDNER: Standard Power of

1 America?

2 (No response.)

3 Walmart, Incorporated?

4 (No response.)

5 Is there anyone else here today that
6 would like to be acknowledged?

7 Okay. Seeing none, I'm just going to
8 review the roll call. So I capture that
9 Eversource is here. AARP is here. Community
10 Power Coalition of New Hampshire is here. Rate
11 LG Customer -- I'm sorry -- let me start over
12 again.

13 Eversource is here. AARP is here.
14 Clean Energy New Hampshire is here. Conservation
15 Law Foundation is here. Mary Ellen O'Brien
16 Kramer's representative is here, and that's the
17 group here today. My apologies, my notes were
18 incomplete. Unintentional, of course.

19 Let's move on to the Office of the
20 Consumer Advocate.

21 MR. KREIS: Good morning, Mr.
22 Chairman. I'm Donald Kreis, the Consumer
23 Advocate. My office represents the interests

1 of residential utility customers pursuant to
2 RSA 363:28. I have the entire OCA team with me
3 here today. To my left is Michael Crouse, our
4 Staff Attorney. To his left is Matthew Fossum,
5 the Assistant Consumer Advocate. To his left is
6 Marc Vatter, our Director of Economics and
7 Finance. And somewhere else in the room is Chuck
8 Underhill. I believe he's right behind me, but I
9 don't have eyes in the back of my head. He is
10 our Director of Rates and Markets.

11 The Office of the Consumer Advocate
12 wishes to preserve for the record an ongoing
13 objection to this proceeding today. We believe
14 that it is authorized nowhere, in either the
15 Administrative Procedure Act, the Commission's
16 enabling statutes, or any of the Commission's
17 procedural rules. We do not believe it is a
18 reasonable application of Section 4 of RSA 374.
19 We're concerned about prejudice, due process, and
20 the possibility that -- well, just all of the
21 irregularities.

22 In addition, our two -- or at least
23 two of our PBR witnesses from Synapse Energy

1 Economics have asked the Clerk's office for
2 permission to observe today's proceeding. It
3 appears that that permission has not been
4 granted, and we object to that as well.

5 CHAIRMAN GOLDNER: So, first, the --
6 everyone who has requested access has been
7 granted access, so if we need to take a pause in
8 the proceedings to make sure that your folks have
9 -- have access to the proceeding, we can do that.
10 But we issued -- we issued something yesterday
11 that clarified our connection and technical
12 status.

13 No. 2, I'll just say this is a roll
14 call, but I'll allow the comment in and just say
15 that the Commission clearly has a right to
16 inquire of the Company regarding its rate case
17 proposals, and the Commission clearly has the
18 right to conduct prehearing conferences to
19 enhance its understanding. In any event, no
20 rehearing was sought for Order No. 27,029, so we
21 will continue.

22 We'll move to the New Hampshire
23 Department of Energy.

1 MR. DEXTER: Good morning,
2 Mr. Chairman, Commissioner Chattopadhyay. Paul
3 Dexter for the Department of Energy. I'm joined
4 here by most of the members of the New Hampshire
5 Department of Energy's Legal Division and
6 Regulatory Division. I can name them if you'd
7 like.

8 CHAIRMAN GOLDNER: Please do.

9 MR. DEXTER: So with me from Legal
10 today is Attorneys Alexandra Ladwig, Mary
11 Schwarzer, Matthew Young.

12 And from our Regulatory Division, Liz
13 Nixon, Jay Dudley, Jackie Trottier, Amanda
14 Noonan, and I think that's everyone.

15 Also participating on behalf of the
16 Department of Energy are several consultants from
17 Christiansen Associates. They're participating
18 remotely pursuant to the Commission's grant, as
19 well as Donna Mullinax from Blue Ridge
20 Consulting.

21 CHAIRMAN GOLDNER: Thank you, Attorney
22 Dexter.

23 Is anyone else having any connection

1 problems? The Consumer Advocate indicated a
2 couple of his folks were having trouble getting
3 connected. Is anyone else having trouble, have
4 you heard? No other trouble?

5 Consumer Advocate, do we need to take
6 a break and give your folks a chance to connect?

7 MR. KREIS: I -- excuse me. I just
8 think it would be helpful if the Clerk's office
9 would email them the link to the proceeding, and
10 then they can just power it up on their screens.

11 I don't think it would make any sense
12 to take a break, because that would waste a lot
13 of people's time.

14 CHAIRMAN GOLDNER: Okay. Thank you,
15 Attorney Kreis.

16 So the clerks are in the back room, so
17 I'll just direct the clerks to make that happen,
18 and we'll proceed. And Attorney Kreis, please,
19 keep me posted if there are continued connection
20 problems.

21 MR. KREIS: Will do. Thank you.

22 CHAIRMAN GOLDNER: Thank you.

23 Okay. So let's continue. So

1 regarding the outstanding motion for confidential
2 treatment filed by Eversource on July 10th, we
3 will address that in conjunction with the
4 September 26th motion for confidential treatment.

5 We note that the 10-day -- 10 days for
6 parties to respond to that September 26th motion
7 will fall on October 7th, so we invite parties to
8 be prepared to provide their responses to that
9 motion by then.

10 In the interim, we wish to ask the
11 Counsel for the Company -- that would be Attorney
12 Chiavara -- if arrangements can be made to enter
13 into a Nondisclosure Agreement with our
14 consultants, Daymark Advisors, so that provision
15 can be made so they receive the information for
16 analysis in a timely fashion.

17 MS. CHIAVARA: Yes, I can get that
18 drafted up.

19 CHAIRMAN GOLDNER: Thank you. Thank
20 you, Attorney Chiavara.

21 All right. So we'd -- just in terms
22 of setting up the day, we'll plan on taking a
23 regular break at roughly 90-minute intervals and

1 take an hour at noon, so people can plan
2 accordingly.

3 Livingston is reserved for the
4 Company, right in back of us, so the Company has
5 a place to confer between sessions.

6 Okay. So let's -- let's begin today,
7 and I'll just begin by asking Attorney Chiavara
8 and the Company if the Company has prepared a
9 more detailed summary presentation for today's
10 technical conference, or would you like the
11 Commission to direct the next portion of the
12 agenda?

13 MS. CHIAVARA: I -- I think we are
14 very well prepared for a robust discussion, but
15 if you'd like to take the lead, that would be
16 great.

17 CHAIRMAN GOLDNER: Okay. Very good.

18 Okay. So we'll begin the -- we'll
19 provide the direction for these sessions,
20 beginning with the Company's PBR proposed
21 algorithm. We would like you to go through each
22 element in detail so we understand how it is
23 calculated, the maximum and minimum values, how

1 it will be validated, and, finally, why the
2 Company proposes the particular metric and not
3 some other metric.

4 I'll repeat that just so that we have
5 the scope for the discussion today. So we'd like
6 to go through each element in detail, so that we
7 understand how it is calculated, the maximum and
8 minimum values, how it will be validated, and,
9 finally, why the Company proposes the particular
10 metric and not some other metric.

11 And so where I'd like to start is the
12 basic equation, at least as the Commission
13 understands it, which is Revenue Requirement
14 sub-t equals ((Revenue Requirement sub-t minus 1)
15 times (1 plus I sub-t, minus X, minus CD)) plus
16 Z sub-t, plus K sub-t, plus ESM sub-t.

17 So that's the basic equation that was
18 in two of the filings, both by the consultants
19 and by the Company. So I think that at a high
20 level, that's what the Company is describing as
21 PBR, at least as we understand it.

22 And then, in addition to that --
23 pardon me -- and perhaps we can get into this

1 after we've gone over the high-level view,
2 there's -- there's lots of other -- there's lots
3 of other factors. There's stretch factors, and
4 there's K-bars, and there's all kinds of other
5 things that seem to be in addition to this sort
6 of base equation.

7 So what we're looking to do today, at
8 least for the first part of today, maybe all day,
9 depending on how it goes, is just to understand
10 how the PBR works, what is this equation, and
11 walk us through each of the elements, and, again,
12 going through how it's calculated, maximum
13 values, validation, and why you propose that
14 particular metric.

15 So, Attorney Chiavara, I'll look to
16 you to, sort of, advise us in terms of who to
17 direct the question to, but that's what we'd like
18 to go through first, is the equation.

19 MS. CHIAVARA: Thank you very much,
20 Mr. Chairman. I would just ask that we are able
21 to confer a minute, and then I will get somebody
22 to respond to the question. Thank you.

23 MR. HORTON: I can jump in at this

1 part. When you say it like that, in the formula
2 form, I -- it makes total sense. Where's the
3 question? I'm just kidding. So if we take a
4 step back --

5 CHAIRMAN GOLDNER: And I'm sorry, for
6 today's proceeding, because we have a
7 stenographer, if everyone could identify
8 themselves before they speak, at least the first
9 time so the stenographer can know who's speaking.

10 MR. HORTON: Yes. So I'm Doug Horton.
11 I'm the Vice President of Distribution Rates at
12 Eversource.

13 So if we take a step back, in terms of
14 what we are proposing in this proceeding, there
15 are two main elements and components. The first
16 is to establish castoff rates, and that process
17 is what we're going through to determine the
18 permanent rate that will take effect August 1st
19 of 2025, which is, I would say, following, for
20 all intents and purposes, traditional New
21 Hampshire precedent and practices for determining
22 the cost of service. That is the same whether
23 it's a performance-based ratemaking proposal or

1 not. So that's one critical element of the rate
2 case.

3 The second is to establish a revenue
4 support framework or a regulatory framework to
5 work between rate cases.

6 And so, as we were approaching this
7 case, we took into account a lot of
8 considerations, and it actually started with a
9 PUC prompt last year regarding step adjustments,
10 which has been the norm in recent rate cases for
11 revenue support between rate cases. The
12 questions were around, you know, what is the
13 philosophy of a step adjustment, how can we make
14 this a little bit more -- and this is my
15 editorial, but how can we make the process for
16 step adjustments a little more -- less
17 administratively burdensome and contentious, what
18 have you.

19 So we started to think about that,
20 certainly, at that time, and we have experience
21 in other jurisdictions for frameworks that can,
22 you know, provide revenue support between rate
23 cases, and there are many.

1 The performance-based ratemaking
2 approach starts with the castoff rates, again,
3 determined in a rate case proceeding, and then it
4 establishes, based on a formula, what revenue
5 support will be needed to run the business to
6 provide the Utility an opportunity, but not a
7 guarantee, to earn its authorized ROE between
8 rate cases, while remaining or -- keeping
9 incentive so that the Utility has maximum
10 incentives to operate efficiently and result in a
11 lower overall cost of service over time for our
12 customers.

13 And we have hired consultants who are
14 experts in this field and can speak to the
15 science behind that and provide their experience
16 and where it's been used in the past.

17 The formula is intended to do that
18 simply. There's a lot of letters in the alphabet
19 soup, I realize, but really what it is doing is
20 it's trying to come up with a framework that
21 will -- when you start with your castoff rate,
22 also called a going-in rate, when you start
23 there, and then you apply this formula to the

1 castoff rates, you can have comfort that the
2 Utility should have an opportunity, but not a
3 guarantee, to earn its authorized ROE, and that
4 having incentives to do what I said, to maintain
5 and optimize our cost performance, which is the
6 key element of a performance-based ratemaking
7 framework; that we are incentivized to be good
8 cost performers, which benefits customers.

9 CHAIRMAN GOLDNER: Can I pause you
10 there and make --

11 MR. HORTON: At any point.

12 CHAIRMAN GOLDNER: -- briefly?

13 So in, then, the basic equation that
14 we talked about is, Revenue Requirement sub-t
15 minus 1, is that the castoff rate or is the
16 entire equation the castoff rate?

17 MR. HORTON: The castoff rate for the
18 first PBR adjustment would be Revenue Requirement
19 sub-t minus 1.

20 CHAIRMAN GOLDNER: Okay. Thank you.
21 And then you had described the rest of it -- I
22 won't repeat all of the variables, but the six or
23 seven variables that followed, that's, sort of,

1 the regulatory framework that would -- that would
2 be implemented annually?

3 MR. HORTON: That's correct.

4 CHAIRMAN GOLDNER: Okay. Thank you.

5 MR. HORTON: And so, if we start with
6 the castoff rate, or the going-in rate, that will
7 take effect August 1st of 2025. And we did have
8 an alternative proposal that was outlined in the
9 response to PUC Question 3, based on a schedule
10 and where we are as compared to when we had
11 originally filed the case.

12 But for simplicity in answering this
13 question, if you walk through the formula, it
14 starts with that castoff rate, and then there are
15 two main adjustments -- I know, again, there's
16 lots of letters, but there are two main
17 adjustments that provide that revenue support.

18 One is an adjustment for, essentially,
19 changes in operating and maintenance expenses.
20 Typically -- and, again, the consultants can
21 speak to this better than I, but, generally, in
22 an I -- in a PBR framework, there is a formula.
23 The base formula is I minus X.

1 Essentially, what we're doing is
2 saying, okay, for an average utility company, an
3 average industry participant, how did their
4 overall costs change relative to a benchmark.

5 In this case, that inflation benchmark
6 is GDP-PI. So the X is determined as a
7 relationship between overall costs changing --
8 and please, chime in if I'm not speaking the
9 science language correctly. But, generally, the
10 way I think of it is that, for an average
11 industry participant, their cost will change,
12 relative to GDP-PI, in some correlated fashion.
13 That correlation is the X.

14 So the first main adjustment is to
15 take your castoff rates and then say, if I were
16 an average industry participant, my cost will
17 change by inflation minus the X factor.

18 And if nothing else were to be part of
19 the PBR equation, that is what would be the
20 resulting revenue change on August 1, 2026, which
21 is that first PBR adjustment. The castoff rates
22 are set August 1, '25, and the first PBR
23 adjustment would take place a year after that.

1 So if we were simply doing that, you
2 would say -- in roughly the beginning of 2026, we
3 would say, okay, we know what the castoff rate
4 is. Now we're going to adjust August 1, 2026,
5 for PBR, and then we'll calculate and measure
6 what was inflation that would go into the
7 formula, based on "I" that will be an actual
8 result that we would demonstrate with
9 verifiably -- independently verify both data
10 points, based on how the general economy, GDP-PI
11 -- measured by GDP-PI has changed.

12 And then we would add to that the
13 value of X, which will be determined in a rate
14 case. It wouldn't change between rate cases.

15 CHAIRMAN GOLDNER: All right. But
16 it's zero in this particular rate case?

17 MR. HORTON: Correct, based on our
18 proposal. Now, the science says that that would
19 be negative 1.42 percent. And the science says
20 that, for an average utility, their costs are
21 changing at a rate that is, relative to
22 inflation, minus 1.42, meaning you add --

23 CHAIRMAN GOLDNER: Higher, yeah.

1 MR. HORTON: Right. So you would take
2 inflation minus the negative. So you would take
3 inflation plus 1.42 percent.

4 We are not proposing to do that, and
5 there's lots of reasons why. But that's the
6 first step.

7 MS. BOTELHO: I believe Mark had
8 something to add as well.

9 CHAIRMAN GOLDNER: And remember to
10 identify yourself before speaking, okay? Just so
11 the stenographer, at least the first time, has
12 your name.

13 MR. KOLESAR: Mark Kolesar. I think
14 it might be helpful just to take a giant step
15 back, okay? So what the PBR formula does is, it
16 adjusts the total allowed revenue, the total
17 revenue requirement for the firm, every year by
18 an index. It's simply an index.

19 Now, it's a complicated index, in the
20 sense it has a number of individual parts that
21 make it up, but, at the basic level, what PBR
22 intends to do is to adjust the amount of revenue
23 the Company is allowed to get every year by an

1 index, which is different than cost of service,
2 where you essentially set the rates going in on
3 day one, and they stay unchanged until either you
4 bring the Company back in or the Company wants to
5 come back in, because earnings attrition has
6 gotten to the point where you need to have your
7 next rate case.

8 So, at its most basic level, what this
9 complicated formula is intended to do is to
10 regulate rates, or the revenue that the Company
11 gets, over an extended period of time that will
12 be longer than the period of time that you'd
13 normally see in a cost of service regime, such as
14 you have now.

15 So I think it -- it's -- it's helpful
16 to have that context at the outset. Now, I'm
17 sure we will go through and we'll talk about how
18 every component of that index helps to create the
19 overall index, but, at its core, we're simply
20 adjusting the total -- what I like to call
21 spending envelope that the Company gets every
22 year over the PBR term, and that's what this
23 formula does. It simply creates an index.

1 So if -- if you're familiar with, say,
2 an inflation index, like GDP-PI, right, it simply
3 says inflation is increasing by a certain
4 percentage every year.

5 What this does is increases the
6 Company's allowed overall revenue every year by
7 an index. It's just a complicated calculation of
8 an index, and that may help provide some context.

9 CHAIRMAN GOLDNER: Yeah, let me pause
10 you there for a minute.

11 MR. KOLESAR: Yes.

12 CHAIRMAN GOLDNER: So in New
13 Hampshire, the -- in the Company's last rate
14 case, and I think it's true in all of the
15 utilities in the State, there have been step
16 increases. There's vegetation management and
17 indexing and adjustments, and so forth. So there
18 was -- this regulatory lag had been addressed in
19 a different way in the past.

20 Can you maybe speak a little bit to
21 how this is -- how this is better than the
22 conventional method, or how this is different. I
23 guess I don't -- I guess I'm just trying to

1 understand what PBR is addressing that the prior
2 methodology didn't address.

3 MR. KOLESAR: Okay. I don't know --
4 do you want to take that one?

5 MR. HORTON: Yeah, I can jump back in,
6 I think. And, again, that's where we started.
7 So you're right, there's -- if you're looking at
8 pure cost of service, that's -- how Mark
9 described it, you wouldn't -- the rate case,
10 that's the rate. The rate doesn't change.

11 And to your point, in New Hampshire we
12 have had rates change between rate cases based on
13 step adjustments. Those step adjustments have
14 been the result of -- Settlement Agreements
15 generally have been capped, have not included all
16 capital that the Company has spent. There's also
17 a lag from when that revenue support will take
18 effect and the period of time where the capital
19 will have been spent.

20 And so, our analysis demonstrated
21 that -- well, multiple things. First is that
22 that -- under that framework, we would have
23 annual processes and proceedings before the PUC

1 to evaluate the prudence of each capital addition
2 that has been put through that mechanism, which
3 is a time-consuming process and a process that's
4 necessary under a step adjustment framework,
5 unless there are modifications to the standard
6 for allowing those to take effect.

7 But also, because of the rate of
8 increase in our capital spend -- and this is true
9 of the industry but, certainly, for Eversource
10 here in New Hampshire -- because the rate of
11 change of that capital spend is so great, what
12 we've seen in this case, in my mind, is a classic
13 demonstration of this and a fact, not anecdote,
14 that the level of spend and the increase in that
15 level of spend has outpaced the support that can
16 be provided for through steps, such that when we
17 have a rate case like we are having now, the rate
18 increase is significant.

19 And it isn't that the -- it is a
20 function of the fact that the step adjustments
21 have been designed to be lags and caps and
22 less -- and limited, to the point where, now when
23 we have a rate case, the predominant factor

1 driving the large rate increase, which is a
2 significant increase in the distribution portion
3 of the bill, as we all know, it is showing and
4 demonstrating that those steps aren't keeping
5 track -- keeping pace, I should say, with the
6 level of spend that's needed.

7 So, now, we're looking at it and
8 saying, well, we have options, and the
9 Commission, certainly, is the ultimate decider of
10 what path do we want to take. On the one hand,
11 status quo, which would be where we are now.

12 And I can feel confident in saying
13 that multiple things would happen. But the fact
14 that the step adjustments are what they are and
15 not keeping pace, there's a cost to that for our
16 customers that we think is better achieved
17 through a performance-based ratemaking framework.

18 CHAIRMAN GOLDNER: Okay.

19 MR. HORTON: The PBR framework, that
20 formula, the complex formula, is essentially
21 trying to get to the same place by providing
22 revenue support for all of the Utility's cost
23 changes between rate cases in a way that is more

1 administratively efficient, that is a natural and
2 transparent glide path for rate changes over
3 time, that doesn't require -- although, certainly
4 there is additional -- additional administrative
5 process, it doesn't require that annual prudence
6 review, mini rate case function, and it provides
7 the Utility with the revenue in a rate year that
8 gives the opportunity, but not a guarantee, to
9 earn our authorized ROE. And it comes with a
10 commitment that we will forego our constitutional
11 right to file a rate case during the PBR plan,
12 which then solidifies the incentives of PBR that,
13 rather than making a decision when faced with a
14 declining ROE and earnings attrition, the
15 decisions we have are limited, to file a rate
16 case to change our revenues. We can't do that
17 without the Commission approval and without a
18 rate case. That's option No. 1, which is taken
19 away under PBR.

20 Or option No. 2 would be to cut
21 spending, defer investment, defer O&M, what have
22 you. The idea is that, with PBR, we are
23 committing to take one of those options off the

1 table for a period of time so that we will be
2 incentivized to aggressively pursue cost
3 efficiencies and savings in a way that we are
4 always motivated to do, for sure, but those
5 incentives are naturally embedded in a PBR
6 framework.

7 And that isn't -- it isn't there with
8 an alternative, when you have the ability to file
9 a rate case, in fact, an expectation --
10 especially with times of increasing capital
11 expenditures, an expectation that we will enter
12 into a pattern of multiple and successive and
13 sequential rate cases.

14 So from a -- from the perspective of,
15 you know, regulatory efficiency, there is
16 benefits. I also see benefits from the customer
17 perspective, because we are avoiding that large
18 rate increase that happens. It doesn't change
19 the overall cost the customer pays, except to the
20 extent that we do find efficiencies lower our
21 overall costs of service, which we would be
22 incentivized to do in the meantime, but it
23 provides for a more natural, smooth transition in

1 rates.

2 CHAIRMAN GOLDNER: Thank you. Let me
3 just back up a little bit. So in 19,057, the
4 Company's last rate case -- and I'll look to the
5 Company, although I think many people here
6 participated in that docket. There was a
7 stay-out period in that docket as well. Was it
8 four years, the stay-out?

9 MR. HORTON: So the last step
10 adjustment in 19,057 was -- I believe it
11 stipulated that we could file a rate case using
12 2022 as a test year and could file no sooner than
13 the first quarter of 2023. So there was a
14 limited stay-out period, correct.

15 CHAIRMAN GOLDNER: And all I'm doing
16 here is I'm saying, I think, that in this PBR
17 proposal, it mirrors, I think, convention in New
18 Hampshire, where there's typically a stay-out
19 period in the settlement. So the Company's being
20 proactive in suggesting a stay-out period, as
21 opposed to it being -- coming late in the game as
22 a part of settlement. Is that what you're
23 saying?

1 MR. HORTON: I would say two things.
2 The first, I believe, if we did the math, the PBR
3 has one additional year of a stay-out provision
4 than what was in the 19,057 rate case.

5 I would also say that, while that was
6 a condition of -- settlement condition of that
7 rate case -- and certainly, we're not at this
8 point in time. But from the Company's
9 perspective, knowing what we know of the system
10 needs and the investment needs on the system,
11 that stay-out commitment, under a traditional or
12 a status quo regulatory framework, wouldn't be --
13 it would be a very large concession if we were in
14 settlement.

15 I wouldn't anticipate making that
16 commitment under a step adjustment framework,
17 knowing it would be deficient, and certainly not
18 able to make that commitment for the period that
19 we are under PBR. It would be, if nothing else,
20 an abbreviated commitment, if anything.

21 CHAIRMAN GOLDNER: I don't want to
22 diverge too far from the PBR path, but this is
23 all kind of set up for PBR. So, if the Company

1 could have filed in 2022 -- for the 2022 test
2 year, why didn't it?

3 MR. HORTON: We could have. There's
4 lots of considerations that go into when we file
5 a rate case. I mean, we always would like to
6 avoid a rate case filing when we can. That's --
7 Eversource's general philosophy is to try to stay
8 out as long as we can. And so, that additional
9 year was a function of us, you know, taking all
10 factors into consideration and wanting to extend
11 as long as we could. Clearly, the earnings
12 attrition was evident and increasing, and that
13 caused us to file when we did.

14 CHAIRMAN GOLDNER: Thank you. And I
15 think, if I've done the math right, and please do
16 correct me if I get this wrong, but the increase
17 in distribution rates in the Company's proposal
18 with the -- with just the castoff rate is 47
19 percent. So that's kind of the Company's
20 proposal for the castoff; is that -- am I -- do I
21 have the right baseline?

22 MR. HORTON: Yeah. For some reason, I
23 thought it was 42, but subject to check. It's a

1 large distribution increase. On a distribution
2 basis, it's a sizeable increase, including storm
3 cost recovery, in that framework. And that's --
4 again, that's a major factor in why we're here
5 and proposing what we're proposing.

6 CHAIRMAN GOLDNER: If somebody at
7 Eversource could check that while we're getting
8 through these initial pieces.

9 I just want to make sure that I --
10 that the Commission understands the castoff and
11 what we're talking about here is the baseline.
12 So I have 47, but if it's different, then it's
13 different.

14 Then I want to return, Mr. Horton, to
15 a couple of other comments that you mentioned.
16 You also mentioned that one of the advantages of
17 PBR is that it's capped. But isn't that just
18 replicating the same problem, in the eyes of the
19 Company, that the step increases presented you
20 with? They were both capped. And I think your
21 case is, because they were capped, then spending
22 got out ahead of the recovery, and thus, you have
23 a big jump in the next rate case.

1 MR. HORTON: There's a lot there, and
2 you're not wrong.

3 I think what we're proposing, we are
4 trying to propose with PBR a framework that
5 provides -- and certainly, it does. It provides
6 more revenue support than a step. But by its
7 design -- by its design, it is intending to give
8 us in each rate year an opportunity to do what I
9 said. I don't want to keep repeating that phrase
10 all day, but an opportunity to cover our
11 operating costs and still be able to earn a
12 return that's close to our authorized ROE. And
13 our analysis shows that it's actually still less
14 than our authorized ROE, in any scenario we're
15 looking at, in any given year, to be able to
16 attract the capital necessary to serve our
17 customers.

18 Certainly, there are other
19 alternatives that would provide more revenues
20 than what we're asking for that would minimize
21 that gap. Anytime we're showing a deficiency,
22 meaning our authorized ROE is greater than our
23 earned ROE, that indicates a need for a revenue

1 increase, for sure. But by its design, it is
2 intending to give us the revenue support that we
3 need in each rate year to run the Company and to
4 serve our customers. Whereas, the step
5 adjustment was not met. Certainly, from my
6 perspective, the step adjustment was a revenue
7 support mechanism that, by its design, excluded
8 capital from the equation. It went into effect
9 eight months after the rate -- after the year in
10 which the plant was placed into service, which
11 would mean that the regulatory lag built into
12 that was up to 20 months from when a plant
13 addition would have been made.

14 So when we're setting a step
15 adjustment for -- if it were to be August 1 of
16 2025, basing it on actual plant additions in
17 2024, knowing that those plant additions that
18 would be allowed in the step would be limited,
19 because not all categories of capital were
20 allowed in the step, and having the rate effect
21 go into place, on a prospective basis, August 1st
22 of '25 based, on additions spent in '24. By its
23 design, it's lagged. And, through settlement,

1 the parties would agree to a number that would
2 not, at that point, be tied to actuals. It would
3 be a number that also could provide additional
4 caps and gaps.

5 And then, through the process of
6 litigating that step adjustment, there were
7 delays in the rate implementation date. There
8 were concessions around projects that could, or
9 could not, be included. There were other things
10 that would happen through that process that made
11 it even less -- provided less revenue support for
12 the case.

13 My point is that, by design, it was
14 not designed to give us that opportunity in any
15 given rate year; whereas, the PBR is.

16 So I'm not saying that PBR would be
17 the end-all, be-all. It's not a perfect
18 solution. We're not asking or seeing one. We
19 are trying to come up with a framework that I do
20 truly believe, I buy into this stuff, and think
21 that it will give us the opportunity that we need
22 to attract the capital to serve our customers
23 and, ultimately, to result in a better deal for

1 our customers, because the rate changes will be
2 more natural, smooth, transparent, predictable,
3 steady, all those things. And it will maintain
4 the incentives for us, by avoiding a large rate
5 case too, as long as we can, to maximize
6 efficiencies.

7 And by having additional resources
8 provided through the PBR mechanism, as compared
9 to a step adjustment that's designed, like I
10 said, to be restrictive, that will also give us
11 the opportunity, potentially, to pursue
12 investments that would be de-prioritized if we
13 had more limited financial resources. And those
14 investments could help us operate more
15 efficiently, as we invest in people, processes,
16 and technologies. If we have those resources and
17 we're able to bring something onto the table that
18 would otherwise get left on the cutting room
19 floor, if we had fewer and more limited resources
20 available to us, that will also add benefits to
21 customers in terms of overall cost of service and
22 the service quality that we're providing.

23 CHAIRMAN GOLDNER: So I just want to

1 see if I can repeat that back. So in
2 conventional cost of service ratemaking, there's
3 a long regulatory lag and the Company is
4 incentivized to come in as often as it can under
5 the statute to minimize that regulatory lag.

6 And New Hampshire, then, some years
7 back, perhaps Attorney Dexter could -- could shed
8 some light on the timing, given -- given the long
9 history at the Commission. Then, New Hampshire
10 went to the step process, which reduced the
11 regulatory lag. And the Company is here
12 proposing a PBR solution, which further reduces
13 the regulatory lag.

14 Is that kind of how the history shakes
15 out?

16 MR. HORTON: Yeah, I think that's
17 right, and I think each mechanism has its place
18 in time, and many come back into good standing.
19 In other words, in my view, the traditional
20 method of rate cases -- cost of service, you set
21 a rate and that's it -- can work, and has a good
22 place in all of our -- it can come back, provided
23 there is also sales and growth to sustain the

1 Company. But if you go back in time when we,
2 traditionally and historically, have rate cases,
3 we would only be talking about the revenue
4 deficiency. That would be, like, the number-one
5 aspect of a rate case; what's the revenue
6 deficiency and how are we setting rates. And
7 you'd focus on the cost of service. You would
8 set rates.

9 But from the Company's perspective,
10 that wouldn't be the end-all, be-all for revenue
11 support, to allow it to stay out of rate cases as
12 long as it could, because there were too many
13 things that happened in the old days. One was
14 you would have steady, stable, predictable
15 increases in sales volumes that, when you applied
16 against the rate that had been set in the rate
17 case, would produce more revenues to support the
18 business.

19 So that's one thing that just doesn't
20 exist today, even in -- we don't have decoupling
21 here in New Hampshire. Our sales volumes are
22 generally flat, modest --

23 CHAIRMAN GOLDNER: I'm sorry, Mr.

1 Horton. There was noise in the room. Can you
2 please repeat that point? I think I missed your
3 point. If you could just repeat it. I didn't
4 quite hear it.

5 MR. HORTON: Yeah. So under
6 traditional cost of service, in the absence of
7 step adjustments, there are two main things that
8 don't exist today that, in my mind, cause us to
9 need to look to alternative regulatory
10 frameworks.

11 One is that, historically, utilities
12 would have steady, persistent increases in sales.
13 So when you would establish a rate in a rate
14 case, that rate wouldn't change until your next
15 rate case, but your sales volumes would. So
16 from -- if you're just thinking purely about the
17 Utility's earnings, that would provide a natural,
18 steady increase in earnings that -- that's
19 necessary to support the increase in investment.

20 And the increase in earnings would
21 come from the fact that you would have rates set
22 at a fixed rate, times sale volumes that are
23 increasing, providing additional revenue between

1 rate cases.

2 Then you would also -- the second key
3 factor is that the increase in capital
4 expenditures was more due to things like natural
5 inflationary pressures, so that your capital
6 expenditures were roughly in line with your
7 depreciation expense in rates. And if that's
8 true --

9 CHAIRMAN GOLDNER: And, I'm sorry, let
10 me just jump in and -- is the Company's forecast
11 for the next five to ten years increasing load,
12 increasing volume, or is it remaining flat -- I
13 know the last ten years or so have been pretty
14 flat. But to your point, conventional ratemaking
15 is a workable solution, it sounds like, if your
16 revenues are increasing.

17 MR. HORTON: And there is -- and I
18 don't have it at my fingertips. I know it's on
19 the record, so that's a number we can get. There
20 is a projection of modest sales increases that,
21 in our proposal, in the analysis that we have
22 submitted, is embedded. Meaning, there is
23 some -- I believe it's around one percent --

1 sales volume increases.

2 CHAIRMAN GOLDNER: It's pretty small,
3 though, a very modest sales increase, as opposed
4 to, I think, you know, forecasting that's out
5 there in different states and different
6 jurisdictions, with electrification and so forth,
7 some forecasts are quite a bit higher than that.
8 But Eversource's internal forecast, it sounds
9 like, is pretty modest, relatively flat, roughly
10 one percent.

11 MR. HORTON: And even in jurisdictions
12 where electrification is more on the forefront,
13 in the here and now, the here and now is very
14 subjective and unknown as to when that will
15 happen.

16 And even in, you know, Massachusetts,
17 it's -- it's still a question as to when, but
18 it's years off. It isn't in the immediate, you
19 know, four- to five-year horizon.

20 CHAIRMAN GOLDNER: I see. So this is
21 a Company solution to, sort of, solve a flat
22 revenue profile for the identifiable future to
23 minimize revenue lag, among other things.

1 MR. HORTON: I think another key
2 piece, though, the point that I was trying to
3 also finish is the level of investment that's
4 needed to serve the system, which is that, if --
5 if the capital infrastructure investment is
6 generally stable or modestly increasing over
7 time, the traditional cost of service model
8 works, and can work again, if the level of
9 capital expenditures is close to your
10 depreciation expense. Depreciation expense
11 provides you annual cash to fund ongoing
12 investment. If you're generally close to that,
13 then regulatory lag is only to the extent you're
14 spending more than that.

15 Whereas, in our forecast, we're seeing
16 significantly more need for capital than what's
17 going to be provided for through base rates.
18 Meaning, we're going to have to continue to
19 attract capital into the system, in both debt and
20 equity, which is causing two things to happen. I
21 mentioned that just the natural revenue support
22 provided by sale growth is insufficient to
23 support changes and expenses.

1 So as we invest more in the system,
2 people, processes, and technology, the
3 depreciation expense that's contributing to a
4 higher expense, without corresponding higher
5 revenues, is causing, on its own, a decline in
6 our earnings over time.

7 But also, we are having to attract
8 more capital into the system. So that when we
9 look at the calculation of ROE, return on equity,
10 which is simply our net income over our equity
11 balance, that's an additional contributing
12 factor. We're having to contribute more capital,
13 more equity. And to attract that equity into the
14 system, that we're able to get through base
15 rates, because we're spending significantly more
16 and projecting to have to increase that level of
17 spending far beyond what's provided through base
18 rates, that that causes additional attrition in
19 the ROE.

20 So it isn't that we're looking at it
21 to say we're looking for -- I forget how you
22 worded it, but it struck me in a way that -- yes,
23 we're looking for additional revenues to support

1 the business for all the things that I said, but
2 the fact of the matter is that, in the absence of
3 something -- and we think PBR is the way to go.
4 But in the absence of some additional revenue
5 support, those two factors are going to be what's
6 driving constant, continuous rate cases, until
7 those two factors normalize. Meaning, until we
8 get revenue increases through the form of sales
9 volume that naturally provide that revenue
10 support, which we don't know when will happen or
11 is far off, or until the level of investment
12 stabilizes, such that the level of increased
13 capital that's needed, the equity balance, the
14 increase in that is able to be supported by that
15 natural increase in revenue and corresponding net
16 income.

17 Right now, we're at a point -- and,
18 again, it isn't just Eversource here in New
19 Hampshire, but it's an industry issue. There's a
20 lot of capital that's needed to finance the
21 energy infrastructure across the country, for a
22 whole host of different reasons, but there's a
23 lot of capital that's going to be needed to

1 finance that. And how do we do that in a way
2 that doesn't overburden our customers and allows
3 us to still have affordable rates.

4 We think PBR is the right thing,
5 companion to do that. In the absence of it, and
6 just going through a traditional cost of service
7 framework, would result in the need for
8 sequential, successive rate cases and the
9 corresponding -- and we've shown, you know,
10 volatile rate increases through that historical
11 method, because the lag is so great and the
12 revenues can't keep up.

13 CHAIRMAN GOLDNER: On that second
14 point, I think it's probably outside the scope
15 today, but perhaps in a later proceeding, the
16 Company could take a note to help the Commission
17 understand these investments that are required,
18 optical ground wires and the, sort of, new
19 technology that the Company intends to implement,
20 and why it's required and not -- couldn't be
21 viewed by the Commission or parties as
22 gold-plating and this kind of thing.

23 So just help the Commission understand

1 why this investment is needed. When you look at
2 the revenue for the last, you know, ten-plus
3 years, and you look at the forecast for the next
4 however many years, you see flat revenue, and you
5 see increasing expenditure, which, you know, sort
6 of from a common-sense perspective, doesn't make
7 a lot of sense.

8 But if the Company could help the
9 Commission understand in a systematic way -- and
10 we don't have to talk about it here today. But
11 just help us understand the "why" part; why is
12 all this investment needed on a flat revenue
13 stream. I think that would be very constructive.

14 I just want to go back, Mr. Horton, to
15 the PowerPoint presentation that the Company
16 presented -- very helpful -- at the outset of
17 this proceeding.

18 And it's on Page 3. On Page 3, it
19 talks about the Company's invested more than
20 \$765 million in New Hampshire electric
21 distribution systems over the last five years.
22 And on that same slide, it talks about the
23 percentage of customers restored within five

1 minutes has increased over that time period from
2 something like 40 percent to 52 percent.

3 And I'm sure we'll talk about the
4 metrics of safety and reliability and so forth,
5 you know, out over the next day or two.

6 But coming back to your point on
7 depreciation. The Company has invested \$765
8 million, and I think your point is, is over that
9 same period, the cumulative depreciation has been
10 less than that, which drives this problem.

11 Is that -- am I capturing that right,
12 or would you explain that differently?

13 MR. HORTON: Yeah, it is, and in
14 addition, the revenue support provided for
15 through step adjustments was also not providing
16 revenue for the full 765.

17 And just on to the prior point you
18 made, we totally agree, and understand we did put
19 in a distribution systems planning panel. We
20 don't have them all here today, but certainly --
21 I know we have four days for PBR. I'm sure we'll
22 talk about -- we have topics for them. We could
23 have them present at one of those days or a

1 future tech session. But that was -- the idea of
2 that was to show: Here's how all of the
3 decisions get made. Here's what we take into
4 account as we're looking one year, two year,
5 three -- five years ahead, in terms of how we're
6 identifying needed infrastructure projects on our
7 system, to show that there's no gold-plating,
8 that there's a real issue that needs addressing,
9 and for a whole host of reasons, age and asset
10 condition, increasing automation, just that
11 example -- and I'm a finance person. I have,
12 sitting to my left here, someone who can speak
13 much more eloquently than I. But just
14 anecdotally, as you think about that example,
15 we're not adding customers, nor adding
16 automation. We're improving the quality of
17 service.

18 And so, there's not a need for --
19 there's not any additional revenue that would
20 naturally come from the traditional cost of
21 service ratemaking framework for that. It's
22 being driven by customer expectations and
23 requirements of their electric grid, which

1 certainly has evolved over the last 15, 20 years,
2 in particular, since COVID, and continues to.

3 So I think there's a lot of factors
4 that's driving the need for investment -- and
5 also say that, in that last rate case, we also
6 had that -- we saw this coming, to a great
7 extent, that the need for investment was ramping
8 up. We saw it coming and had proposals in that
9 case, and continue to see the same dynamic here
10 at play.

11 CHAIRMAN GOLDNER: Okay. Thank you.
12 We'll take it back on the Commissioner break and
13 come back with a request to hear more about that
14 topic, either in these four days or subsequent
15 prehearing conferences. But I appreciate the
16 offer, because that will be ultimately important
17 to the Commission.

18 Okay. Very good. I appreciate the
19 explanation on that piece. Perhaps we could -- I
20 think -- I think that, you know, we're turning
21 to, sort of, the equation and helping us
22 understand how it's pieced together. I think we
23 got through I minus X, though I don't totally

1 understand how the K-bar enters into that
2 portion. It's not in the equation, and I, sort
3 of, don't grasp how it fits together. So that's
4 really the -- one of the motivations for today's
5 session, is to, sort of, you know, help the
6 Commission understand how all the pieces of the
7 puzzle fit together. In 20,000 pages of filings,
8 it's hard to piece it together. So we could
9 maybe just focus on that part of the equation. I
10 know Commissioner Chattopadhyay has questions on
11 the K-bar topic, but could we -- if we could just
12 focus on that portion of the equation, I think
13 that would be helpful, if I'm in the right
14 portion of the equation.

15 MR. HORTON: Yeah, sure. And I had
16 mentioned there are two main factors, although
17 there's a lot of letters in the formula.

18 The first is the I minus X, which we
19 talked about. The next is the K-bar, which is in
20 the formula as Kt , so it's -- I just moved off
21 the page. So it's the I minus X, plus Kt , which
22 is the -- the K equals the K-bar.

23 So what the K-bar does --

1 CHAIRMAN GOLDNER: So -- I'm sorry,
2 just to verify.

3 MR. HORTON: Yeah.

4 CHAIRMAN GOLDNER: So K sub-t, the
5 capital revenue adjustment, is the K-bar? Those
6 are the same thing?

7 MR. HORTON: Yes.

8 CHAIRMAN GOLDNER: Okay. Thank you.

9 MR. HORTON: The K sub-t is the K-bar.
10 What that does is it says -- it's a mechanism
11 that comes in to say, knowing that -- in
12 particular cases, where there is a need for
13 additional capital spending that isn't covered by
14 the I minus X, the K-bar is a way to add
15 additional revenue support and then still adhere
16 to the principles of performance-based
17 ratemaking.

18 Because it is not a capital tracker,
19 it doesn't give dollar-for-dollar recovery. What
20 it does is it says, we know that there's a need
21 for additional investment in the system, which is
22 Step 1. First, agreeing or understanding or
23 trusting that that's the case. And that the

1 K-bar will provide an additional layer of revenue
2 support outside the I minus X formula. And, in
3 fact, that's how the function works together.
4 When we get into the schedule, which is Exhibit
5 ES-DPH-1, that's where we showed an example of
6 how the K-bar would work over time, which is a
7 total complication, but it is, in the end,
8 relatively simple.

9 What it says is, based on the
10 Company's actual historical plant additions,
11 adjusted to the rate year by that I minus X
12 formula, it's essentially determining, what is a
13 revenue requirement for capital in the rate year,
14 but based on Eversource's New Hampshire
15 distribution operations, actual spending over
16 time.

17 And it's really getting back to the
18 point of saying, when you have increasing capital
19 expenditures, that's increasing at a rate greater
20 than historical and increasing at a rate greater
21 than the I minus X, the K-bar comes in to say,
22 how can we calculate a revenue requirement on
23 that higher capital that isn't a capital tracker,

1 essentially.

2 CHAIRMAN GOLDNER: But why is it
3 cumulative? If you have the GDP inflation factor
4 in there, why would you add the K-bar -- why
5 would it be additive? Why wouldn't you
6 subcontract out the inflation rate?

7 MR. HORTON: You do, in fact. That's
8 where I say, those two -- the formula works in
9 tandem. So you start with I minus X. You take
10 your castoff rate, times the I minus X result.

11 And then in the K-bar calculation -- I
12 -- I can go through the actual -- but
13 conceptually first, perhaps. It literally
14 starts, and it says, how much capital support --
15 how much capital revenue requirement is in that
16 castoff rate.

17 Let's say our castoff rate -- oh, hold
18 on. I'm going to need my glasses for this, and
19 they don't work anymore, so...

20 So if you take --

21 CHAIRMAN GOLDNER: Have you ever
22 noticed that the finance guys have the biggest
23 three-ring binders?

1 MR. HORTON: Ashley says she didn't
2 bring hers. Just one moment.

3 CHAIRMAN GOLDNER: Take your time.

4 MR. HORTON: So if you wanted to look
5 at Attachment ES-DPH-1, which is our --

6 CHAIRMAN GOLDNER: I have to go slow
7 on this because, in the 20,000 pages, it's hard
8 to find things.

9 MR. HORTON: That's at Bates 1434.

10 CHAIRMAN GOLDNER: Thank you.

11 And also for the court reporter, yeah,
12 so we can capture it.

13 So is this in your testimony, Mr.
14 Horton?

15 MR. HORTON: Yes. In the overview.

16 CHAIRMAN GOLDNER: Just give us a
17 second to get there.

18 CMSR. CHATTOPADHYAY: Can I -- can I
19 inform whether you're also looking at the same
20 information that's available in Excel?

21 MR. HORTON: Yes.

22 CMSR. CHATTOPADHYAY: So this is the
23 ES-DPH-1?

1 MR. HORTON: Yes. I believe it was
2 provided as Attachment PUC 1 in Excel.

3 CHAIRMAN GOLDNER: Just a second.
4 It's here somewhere. Can you give us the page
5 again, Mr. Horton?

6 MR. HORTON: It's Bates 1434.

7 CHAIRMAN GOLDNER: Okay. I'm there.
8 Commissioner Chattopadhyay, are you there?

9 CMSR. CHATTOPADHYAY: Can you tell me
10 which worksheet it is?

11 MR. HORTON: We can start on Worksheet
12 1, Total PBRA.

13 CMSR. CHATTOPADHYAY: Thank you.

14 MR. HORTON: And I'll try not to get
15 us mired in the spreadsheet, but -- so I don't
16 throw out new numbers. I just wanted to try to
17 ground it.

18 CHAIRMAN GOLDNER: Helpful. No, this
19 it great.

20 MR. HORTON: So Page 1, which is Line
21 1 on Bates 1434, and it's Excel Row 17, that \$618
22 million operating revenue requirement, that is
23 our total -- that's what we're asking for in this

1 proceeding. So assuming what we have requested
2 as a permanent rate change is approved, that
3 would be our T minus 1 -- or that would be our
4 revenue requirement T, the going-in rate.

5 CHAIRMAN GOLDNER: It would be T -- it
6 would be T minus 1? Or T?

7 MR. HORTON: It would be T.

8 CHAIRMAN GOLDNER: So your total
9 revenue requirement, T, before we -- it would be
10 T and T minus 1 in the first year.

11 MR. HORTON: In the first year, yes.

12 CHAIRMAN GOLDNER: Okay. That was a
13 trick question.

14 MR. HORTON: The T minus 1 is -- so in
15 the first year -- correct? That the first PBR
16 will take the castoff rate, which is the revenue
17 requirement, that 618, and then each year it
18 builds off the prior year, which is YT minus 1.
19 Okay.

20 CHAIRMAN GOLDNER: Okay.

21 MR. HORTON: So 618 is what we
22 requested. Then there are adjustments where
23 we're saying, we're going to take out certain

1 components of that request and not subject them
2 to the PBR, but I won't -- I don't know that we
3 need to get through -- that's a detail, although
4 important.

5 So, if you look at the base revenue
6 requirement, excluding storms, is 525 million.
7 So when we're doing the first step of the PBR
8 adjustment, the I minus X, we will apply that I
9 minus X, where X is zero, to the 525 -- that's on
10 Excel Line 22, and it's on Bates 1434, Line
11 labeled 6, I think.

12 So 525, that is what we will -- what
13 we will determine for the I minus X adjustment.
14 And that's shown on the subsequent line. It's
15 shown on Line 9 and 10 or Excel Line 25 and 26.

16 When we take off that castoff rate,
17 525 times inflation of 1.86 percent, that will
18 provide PBR alone of a \$10 million adjustment,
19 not the K-bar yet. Are you tracking that?

20 CHAIRMAN GOLDNER: Maybe. I'm not
21 sure. So I understand we start with 618.2 on
22 Line 1. There's some adjustments for other
23 revenues and storm costs and so forth. And you

1 get to 525.9.

2 Is 525.9 the revenue requirement?

3 (No audible response.)

4 CHAIRMAN GOLDNER: Okay. So -- so 618
5 is the starting place. You have some adjustments
6 to get to 525.9.

7 And then your point is, if you just
8 take inflation of 2 percent, it would add \$10
9 million to the 525.9?

10 MR. HORTON: Correct.

11 CHAIRMAN GOLDNER: Okay. So far, so
12 good.

13 MR. HORTON: Yes. And so that, if we
14 were just doing I minus X, and X were zero, that
15 would be the end, and it would be \$10 million
16 adjusted on the 525.

17 CHAIRMAN GOLDNER: Okay. So that
18 would mean -- so the Company would be asking --
19 or 535 would be the revenue requirement in year
20 zero -- or Year 1, whatever we call the first --

21 MR. HORTON: The first PBR adjustment.

22 CHAIRMAN GOLDNER: -- the first PBR
23 adjustment.

1 MR. HORTON: Yeah. And so what that's
2 saying -- if I take a step back again. So August
3 1, 2026 -- excuse me -- August 1, '25, the
4 castoff rate would be set at 618 million.

5 For purposes of the PBR adjustment,
6 which would go in August 1, 2026, we would say,
7 okay, how are we going to change the base revenue
8 requirement for PBR?

9 And all we're doing is we're taking
10 that 618 and saying, okay, other revenues are
11 other revenues. Those don't get changed by PBR.
12 Those are separate.

13 And we say, storm cost recovery is its
14 own separate thing. We're not going to increase
15 that by PBR. So we take those out, leaving us
16 with a base distribution revenue requirement,
17 capital, and O&M of \$525 million, such that,
18 August 1, 2026, the first PBR adjustment, I minus
19 X -- and X is zero -- would be \$10 million.

20 Meaning, if that were -- just to get
21 back to the science. That would say -- if that
22 were mathematically supportable, that would say
23 that that \$10 million increase, theoretically,

1 would be enough to give the Company, starting
2 August 1, 2026, an opportunity, but not a
3 guarantee, to cover its operating expenses in
4 that year, including capital, and the earned and
5 authorized ROE.

6 It doesn't stop there, but I'm just
7 trying -- if that were to be where it stopped,
8 that would be what that stood for, at that point
9 in time.

10 CHAIRMAN GOLDNER: Okay. And just
11 help us understand, maybe, where the other -- it
12 looks like it's about 90 million or something.
13 The 618, the 525, where does that go? Where does
14 that show up?

15 MR. HORTON: So when we start with our
16 total revenue requirement in this providing of
17 618, we start with -- not PBR related, again. We
18 say, how much do we need to collect from our
19 distribution customers through rates?

20 So Step 1 is simply taking --

21 CHAIRMAN GOLDNER: 618.

22 MR. HORTON: -- 618 is the total,
23 except 17.6 of that is other revenues that we

1 collect from -- not through our base distribution
2 rates, but other means.

3 So when we're designing rates, we
4 start by taking other revenues out of the
5 equation. So as it relates to the 90, 17.6 of it
6 is other revenues, and that's just traditional
7 ratemaking. That's not PBR.

8 Then we say, for storm cost recovery,
9 there's two components. We have a separate
10 proceeding pending now, where we have a large
11 balance of unrecovered storm costs, where we're
12 proposing in this proceeding to begin to collect
13 that in base rates.

14 So part of the 618 million is storm
15 cost recovery for previously incurred storm
16 costs, and we're saying, well, we're going to get
17 recovery of that amount in base rates. It
18 shouldn't be subject to a performance-based
19 ratemaking increase.

20 So we take that out. We're still
21 collecting it in base rates. We just don't apply
22 the PBR increase to it.

23 CHAIRMAN GOLDNER: Okay. Because in

1 PBR, all you're really looking for is the delta,
2 the increase each year, so that's what the
3 Company cares about, right? Because whatever --
4 whatever the revenue requirement is, it is. And
5 then PBR gives you the delta, and that's the
6 increase that the Company gets to whatever that
7 baseline is over years; is that -- am I
8 understanding how that works?

9 MR. HORTON: Yeah, I think that's
10 right. And conceptually, or theoretically, what
11 we're saying, we're getting that 55.7 million,
12 reflects recovery of previously approved storm
13 costs, so it's not -- it's not subject to the
14 same factors and forces of the rest of our
15 operating expenditures, like, you know,
16 maintenance and capital infrastructure
17 investment. It's a previously approved amount
18 that we're just collecting. So we take it out of
19 the PBR equation.

20 CHAIRMAN GOLDNER: And just briefly, I
21 want to go back to the "I," which is GDP-PI, and
22 you were saying, for this example, let's call it
23 2 percent. That's fine. But what is GDP -- I

1 know what GDP is. But GDP-PI, like, can you
2 explain that portion of the calculation?

3 MR. HORTON: It's simply the Gross
4 Domestic Product Price Index, so it's a separate
5 index that has measures. It's a data point that
6 measures the level of change in gross domestic
7 product, so --

8 CHAIRMAN GOLDNER: It's published by
9 the U.S. Department of Commerce or something like
10 that.

11 MR. HORTON: Yeah. Yeah. It's --

12 CMSR. CHATTOPADHYAY: And it's,
13 actually, Sheet 10 in this --

14 CHAIRMAN GOLDNER: Okay.

15 MR. HORTON: Exactly.

16 CHAIRMAN GOLDNER: So the parties
17 won't have any challenges with that. It's a
18 published U.S.-level data. No problem.

19 And then what was the PI again?

20 MR. HORTON: That's just what they
21 call it. It's the Gross Domestic Product Price
22 Index.

23 CHAIRMAN GOLDNER: Oh, okay. So it's

1 actually -- it's not GDP minus PI. It's GDP,
2 dash, PI.

3 MR. HORTON: Yes. Right. Right.

4 CHAIRMAN GOLDNER: See, that's where
5 these are helpful conferences.

6 MR. HORTON: I totally agree.

7 CHAIRMAN GOLDNER: All right.
8 Excellent. I was trying to do some subtraction
9 there with PI -- and PI in other docket, and
10 couldn't figure out what was going on.

11 MR. HORTON: Oh, no. It's not a
12 performance incentive. It's just part of the
13 acronym.

14 CHAIRMAN GOLDNER: That's what I
15 thought it was. Okay. Thank you.

16 Okay. Thank you. That's helpful. So
17 we're at 525.9, and we've got the 2 percent just
18 as an estimate here, so it would be a \$10 million
19 increase before we get to K-bar.

20 MR. HORTON: Correct. So then what
21 happens is -- again, that 525.9, that reflects
22 our total cost of service. So the PBR increase
23 of 10 is providing revenue support, to support

1 total cost of service. And the total cost of
2 service includes capital-related components and
3 expense-related components.

4 The K-bar comes in and says, how much
5 additional revenue, if any, is necessary to
6 support only the capital-related components?

7 Some revenue support is provided
8 through just operation of I minus X, that \$10
9 million, because it's applied against the total
10 castoff rate, inclusive of capital and O&M. Some
11 of that 10 million is supporting our capital
12 expenditures.

13 So the PBR formula -- one moment.
14 The -- the K-bar formula, starting on Tab 2 -- so
15 that's going to be Bates 1435.

16 CHAIRMAN GOLDNER: Okay.

17 MR. HORTON: On Tab 2, K-bar sum, what
18 it does first, at the top of that page, is it
19 says, how much of that 525 from Page 1 is capital
20 related. So it says, I have depreciation expense
21 in there of 99 million, pretax return on rate
22 base of 176 million, property tax expense of 44
23 million.

1 So the sum of those things, 319
2 million, is saying that, of the 525, 319 million
3 of that is capital related. And the rest is O&M.

4 So then it says, in the K-bar
5 calculation, is it starts with -- one moment.

6 Okay. So to see how the K-bar gives
7 credit, effectively, for that I minus X -- you
8 can see it on Tab 3, K-bar Detail, which is at
9 Bates 1436.

10 So it starts with -- at the top,
11 again, it just reiterates the 319 million as
12 capital related. That's included in the castoff
13 rate of 525. And it shows us -- in the first
14 adjustment, the first section, Step 2, establish
15 cumulative I minus X percent relative to 2024,
16 what that's doing is it's saying, if I had 319
17 million -- okay. If I had 319 million -- it's
18 actually on Lines 12 to 16, if you're looking at
19 the -- number, the outline is 26 to 30.

20 It's saying, I have 319 million,
21 August 1, 2026. I would have implemented that 2
22 percent increase in I minus X, so that -- that
23 amount of revenue support supporting capital has

1 gone up from 319 to 325 in that first year.

2 CHAIRMAN GOLDNER: So just to go back
3 to the castoff of 525. You wouldn't -- you
4 wouldn't add the 2 percent to that. It would
5 only be the 2 percent on the 319, or the 2
6 percent on the whole 525?

7 MR. HORTON: It's 2 percent on the
8 whole 525, so we get a \$10 million increase on
9 the whole 525. And then the K-bar is a separate
10 step, but it works like that, by saying -- the
11 K-bar says, what additional revenue is needed for
12 capital that's not covered by --

13 CHAIRMAN GOLDNER: I see. It just
14 happens to be 2 percent, but it's not -- it's not
15 the same calculation to get to the 2 percent.

16 MR. HORTON: Well, it is.

17 CHAIRMAN GOLDNER: It is?

18 MR. HORTON: It is.

19 CHAIRMAN GOLDNER: Okay.

20 MR. HORTON: What's happening here is
21 it's taking us through each step of the K-bar.
22 It's saying, number one, well, we know that the
23 PBR is giving revenue support on the whole. It's

1 giving revenue support for capital and expense.

2 So the K-bar is going to give credit
3 for that, by starting -- by saying, well, if I
4 have 319 million in base rates for capital
5 revenue support, and I have increased my base
6 rates by 2 percent, how much of that went to
7 support capital?

8 That's what this step is showing us
9 here.

10 CHAIRMAN GOLDNER: Okay.

11 MR. HORTON: And it's saying that,
12 basically, 6 million of that 10 million supports
13 capital.

14 CHAIRMAN GOLDNER: Perfect.

15 CMSR. CHATTOPADHYAY: Dan, can I
16 just --

17 CHAIRMAN GOLDNER: Sure.

18 CMSR. CHATTOPADHYAY: To make sure.
19 So let me just summarize what you're saying.

20 You're essentially saying that 525
21 includes both capital and O&M expenses, but the
22 K-bar is, obviously, related to capital, figuring
23 out what piece of that 525 is capital, which is

1 319. Then you're trying to see what that same
2 multiplier, which is 2 percent roughly, does to
3 the capital piece, and that adds -- for example,
4 for 2026, it adds 6 million, and that is being
5 accounted for when you figure out what is the net
6 K-bar.

7 MR. HORTON: Yes. Yes. Because the 6
8 million is in that 10 million, on that first tab
9 that we looked at. The 6 million is already
10 given to us in the I minus X, yes.

11 So the rest of this sheet says --
12 again, you kind of put that aside, and then you
13 say, well, what -- what does the K-bar formula
14 then say that the Company needs in the rate year
15 for capital only. So then we go off track. The
16 K-bar formula kicks in, and says, again, we're
17 looking for a formulated way to give revenue
18 support for capital, that's not a capital
19 tracker, that's not dollar for dollar, it's based
20 on that entity's actual plant addition activity,
21 adjusted for the I minus X over time.

22 It's trying to say, what is the
23 revenue requirement, based on your recent trends

1 and plant additions, that you're going to need in
2 the rate here. So the sections -- and I'll -- go
3 ahead.

4 CHAIRMAN GOLDNER: Oh, sorry. I just
5 brushed up against the microphone.

6 MR. HORTON: Okay.

7 CHAIRMAN GOLDNER: But you were -- the
8 K-bar is -- just real quick, Commissioner. The
9 K-bar was the three years of history, right?

10 MR. HORTON: Yes.

11 CHAIRMAN GOLDNER: And it's moving
12 average calculation.

13 Commissioner Chattopadhyay.

14 CMSR. CHATTOPADHYAY: When you're
15 calculating the K-bar for -- and I may have not
16 understood this correctly, but you're going back
17 to 2021, '22, '23, all these years. There you
18 are applying the I minus X to them, right?

19 MR. HORTON: Yes.

20 CMSR. CHATTOPADHYAY: And can you
21 explain to me why -- why not begin with where we
22 are right now?

23 MR. HORTON: So -- and Mark or

1 Dr. Ross might help me, but, I mean -- so the
2 idea is -- again, is to say, we're not under a
3 K-bar, although -- we're not trying to get to a
4 pure formulaic capital cost recovery that's
5 giving the Utility dollar-for-dollar recovery.

6 It's not saying, take your actual
7 plant additions, put those into rates. You know,
8 that's not what it's doing. It's trying to say,
9 effectively, we know that the capital
10 expenditures are increasing, so we're going to
11 rely first on an actual data point, what the
12 Company actually spent in recent time, but we
13 also know that that recent period -- in our case,
14 we are proposing three years -- is going to just
15 naturally change by inflation. So forget -- it's
16 really trying to capture the two forces that are
17 driving our capital to increase. One is the
18 actual investment needs on the system. So that's
19 why we're relying on our actual experience over a
20 period of time. And the second is, well,
21 inflation is going to cause -- even if we were
22 just doing the same work, inflationary pressures
23 would cause that to cost more.

1 So you're taking your actual
2 experience, which is showing, for us, increasing
3 expenditures but still based on history, not a
4 forecast and not just one year, but from showing
5 a trend in our actual investment activity, and
6 then saying, if that trend were to continue,
7 effectively -- if that trend were to continue,
8 and just inflation were to happen, what does that
9 revenue requirement need to be in the rate year
10 to support that trend.

11 So you're using a three-year average
12 to, sort of, smooth out anomalistic behavior. Or
13 perhaps, if it was just the most recent year and
14 it was a high year, it might yield too much.

15 CMSR. CHATTOPADHYAY: I think -- let
16 me just -- I think what I'm asking is, those
17 investments are already undertaken. You know
18 what that amount is. So, now, to calculate the
19 three-year average, I'm just not fully grasping
20 why you have to apply the 2 percent to each of
21 those years so that I get a number, which, then,
22 for those threes years I'm going to add and
23 divide by 3 to get a number to start with.

1 That's my question.

2 MR. HORTON: Okay.

3 CMSR. CHATTOPADHYAY: And I'm seeing
4 somebody else wants to respond.

5 MR. KOLESAR: The quick answer is
6 because you want the value to be in current 2025
7 dollars. So what that does is it adjusts that
8 historical spend, the average historical spend,
9 as if the spend was occurring in 2025.

10 So by -- by doing that, you're
11 converting that spend into current dollars in
12 2025. So by adjusting it, in this case, by I
13 minus X, and X is zero, so you're really only
14 adjusting it by the rate of inflation in current
15 dollars, in 2025 dollars, what would that average
16 spend be.

17 So the basic reason why you're making
18 that adjustment is because you want it in current
19 2025 dollars.

20 CMSR. CHATTOPADHYAY: Follow-up.

21 I understand that point, but not being
22 an accountant, one of the things that I'm, sort
23 of, grasp -- or dealing with is, when you're

1 talking about, let's say, a 2021 number, that's
2 spent in 2024, you know, adjusted for --
3 normalized for inflation, you have a certain
4 number. You're, sort of, saying it's being --
5 that 2 percent is being applied to that.

6 I'm trying to understand whether, over
7 the year, what you have in 2021, there's also
8 depreciation happening, and whether the same
9 treatment is being applied to depreciation or
10 not.

11 MR. HORTON: The answer is yes. And
12 the formula takes care of that in a couple of
13 ways. So what you start with -- like you're
14 saying, you take historical spend. You get it to
15 current year's dollars. And what that's doing,
16 in theory, is it's saying, again, if our history
17 is going to -- that trend will continue. We're
18 going to reflect that in current year dollars.
19 That's what's happening on -- that's what it's
20 saying will be needed for revenue support in the
21 rate year, and it takes into account --

22 (Conferring.)

23 So -- so what the formula is doing in

1 Step 4 is, it's then saying, once I figured out
2 what on -- sorry, hold on. Let's get organized
3 so I don't throw us off track.

4 If we just try to -- I'm just going to
5 try to quickly retrace. So Step 1 on this sheet
6 is saying, what is our going-in capital revenue
7 requirement. That is 319.

8 Step 2 is simply regurgitating, what
9 is the I minus X formula giving us.

10 Step 3 is saying, how much revenue
11 support is being provided by operation of the I
12 minus X for capital. So it's taking the 319 plus
13 2 percent, and then each year thereafter.

14 Step 4 then says, well, based on
15 taking into account those factors that you just
16 mentioned, Commissioner, that we have additional
17 additions that's being informed by that K-bar
18 formula, which is the three-year historical
19 average inflated at GDP-PI, and also taking into
20 account that we have ongoing depreciation expense
21 that, all else equal, would be wearing down,
22 rate-based -- that's in base rates. How much
23 additional revenue requirement is needed, then,

1 to run the Company and support capital in that
2 rate year.

3 So it's naturally taking into account
4 both the fact that existing plant and rates is
5 going to depreciate and take into account the
6 fact that the -- if -- on the K-bar addition
7 side, if you used historical average, inflated by
8 inflation, how much additional revenue would be
9 needed.

10 And then at the end, in Step 5, it
11 says, okay, I know what the capital -- what
12 calculates the K-bar revenues by saying, from
13 Step 3, how much capital support is provided
14 through the function of the I minus X, which is
15 that 325 million.

16 How much K-bar revenue requirement is
17 needed from Step 4? Step 4 is the most
18 complicated of the steps. But, again, what
19 that's doing is it's saying, based on the
20 historical three-year average, inflated to the
21 rate year inflation, how much additions would
22 there be needed to support from the K-bar
23 perspective.

1 But it's also taking into account
2 accumulated depreciation. It's essentially
3 snapping a new chalk line for rate base in the
4 rate year, reflecting that existing rate base
5 will depreciate, and new rate base will come on,
6 based on the K-bar formula.

7 How much revenue requirement is
8 needed, which is in Step 4, so that says, you
9 need 367 million, based on the K-bar formula.
10 You're getting 325 million through operation of
11 the I minus X. So the K-bar adjustment would be
12 42 million in that first year.

13 CMSR. CHATTOPADHYAY: Again, I'm not
14 an accountant, so maybe I'm raising questions
15 that the answers are pretty obvious, but what I'm
16 trying to understand is you're -- you're, sort
17 of, applying that 2 percent to the capital
18 amounts for 2021. Over 2021 through 2022, there
19 has been some depreciation that is applied to the
20 capital that was there in 2021. And when you're
21 counting that depreciation, it goes into the
22 accumulated depreciation, you know, calculation.
23 Are you -- because that is happening over 2021 to

1 2022, are those dollar amounts being also
2 captured in term of 2024 or not? That's my
3 question.

4 MR. HORTON: I see.

5 CMSR. CHATTOPADHYAY: And if it is --
6 sorry. If it is -- if that's not the way to do
7 it, explain to me why.

8 MR. HORTON: Yes. (Conferring.)

9 It might just be easier to have
10 Mr. Kallen speak to the --

11 MR. SPEIDEL: Please introduce
12 yourself.

13 MR. KALLEN: Jon Kallen. So if I
14 understand your question correctly, the actual
15 depreciation for the years '21, '2, '3, and '4
16 are going to be captured in the perm rate, the
17 initial revenue requirement, the castoff rates.

18 The incremental depreciation
19 thereafter is going to be based on the K-bar
20 plant additions that are estimated in this
21 formula, depreciated at -- in this case, it's an
22 approved depreciation rate.

23 So the depreciation of that 2021 plant

1 does continue, and the '22 plant, it does
2 continue. It does continue to accumulate in rate
3 base -- the K-bar rate base.

4 MR. HORTON: But can I just -- I think
5 I -- (Conferring.)

6 I think the answer is yes on both
7 sides of the equation. And it's a good question,
8 and it's not an accounting -- I'm also not an
9 accountant, so I get in trouble when I get over
10 those skis.

11 So in two steps -- it is taking into
12 account inflation in both steps, such that both
13 are in that rate year look. Meaning, as
14 Mr. Kallen explained, in the castoff rate, you're
15 really taking into account already what is the
16 actual inflation on that '21 investment that is
17 going to be reflected in rates and in rate base.

18 From there, on both sides of this
19 equation, the I minus X is being applied. So
20 from the castoff rate perspective, we are saying
21 that depreciation expense is also being adjusted.
22 That's that first step, the three main components
23 that are capital related. Depreciation expense,

1 property taxes, and returns are all being
2 increased in rates by the I minus X.

3 So that's Step 3. That's the first
4 one. Just basic. 319 times 2 percent, \$6
5 million more that's giving us depreciation return
6 and property tax adjustment in some capacity.

7 And then, when calculating the K-bar
8 adjustment, we are also applying that same math
9 by saying, well, how much additional depreciation
10 expense would be needed by operation of actual
11 plant additions and inflating those plant
12 additions by 2 percent.

13 So I would say on both sides of that
14 equation, when calculating the K-bar, it's taking
15 that 2 percent into account. But really, all
16 it's doing is, it's simply trying to say, again,
17 based on the Company's actual experience,
18 normalized or adjusted and reflect in current
19 year dollars, how much revenue requirement would
20 you need, how much is provided for already. And
21 the difference, if positive, would be an add to
22 rates in the K-bar.

23 CMSR. CHATTOPADHYAY: Thank you.

1 CHAIRMAN GOLDNER: Okay. Let's take a
2 quick break -- a very quick break. We'll return
3 at 20 of, and then we'll continue until about
4 noon, and then take a lunch break. Off the
5 record.

6 (Recess taken.)

7 CHAIRMAN GOLDNER: Okay. We're back
8 on the record. First, I'll just check with the
9 OCA to make sure that the OCA's participants were
10 able to join.

11 MR. KREIS: Yes, they were,
12 Mr. Chairman. Thank you so much for checking.

13 CHAIRMAN GOLDNER: Okay. Thank you.

14 Okay. Just picking back up. I think
15 the Company was going to verify the amount of the
16 increase in distribution rates in Year 1. I
17 think I had 47 percent. I think there was maybe
18 another suggestion that that was not the right
19 calculation. Does somebody have that?

20 MS. BOTELHO: Yes. So with the
21 updated temporary rate settlement, it ended up at
22 29 -- 39.8, is what I have. So the temporary
23 rate increase was 14.64 percent, and the

1 permanent rate increase is 25.16 percent, so 39.8
2 percent distribution increase.

3 CHAIRMAN GOLDNER: Okay. Thank you
4 for clarifying that.

5 And then next, let's just back into
6 the number to make sure that the Commission has
7 the right set of data. So I -- just a moment
8 here. Let me log in.

9 So I don't know if we'd gotten all the
10 way through the calculation, but I think that the
11 Company's number for the revenue requirement, T
12 minus 1, was 525; is that right?

13 MR. HORTON: That's right.

14 CHAIRMAN GOLDNER: Okay. And that
15 means I didn't do the math on 525 less 39.8
16 percent, but can we do the math together to make
17 sure that we have the right step? So I think
18 what that means is that, in 2024, baseline -- let
19 me do that again. The 2023 baseline would be --
20 I'll get out the calculator here, but it would be
21 300-something million.

22 MR. HORTON: No, I don't know what
23 math you're trying to do. I don't think that's

1 going to be right.

2 CHAIRMAN GOLDNER: Okay.

3 MR. HORTON: The total increase, that
4 39 percent, or whatever it is, would be getting
5 to the -- what was it, 618?

6 All right. So let -- maybe it would
7 be best -- you're trying to understand what is
8 our current level of revenue requirement, and
9 what is the --

10 CHAIRMAN GOLDNER: Exactly. Just
11 trying to triangulate to the 39.8, I think you
12 said, so that we understand what the baseline is.
13 That's all.

14 (Conferring.)

15 MR. HORTON: So if you look at --
16 well, the -- in our revenue requirement filing --
17 I don't have the Bates number, but I can get it.
18 One second. The revenue requirement, which is
19 Bates 1638.

20 CHAIRMAN GOLDNER: And whose -- whose
21 testimony is that in?

22 MS. BOTELHO: That would be myself,
23 Ashley Botelho, and Yi-An Chen.

1 CHAIRMAN GOLDNER: All right. And
2 it's in the attachments, you say?

3 MS. BOTELHO: Yes. It's Schedule
4 ES-REVREQ-1. We're just finding you the Bates
5 number.

6 CHAIRMAN GOLDNER: Okay. And that one
7 starts at 1489. Maybe it's quite long. Let's
8 see. I only see that one going to 1515.
9 Unless -- oh, there's another set of attachments.
10 Maybe it's a different set. Let me try the
11 second set. Maybe that's it.

12 Yeah, there we go. 1638. Okay. I'm
13 there.

14 MR. HORTON: So if you're trying to
15 understand the current operating revenues and
16 what is the increase in revenues from current,
17 which is shown on Line 20, you see operating
18 revenues of 436 million.

19 CHAIRMAN GOLDNER: Yes.

20 MR. HORTON: The increase of 182
21 million would bring us to the 618 million. That
22 is an overall increase in revenues of 42 percent
23 distribution revenues.

1 CHAIRMAN GOLDNER: Okay. And how does
2 that line up with the 39.8?

3 MS. BOTELHO: So I was saying the
4 distribution rate impact. So I don't believe we
5 have Scott Anderson here today, but we could get
6 you that information on how that translates to
7 the bill impacts.

8 CHAIRMAN GOLDNER: Okay. So to the --
9 I'll look to Attorney Chiavara to kind of maybe
10 keep track of these things as we go. Thank you.
11 And that way, we don't lose track through the
12 day.

13 Okay. So you're going from 436, which
14 is Line 20, to the 618 that we saw on the other
15 sheet on -- for the revenue requirement for the
16 castoff. So that's the delta between 436 and 618
17 that the Company is asking for, which is the 182?

18 MR. HORTON: Correct.

19 CMSR. CHATTOPADHYAY: Can I -- can I
20 ask about the -- I know that you're saying it's
21 42 percent. But when you said 39 percent, did
22 you simply just add the percentages? That won't
23 be correct. We have to go with base, and that's

1 why it would be higher, correct?

2 MS. BOTELHO: Correct. It was just
3 the addition of the temporary rate increase, plus
4 the permanent rate increase on a separate basis.
5 But that's right.

6 MR. HORTON: So we can produce a
7 reconciliation to address, how does the total
8 revenue increase correlate to the bill impacts.

9 CHAIRMAN GOLDNER: Thank you.

10 MR. HORTON: There will be other
11 factors. I think that is one, for sure.

12 CHAIRMAN GOLDNER: Thank you. That
13 would be very helpful.

14 And so, the 182 is the revenue
15 requirement delta increase. We see it on the
16 spreadsheet here.

17 And then, Mr. Horton, if you could
18 just take us back to the 525 as being the
19 baseline for PBR, that -- the 525 baseline is
20 really just a number that gives you the
21 foundation upon which you calculate the delta,
22 and the delta is what gets added to the revenue
23 requirement year by year by year; is that right?

1 MR. HORTON: Yes. Thank you.

2 CHAIRMAN GOLDNER: Okay. Thank you.

3 If we could turn to -- now I have to find it. If
4 we could return to the Bates page 1434.

5 Actually, 14 -- sorry, just a moment.

6 1436, the calculations we were going
7 through and Commissioner Chattopadhyay was asking
8 questions on. I think my question before Mr.
9 Horton, and maybe either I don't understand or
10 that we were miscommunicating, but when you
11 calculate -- just a moment, please.

12 When you calculate, on 1436, we
13 started at the top on the 319 plus the 2 percent
14 equals 325. Okay. So that -- that was the 6
15 million we talked about.

16 And then at the bottom, there's the
17 calculation where you go through all the numbers
18 on the spreadsheet, which we'll want to go
19 through, I think, in a little bit more detail.

20 But going to the bottom line, you
21 calculate 367, you subtract out 325, so you have
22 a delta of 42, but that 42 gets added to the 6
23 from the prior sheet. No?

1 MR. HORTON: No. It doesn't get added
2 to it, because the 325 million, right, it
3 reflects the increase of the 6 already.

4 CHAIRMAN GOLDNER: I see. Okay. So
5 the 42 when we -- so this is just some
6 machinations to get to the number 42, which is
7 the delta that you add to whatever the baseline
8 is each year, so that you can determine what the
9 increase is in the revenue requirement. Okay.
10 Thank you.

11 MR. HORTON: Yes.

12 CHAIRMAN GOLDNER: Now I understand.
13 Okay. So let's go back to the
14 calculations on the spreadsheet, which is --
15 which is -- there's a lot of numbers on the
16 spreadsheet, and I'm going to have to move to the
17 big screen here to see the numbers, but can
18 you -- can you walk us through how the
19 spreadsheet works. I'm surprised in the sense
20 that I don't see the -- because I thought the
21 K-bar was the prior three years and moving
22 averages and so forth. So I don't see the prior
23 years on here, so I'm just trying to understand

1 how the K-bar is calculated without seeing the
2 prior year numbers.

3 MR. HORTON: Absolutely. So the Step
4 4 is where the machinations of the K-bar
5 occurred. And we have additional supporting
6 schedules for the calculation that's provided
7 there for plant additions, for cost of removal
8 and for retirements. But it's all happening in
9 Step 4.

10 And I think it would probably be best
11 if I had a combination of Mr. Kallen and Ms.
12 Botelho try to walk through -- and you guys can
13 flip a coin or -- but to walk through the
14 machinations of how the K-bar formula works and
15 how it's provided there, but...

16 CHAIRMAN GOLDNER: Okay. Thank you.
17 That's a key part of today's discussion, is that
18 we're -- we're just trying to sort through how
19 this is calculated. It looks -- it looks -- when
20 you see it on paper, you go, oh, a three-year
21 moving average, no problem. This should be a
22 one-page PowerPoint presentation, and there's
23 sheets and backup sheets, and so forth. So we

1 were having -- at least I was having trouble
2 understanding how it was calculated.

3 MS. BOTELHO: Sure. I can start.

4 So Ashley Botelho, Director of Revenue
5 Requirements for the service company. I don't
6 believe I introduced myself for the stenographer,
7 so...

8 We can probably start -- you
9 specifically asked about the rolling average and
10 where we're showing that in the workbook.

11 CHAIRMAN GOLDNER: And please start
12 however you want for K-bar.

13 MS. BOTELHO: Sure.

14 CHAIRMAN GOLDNER: I think we're
15 trying to grasp today what it is and how it
16 works. It's like -- we're just trying to
17 understand how the watch works. That's our goal
18 for today.

19 MS. BOTELHO: Sure. So for each
20 component of the revenue requirement formula,
21 talking about plant additions, you have
22 depreciation. You have retirement costs
23 considered in that, as well as ADIT.

1 So Tabs 1 through 3, and specifically
2 Tab 3, is meant to summarize the K-bar revenue
3 requirement. But the support --

4 CHAIRMAN GOLDNER: I'm sorry. Can you
5 reference the Bates pages. I'm looking at the --

6 MS. BOTELHO: Oh, sure.

7 CHAIRMAN GOLDNER: Commissioner
8 Chattopadhyay is using the spreadsheet, and I'm
9 old school.

10 MS. BOTELHO: No, that's quite all
11 right. So we would have, I would say, starting
12 on Bates page 1436 is where we're calculating the
13 K-bar revenue requirement in Step 4.

14 CHAIRMAN GOLDNER: Okay.

15 MS. BOTELHO: So if you move -- I'll
16 just progress on the one page. So you
17 specifically asked, where can I look at how the
18 rolling average is calculated, right? So if we
19 advance one page to 1437, we have starting -- I
20 would say starting on Lines 6 through 12, where
21 you see the plant additions for each vintage
22 year. So you have, in 2021, plant additions of
23 138. Those are actuals. So you'll see, 2021A,

1 actuals. Anything that is estimated has an E at
2 the end.

3 So for 2021, 2022, and 2023, that's
4 the first three-year average, a three-year
5 average for each of those investments placed in
6 service for those vintage years.

7 So when you look at -- so the
8 investments -- when we say vintage year, I should
9 define that. So vintage year is the year that
10 you've placed the investments in service.
11 That -- those investments would continue to
12 contribute to your rate base and your plant
13 additions on a cumulative basis in the subsequent
14 calendar year. So that's what you see starting
15 in Column B through, I would say, F here.

16 So in 2021, if you look at Column B,
17 you have 138 million of plant additions. In each
18 year, you are escalating those plant additions by
19 the I minus X formula on Line 1, to get to the
20 2025 rate year dollars, right? So -- I'll stop
21 there. Questions?

22 CHAIRMAN GOLDNER: Commissioner
23 Chattopadhyay, any questions?

1 CMSR. CHATTOPADHYAY: No, I think we
2 went through some of this previously.

3 MS. BOTELHO: Yes. So --

4 CMSR. CHATTOPADHYAY: Right? Why
5 you're using the I minus X and applying it on
6 2021. We know what the amount is, but you're
7 still normalizing it.

8 MS. BOTELHO: That's right.

9 CMSR. CHATTOPADHYAY: And I'm just
10 trying to summarize what you were telling us.

11 MR. HORTON: I think if -- I'm going
12 to take you back one page. If you go to Step 4
13 on the Bates page 1436, and look at Excel Line 34
14 or the row labeled 20, you can see K-bar
15 Additions, 2025, of 246 million. Do you see
16 that?

17 CHAIRMAN GOLDNER: You're on Line 28?

18 MR. HORTON: It's -- on Bates 1436,
19 it's Line No. 20, labeled K-bar Additions, under
20 2025, of 246 million.

21 CHAIRMAN GOLDNER: Okay. I'm with you
22 now.

23 MR. HORTON: Which is also the Line

1 28. But the way the -- so that number for 2025
2 is pulling from the next page, the Plant
3 Additions tab. The next page is where we show --
4 the math behind the 246 is where we show it's the
5 prior three years of additions, inflated at 2
6 percent.

7 So I'll walk through that, but
8 conceptually, that is the number that's
9 reflecting the prior actual additions for the
10 prior three years, inflated at 2 percent to the
11 rate year.

12 So this is for the K-bar adjustment
13 that would be August 1, 2026. So the three years
14 of plant additions that would go into that
15 formula are Calendar '25, Calendar '24, and
16 Calendar '23, actual additions all inflated to
17 the rate year.

18 So now, if we look at Tab 4, Plant
19 Additions, Bates page 1437, and you go to Excel
20 Row 34, or the pdf row labeled 17, you can see --
21 under the column labeled, Bridge 2025, you can
22 see 246 million.

23 And what that's doing is, it's taking

1 the 739 million in the line above it, which is
2 taking the actual additions for 2023, which are
3 currently actual and will be at the time, plus
4 estimated additions in 2024, which, when this
5 calculation is done, would be actual, but for now
6 are estimates. And then also, similarly,
7 estimates for 2025, which would be actual when
8 this calculation is done.

9 So the 246 million is simply the --
10 the 739 divided by 3. That's what 246 million
11 is. But what makes up the 739 is on the -- the
12 lines right above it. It's the sum of 208 plus
13 262 plus 270.

14 CHAIRMAN GOLDNER: I followed you
15 until the very end.

16 MR. HORTON: Okay.

17 CHAIRMAN GOLDNER: The 246, shouldn't
18 it be the average of 313, 531, and 806?

19 MR. HORTON: In that -- the 313,
20 581 [sic], and 806 is what?

21 CHAIRMAN GOLDNER: I'm looking at Line
22 14, the cumulative total. So I thought what we
23 were doing is we were taking the total from '22,

1 '23, '24, summing those, dividing by 3, and that
2 created the K-bar plant additions.

3 MR. HORTON: Got you. No, we're
4 taking the actual additions in each year. What
5 that line that you're looking at is showing, the
6 cumulative total. So, mathematically, that's not
7 what the K-bar is doing. It's saying, based on
8 the prior three years of actual additions --
9 which, again, we've got estimates built in right
10 at this point in time. But at the time the math
11 is done, it would be actual.

12 CHAIRMAN GOLDNER: Oh, I see. Okay.

13 MR. HORTON: It's actually a component
14 of the 1 billion 092 right above it. Okay? The
15 739 is the most recent three years from that
16 column. It's 208, which is the 20 -- sorry.
17 It's 208 million, which is the 2023 actual
18 additions of 197, inflated three years at the I
19 minus X to get to 208.

20 CHAIRMAN GOLDNER: Okay.

21 MR. HORTON: And it's also the 2024,
22 inflated one year. And it's the 2025 additions.

23 CHAIRMAN GOLDNER: And this would be

1 implemented when? When would the K-bar -- this
2 K-bar would hit in August of 2026?

3 MR. HORTON: I just want to make sure.
4 Yeah, this is August of '26, correct.

5 CHAIRMAN GOLDNER: Okay. So you're
6 taking actual -- so at that point, everything
7 would be known. The 262, the 270 would all be
8 known in the books, and you're just taking the
9 simple average of those three to determine what
10 the K-bar would be in that -- for 2026?

11 MR. HORTON: Correct.

12 CHAIRMAN GOLDNER: Okay. And
13 that's -- give me just a moment, please.

14 CMSR. CHATTOPADHYAY: Can I have a
15 follow-up, please?

16 CHAIRMAN GOLDNER: Go ahead.

17 CMSR. CHATTOPADHYAY: So the way you
18 presented this, say, 2025, you're taking the
19 average of sales, I-'25 through I-'27, in the
20 worksheet right now, right?

21 MS. BOTELHO: That's correct.

22 MR. HORTON: Yeah.

23 CHAIRMAN GOLDNER: And you move to

1 2026, that average still is '25 through '27.

2 While I move to Column K, that average is K-'26
3 through '28. And then the next one is L-'27 to
4 L-'29.

5 So I'm a little confused why the one
6 that shows 753 is using the same three rows as
7 that was for the 739, and I just want to
8 understand why.

9 MR. KALLEN: Jon Kallen. So the very
10 first one -- so the year that we're referring to
11 as a bridge year is the same as the next one,
12 because, at that point in time, so the year is
13 2020 -- the year that we're making this filing is
14 2025 -- I'm sorry. It would be -- we'd make the
15 filing in '26 for rates in '26. At that point in
16 time, we would know the actuals through 2025.
17 For that very first adjustment only, we use that
18 most -- the average of the three most recent
19 years twice, so for '25 and '26, in lieu of using
20 actuals -- actual '25 plant additions. That's
21 really the reason.

22 And then, because we're still starting
23 from the rate base that's determined through the

1 course of this proceeding, we're still starting
2 there, but to get from the 2024 plant to '26,
3 there's that year in the middle, 2025. Rather
4 than use actual plant, we used the K-bar for that
5 average, and then we used it again in '26. And
6 then thereafter, it just rolls one year at a
7 time. So that one year, '25, is unique is all.

8 CMSR. CHATTOPADHYAY: I'm trying to
9 confirm. The 739 will be used for 2026. When
10 you go with -- you know, the division by 3.
11 That's what you will be using as a K-bar for
12 setting rates for 2026, correct?

13 MR. KALLEN: So the -- the average
14 plant for the years '23, '4 and '5, the actual
15 average is 241 million. Escalated to 2025
16 dollars, that 241 becomes 246. So in lieu of
17 actual by using 2025 plant, we use that 246, and
18 then we escalate it for that first adjustment
19 only. To get to 2026 rate year, we had one more
20 year's worth of plant additions. So it,
21 effectively, gets escalated one more time for
22 another year's worth of investment. That's the
23 251. And then after that, it just increments one

1 year at a time.

2 CMSR. CHATTOPADHYAY: The 251 would be
3 what we use for rates for 2027?

4 MR. KALLEN: '6.

5 CMSR. CHATTOPADHYAY: '6, okay. Now I
6 -- I understand. Okay.

7 CHAIRMAN GOLDNER: What's the purpose
8 of Line 14, the cumulative total? It goes from,
9 you know, 138 to 1738, over the course of the six
10 years and is, obviously, accumulating the
11 numbers, but what's the purpose of that line?
12 What's it used for, if anything?

13 MR. KALLEN: I would say it's there
14 for information purposes. I didn't know if one
15 of them -- I can't see their faces. It's there
16 for informational purposes. So that row -- that
17 Row 14, total cumulative dollars, conceptually,
18 it would represent the dollar value of all the
19 plant service that has gone in, starting with
20 '21, escalated to current dollars. But nowhere
21 does any K-bar math specifically rely on that
22 line, so I would say it's just there, you know,
23 for information.

1 CHAIRMAN GOLDNER: Okay. Thank you.
2 So if I just take the simple average -- the 1773
3 is a cum., if my calculator is working right.
4 Let me do it again. 1773 divided by -- so I
5 think there's eight years total here. One, two,
6 three -- yeah. Then the average is 222 over that
7 time period, and that would be -- it's not --
8 it's not super useful, because it's in -- it's
9 captured in each year's dollars. So 221, the 138
10 is captured in 2021 dollars, but 2028 is captured
11 in 2028 dollars, so the cum. isn't super useful
12 in and of itself, but it's just helping us
13 understand how things are progressing over time.

14 MR. KALLEN: Yeah. I think, in this
15 case, because this is a forward-looking analysis
16 that is meant to mimic what will really happen, I
17 would agree it does get a little confusing having
18 projections -- projections that are treated as
19 actuals, but then you're escalating it. So how
20 is it -- you know, I think it gets a little
21 confusing as an analysis, but at the time -- you
22 know, the time of a PBR filing, it would only use
23 actual, so you wouldn't see anything happening in

1 the future and getting escalated from that point.

2 CHAIRMAN GOLDNER: Okay. That's very
3 helpful. Thank you.

4 So if these numbers are correct --
5 and, of course, these are forecasts, so they're
6 subject to change. The 2025 bridge number we
7 were talking about from the prior spreadsheet,
8 and on this spreadsheet, is 246. And then the
9 next year, the forecast is for it to go to 251.
10 So would that mean that the delta in that year
11 that would be applied to PBR would be 5?

12 MR. HORTON: Well, that,
13 unfortunately, for all of us, is just the
14 starting point.

15 CHAIRMAN GOLDNER: Oh. I thought as
16 much.

17 MR. HORTON: Yeah. So that, what it's
18 doing is, it's taking on -- you know, Tab 3, the
19 K-bar Detail, we're starting with plant
20 additions. The same sort of logic is going to
21 apply to every subsequent tab?

22 But, effectively, it's taking -- you
23 know, the question was, I thought it would be

1 simple. Where's all the math behind it? And
2 what we're doing on that K-bar Detail tab, we do
3 have the pages supporting each line that goes
4 into the K-bar revenue requirement. But, again,
5 what it's doing is it's saying, based on a
6 three-year moving average of actual additions,
7 and inflating it to the rate year, what is the
8 revenue requirement that the K-bar calculus would
9 say is needed.

10 And then it compares that to what
11 you're actually getting through the I minus X,
12 and the delta would be the K-bar adjustment.

13 CHAIRMAN GOLDNER: So going back to
14 1436. August 1st, 2026, yields a revenue
15 deficiency of 42 million, so that was what we
16 talked about so far.

17 The following year, it results in a
18 revenue deficiency of 62 million, and it goes
19 from 331, which I think I understand, that's the
20 325 plus the inflation factor, and then that's
21 subtracted from 392. Where can I find the 392 on
22 page 1437?

23 MR. HORTON: So the 392 is on page

1 1436, pdf Line 50, Excel Line 64. Which is --
2 I'm on, in Excel, the K-bar Detail. You can see
3 the 392 there.

4 CHAIRMAN GOLDNER: I see it. Yeah.

5 MR. HORTON: And what that's saying
6 is, based on all the math above and all the
7 detail behind it, what is the total K-bar revenue
8 requirement that's needed, in this case, August
9 1, 2027, 392 million.

10 CHAIRMAN GOLDNER: So how does Page
11 1437 relate to 1436 in the case of the column
12 we're talking about there, August 1st, 2027?

13 MR. HORTON: So there, if you scroll
14 up back to Line -- on Excel, it's Line 34. On
15 the pdf, it's Line 20. You can see the K-bar
16 additions are listed there at 284 million.

17 CHAIRMAN GOLDNER: 284. Okay. And
18 then that lines up with Row 17 on the next sheet.

19 MR. HORTON: Yes.

20 CHAIRMAN GOLDNER: Okay. Okay. All
21 right. That is helpful. So I guess maybe --
22 maybe walk us through how you get from Line 20,
23 which we now have, sort of, firmly established

1 those numbers are the following spreadsheet
2 that -- I think we understand how those numbers
3 are now calculated, and then you've got a lot of
4 mathematics between then and the bottom line down
5 on Line 55.

6 MR. HORTON: Yes.

7 CHAIRMAN GOLDNER: Can you walk
8 through the rest of it or -- in whatever sequence
9 you guys -- I know you had just started, so I
10 don't mean to interrupt your train of thought.

11 MR. HORTON: Well, what I would say is
12 at a high level -- I'll try to do it at a high
13 level -- would be that same logic; that if you
14 walk through in detail, which we certainly can,
15 is applied for cost of removal, retirements, and
16 ADIT, and we have separate tabs for each one. So
17 as we have a plant addition tab on 1437, we have
18 a cost of removal tab on 1438, Excel Tab 5, and
19 so on.

20 So in each of those -- you know, on
21 the summary tab, we're showing at the top, what's
22 the K-bar calculation showing for additions,
23 which we've talked through; costs of removal,

1 retirements, and ADIT, which are all then used to
2 calculate the K-bar rate base, which is shown in
3 4B on Tab K-bar Detail, so this is still on 1436.

4 Each one of those inputs is calculated
5 on their own separate tab, but following a
6 similar logic. Then it gets reflected in our
7 calculation of what is the theoretical K-bar
8 revenue requirement.

9 CHAIRMAN GOLDNER: And just to
10 baseline the Commission, in terms of the prior
11 years. The end result of K-bar is yielding
12 substantial numbers: 42 million in 2026 and 60
13 million in 2027 and 81 million in 2028. So it's
14 yielding an increasing and large number.

15 What was it in prior years in the
16 current rate case? What kind of revenue
17 requirement adjustments were made? My
18 recollection is they were much smaller. Wasn't
19 it like 10 million per year or something like
20 that?

21 MR. HORTON: It was. We -- and I just
22 want to be clear. The K-bar revenue increase, it
23 says, on the 60 million and the 81 million that

1 you're referring to, those are cumulative.

2 What you need to take into account
3 is -- and it's including the -- excuse me. Those
4 are cumulative. So the actual increase is shown
5 on Line 56, or Excel Row 70, of Bates page 1436.

6 CHAIRMAN GOLDNER: Okay. So it's 42,
7 because that's a double year. Then it's 19 in
8 '21.

9 MR. HORTON: Yes.

10 CHAIRMAN GOLDNER: So it's really 20
11 million a year, roughly, annually.

12 MR. HORTON: Yes. Yes.

13 CHAIRMAN GOLDNER: Okay. Thank you.

14 MR. HORTON: That's in addition to the
15 PBR increase.

16 CHAIRMAN GOLDNER: Yes. This is just
17 one component.

18 MR. HORTON: Yes.

19 CHAIRMAN GOLDNER: This isn't the case
20 of T or the K-bar, but this -- particular
21 calculation would add roughly 20 million per
22 year, and in the step paradigm, which I think of
23 as equivalent, and if you think of it

1 differently, then please correct me, but the step
2 paradigm was -- and I understand it was a
3 negotiated settlement and all those things, but
4 that was yielding something like 10 million a
5 year. This new way of calculating it yields
6 something like 20 million a year. If I have that
7 basically right, that would be helpful to know.

8 MR. HORTON: Yeah. (Conferring.)
9 Just one moment.

10 CHAIRMAN GOLDNER: Sure.
11 (Conferring.)

12 MR. HORTON: So the -- right. The
13 three adjustments in the prior settlement was a
14 step adjustment of around 11, 11, and 9.

15 CHAIRMAN GOLDNER: Thank you. Okay.
16 That's very helpful for us to baseline.
17 Commissioner Chattopadhyay?

18 CMSR. CHATTOPADHYAY: Just to follow
19 up. Looking at Worksheet 3, K-bar Detail, and
20 Line 70 is reflecting the early increases needed
21 for the K-bar revenue, right?

22 MR. HORTON: Yes.

23 CMSR. CHATTOPADHYAY: 42, 19, and 21.

1 MR. HORTON: Yes.

2 CMSR. CHATTOPADHYAY: If the
3 percentages, the I minus X, those percentages,
4 were different, lower, would these numbers be
5 higher?

6 MR. HORTON: The -- it would impact
7 the equation in two ways.

8 CMSR. CHATTOPADHYAY: I think so.

9 MR. HORTON: Yeah, right. So on the I
10 minus X, the -- the first step -- I think the
11 answer is yes, but there's two things that would
12 happen. The first step, where we calculated the
13 6 million, the 6 million would be less. So that,
14 yes, if everything else were equal, the K-bar
15 adjustment would then be higher. However,
16 because the K-bar adjustment also uses that same
17 GDP-PI percentage, the K-bar adjustment would be
18 lower.

19 I don't -- I think the math would work
20 out that, yes, if inflation were higher -- excuse
21 me -- inflation were lower than what we're
22 projecting here, the K-bar adjustment would be
23 higher than what we're reflecting here. The

1 overall increase -- I think the overall increase
2 would be lower, but the K-bar component of that
3 increase would be higher.

4 CMSR. CHATTOPADHYAY: So the
5 percentage increases that g116 6
6 you're talking about for 2021, '22, '23, they are
7 already hard-coded?

8 MR. HORTON: Correct.

9 CMSR. CHATTOPADHYAY: So, really,
10 those numbers do not change, because -- I'm
11 really trying to do a thought experiment in my
12 head. What happens if the number is lower going
13 forward? How does that impact?

14 So I think, when you're talking about
15 the K-bar calculation itself -- this is all
16 hypothetical, because in reality, things will be
17 different. But the K-bar piece for the last
18 three years, that won't change, right?

19 Because you -- you've applied -- I forget
20 which -- I think it's in K-bar -- or is it not?

21 So I'm looking at Worksheet 4. The
22 percentages for I minus X, 2021, 2022, 2023 are
23 like 1.35 percent, 4.42 percent, 6.91 percent.

1 And -- right? Those are being applied. And now
2 that I'm looking at it, it also touches upon the
3 issue of -- I may have misunderstood it. There's
4 a -- the inflation piece is going to be bounded
5 by 025, so -- I'm a little confused about using
6 those numbers to figure out K-bar, but I
7 understand this is just hypothetical.

8 MR. HORTON: Correct. The -- you're
9 right. The -- to the extent we're using the
10 actual, that wouldn't change, I think, for the
11 first K-bar. But what would change is if the --
12 because we're using, in this example, forecast
13 additions. The actual K-bar math in any year
14 will rely on -- except for that one year that
15 Mr. Kallen explained, but will rely on actual
16 additions.

17 So the formula would change only to
18 the extent things that are in here right now are
19 being estimated, and in the future will become
20 actual and will be different. That would be
21 additions and the inflation.

22 MS. BOTELHO: So -- and then we used
23 forecasted inflation starting in 2024. We had

1 actuals through 2023. And that's on Tab -- it's
2 the GDP-PI tab. So it shows, to the left, the
3 actuals; and to the right, what is an assumed
4 forecast.

5 CMSR. CHATTOPADHYAY: Yeah. Even if
6 one of those years has a number of 6.91 percent,
7 you would use that?

8 MS. BOTELHO: We would use the actual.

9 CMSR. CHATTOPADHYAY: The actual is
10 being adjusted for the I minus X, right? My
11 question is, when you're adjusting it, are you
12 going to use whatever the number is, the actual
13 percentage that comes from the GDP-PI data? Or
14 will you apply zero to 5 to that? That's my
15 question.

16 (Conferring.)

17 MR. HORTON: So the answer is no. The
18 way that the cap would apply, in terms of how
19 we've applied it here, the cap applies on that I
20 minus X. So in that instance, if PBR were in
21 place and it was producing inflation of 6.9
22 percent, the I minus X would be capped at 5. The
23 K-bar would rely on actuals as being -- because

1 there, we're calculating the theoretical -- we're
2 getting historical spending to current year
3 dollars using actual inflation.

4 CMSR. CHATTOPADHYAY: Okay. But if
5 you were doing it right, then you won't have
6 6.91. You'd have 5.

7 MR. HORTON: I understand where you're
8 heading, and I think it's a good theoretical
9 discussion. We're not proposing -- we're
10 proposing that the cap would apply on the I minus
11 X. We haven't applied that cap on the K-bar, on
12 the theory -- and the methodological theory, that
13 the K-bar calculation is trying to inflate actual
14 historic plant to current year dollars using
15 actual inflation.

16 CMSR. CHATTOPADHYAY: Thank you for
17 the -- I think I got you.

18 MR. HORTON: Okay.

19 CHAIRMAN GOLDNER: So, just to follow
20 up on that min/max question quickly, just to make
21 sure we understand.

22 So the Company's proposal is that X is
23 zero. The Company's proposal is that "I" can

1 vary between zero and 5. And so that's -- that's
2 the min and the max there.

3 On K-bar, Commissioner Chattopadhyay
4 just clarified that the Company's proposal is
5 using the actual inflation rate as opposed to
6 capping it at 5.

7 Are there any other caps applied to
8 K-bar, or can K-bar be, theoretically, infinitely
9 high or infinitely low?

10 MR. HORTON: There are caps applied to
11 K-bar for the input -- if you're on the plant
12 additions tab, the plant additions --

13 CHAIRMAN GOLDNER: I'm sorry, which
14 are you on?

15 MR. HORTON: Sorry. It's Bates 1437.

16 CHAIRMAN GOLDNER: 1437. Thank you.

17 MR. HORTON: And there we walked
18 through, how did we derive the 246 and the 241,
19 and that's based on actual additions. And what
20 we're -- the way that the K-bar is limited is by
21 saying that the K-bar -- the actual additions
22 that would go into this K-bar calculation would
23 be capped at 10 percent above our current

1 forecast of capital expenditures.

2 CHAIRMAN GOLDNER: So walk us through
3 exactly how that would work, please.

4 MR. HORTON: Sure. If, in 2027 -- or,
5 I guess, we'll take 2026. On Line -- pdf Line 11
6 or Excel Row 28, Column C, where it's labeled,
7 Plant Additions Nominal, we're projecting plant
8 additions of 296 million. So if plant additions
9 actually come in at 120 percent of that, meaning
10 20 percent over our projection, 355 million, 20
11 percent over our -- what we would do is we
12 would -- and we're going to -- we would do this
13 on a cumulative basis, but in just simple
14 example. If, in that year, we were cumulatively
15 20 percent more, so 355 million instead of 296,
16 the K-bar additions would be capped at 10 percent
17 above that, so -- I'm going say this simpler.

18 If -- our actual projected additions
19 are 296 in that year, as of this point in time.
20 So that's the starting point for the K-bar cap.
21 The K-bar cap is going to be 10 percent above
22 that. So 326 million is roughly 10 percent above
23 295. That's the maximum that would be allowed to

1 flow through the K-bar method for that year, all
2 else equal.

3 CHAIRMAN GOLDNER: And if there was
4 something over that, what would happen to that
5 overage? Does it disappear forever, or does it
6 get rolled or --

7 MR. HORTON: It would be -- it would
8 contribute to additional regulatory lag.
9 Meaning, even under our proposal and knowing --
10 if we spend just as what we had projected to
11 spend now, not a penny more, we're showing that
12 we're going to have more rate-based in-service
13 than the K-bar will provide revenue support for.

14 So if, in that case, we're spending
15 355 million, that would mean we'd have more rate
16 base that's not covered by current rates, and
17 would just contribute to a revenue deficiency
18 that would be allowed in a future rate case. It
19 wouldn't be disallowed or gone forever. It would
20 be subject to us convincing you that those were
21 prudent investments to make.

22 CHAIRMAN GOLDNER: And how does that
23 reconciliation happen on the over/under, either

1 direction? Is that trued up in the next rate
2 case or -- one thing I was -- had a note to ask
3 about in this -- in this was if you -- you could
4 have -- you could have a variation between what's
5 actually happening on the ground and what's
6 happening in the calculations. So how and when
7 is that -- is any variation trued up?

8 MR. HORTON: Great question. I would
9 say it's not trued up retroactively. It's not a
10 capital tracker. So the K-bar -- let's say --
11 again, just looking at this one example. Let's
12 say we're 20 -- we actually put into service 20
13 percent more than we say now we will need to. So
14 we actually, in 2026, put into service 355
15 million.

16 The K-bar is going to be capped at
17 what it would give at 325 million, that 10
18 percent. So the K-bar will still function and
19 provide revenue support for whatever that math
20 would say for that rate year. The delta, which
21 is going to be the amount above the cap, plus
22 anything else that's been spent in prior years or
23 not reflected -- because, again, the K-bar is not

1 giving us dollar for dollar. Even under our
2 current projections, without any variability,
3 we're showing we're going to spend more than
4 what's provided in rates. That would all be left
5 to a future rate proceeding, where, just like
6 today, we would come in and present all our
7 documentation to justify the need for an
8 additional increase on a prospective basis only,
9 on a prospective basis. So if, at that point,
10 the Commission said, yes, all additions that we
11 deem that would be prudent and are allowed for
12 recovery, even the \$30 million that was in excess
13 of what the K-bar gave us in that year, we would
14 have rates set, prospectively, to get recovery of
15 that.

16 CHAIRMAN GOLDNER: Okay. And then,
17 just to go back to the baseline. Is the baseline
18 based on this spreadsheet? Is this lockdown
19 K-bar? This is what the Company is forecasting?
20 And then the Company is allowed to spend 10
21 percent more than what's on the spreadsheet and
22 still be able to -- what I'll call recover within
23 this set of calculations, but if it's over 10

1 percent, that goes to the next rate case?

2 MR. HORTON: Lockdown. Lockdown,
3 except to the extent we have some details around
4 bridge modernization investments and
5 co-optimization investments, but it is locked
6 down as of today. We're not proposing that each
7 year we try to adjust that forecast. It's locked
8 down as of today.

9 CHAIRMAN GOLDNER: Okay. So just to
10 repeat that back, to make sure I understand. So
11 the 2024 number -- it's kind of hard to read,
12 because there's so many, and the print is small.
13 But I think 2024 is 256.

14 MR. HORTON: Yes.

15 CHAIRMAN GOLDNER: And that is not yet
16 an actual. Will that be locked down as an actual
17 in the process of this proceeding, or what will
18 happen to that number?

19 MR. HORTON: Okay. So for purposes
20 of -- I should be -- for purposes of
21 calculating -- hold on.

22 For purposes of calculating the cap,
23 it's locked down at our estimates. And to the

1 extent the actual K-bar additions come in
2 different, then it will naturally flow through,
3 but the cap is set. The cap is based on our
4 projections as of today.

5 CHAIRMAN GOLDNER: Okay. And this is
6 something I had -- I didn't participate in the
7 prior rate case, and -- I think it was in this --
8 in the Eversource prior rate case. But I guess
9 my question would be, why wouldn't the Company
10 just propose the cap? Why -- why the 10 percent
11 thing and we have to do these machinations? Why
12 not just propose what the cap would be, and then,
13 everyone could read -- if you went over that cap,
14 then -- then -- then it gets pushed to the next
15 rate case. If it's under the cap, then it goes
16 into the calculation, easy as pie. Is there any
17 logic for the 10 percent versus just giving us a
18 list of what the cap is?

19 MR. HORTON: We could certainly
20 convert the 10 percent into a cap. Part of it
21 was -- again, getting into some of the details.
22 Part of it was that we have additional capital
23 spending that's not reflected in these baseline

1 numbers that we're asking the Commission to
2 evaluate as part of this proceeding, which would
3 change that cap. But it certainly would be able
4 to be simplified if we could just calculate what
5 that cap is in each year and have that be a
6 static number.

7 CHAIRMAN GOLDNER: Yes. Just a
8 moment, please.

9 And this is a good segue. I think,
10 Attorney Chiavara, you had offered to educate the
11 Commission as early as tomorrow, and if that's
12 too early, we can certainly do it next week, but
13 on this investing that the Company is doing, why
14 is it doing it, technology and grid hardening and
15 so forth, and helping the Commission understand
16 the reason why significant investments are
17 requested, even in a flat revenue
18 environment - --

19 So before -- I'll just mention, too,
20 that in that discussion, we would also want to
21 know more about the distribution solutions plan
22 and Company-owned solar PV, which I think are
23 separate from performance-based ratemaking, kind

1 of. I mean, they're proposed in
2 performance-based ratemaking, but they're, sort
3 of, not totally connected.

4 So I just wanted to get the Company's
5 opinion on how best to, sort of, educate the
6 Commission on how all this works.

7 MS. CHIAVARA: Sure. Thank you,
8 Mr. Chairman. We may need to pull different
9 witnesses into this, and we may need remote
10 access for those witnesses, if it's not -- we'll
11 try to get them in, but we may need to resort to
12 remote access, if that's possible.

13 CHAIRMAN GOLDNER: -- of course. Yes.

14 MS. CHIAVARA: Okay. We'll confer at
15 lunch and see what it is that we could put
16 together on those topics.

17 CHAIRMAN GOLDNER: Thank you. And if
18 it makes sense to break it into two pieces, one
19 tomorrow, one next week or something, that's all
20 fine. We're just trying to get through the list
21 of questions.

22 MS. CHIAVARA: Okay.

23 CHAIRMAN GOLDNER: Okay. So we return

1 to that topic after lunch.

2 CMSR. CHATTOPADHYAY: Can I --

3 CHAIRMAN GOLDNER: Commissioner
4 Chattopadhyay, yes.

5 CMSR. CHATTOPADHYAY: Conceptually, I
6 just -- I'm trying to make sure I have the
7 concepts right here. So by the time the 2026 PBR
8 goes into effect, you know what the K-bar is,
9 right? And it's being set for that year,
10 correct?

11 MR. HORTON: I just want to track. So
12 in -- when the K-bar would go into effect August
13 1, 2026, it would require a filing to be made
14 earlier in 2026, which is going to be based on
15 actual additions for '24 and '25, actual GDP-PI,
16 and then, yes, you would know at that point.

17 CMSR. CHATTOPADHYAY: And that K-bar
18 ends up impacting the revenue requirement?

19 MR. HORTON: It ends up -- well, it
20 ends up impacting the total revenues, yes. Yes.

21 CMSR. CHATTOPADHYAY: As the year goes
22 by, if you end up spending less, what happens?
23 You still have the same revenue being collected,

1 correct?

2 MR. HORTON: Right. Yeah. Yeah, so
3 great question.

4 CMSR. CHATTOPADHYAY: So the impact
5 would be, again, next year perhaps, of lowering
6 the K-bar?

7 MR. HORTON: That's correct.
8 Multiple -- yeah, right. The actual additions in
9 that year then go into the following K-bar
10 adjustment, correct.

11 CMSR. CHATTOPADHYAY: So regardless of
12 whether it's more or less, one-third of it is
13 being captured?

14 MR. HORTON: Correct.

15 CMSR. CHATTOPADHYAY: Okay. Thank
16 you.

17 MR. HORTON: And I thought you were
18 heading in a different direction. It's another
19 of the alphabet soup. I thought you were
20 suggesting, you know, you get the K-bar in place.
21 It gives you an assumption of additions at X, and
22 then what if you don't spend X. That's where we
23 have some of these other variables to say, well,

1 if we don't need to spend X, of course, we're not
2 going to.

3 I think the whole goal of PBR is that
4 we don't spend where we don't need to. It's to
5 try to have the incentives aligned in that way.
6 There are safeguards in place, an earning sharing
7 mechanism, in particular, which would say, if we
8 didn't -- if you got revenue that was in excess
9 of what we needed, that would provide a
10 protection for customers for that.

11 CMSR. CHATTOPADHYAY: Thank you.

12 CHAIRMAN GOLDNER: And maybe just
13 picking up on that, that was another question we
14 can just take now.

15 So can you explain the Company's
16 motivation or incentive to spend less inside of
17 PBR? I'm not sure I understand that.

18 MR. HORTON: Absolutely. So, listen,
19 I'll say, I'm in the finance organization. Our
20 objective is to spend as little as we need to to
21 run the business efficiently and serving our
22 customers. And I say that, you know, coming from
23 a place of love in serving our customers. We are

1 in the business of serving our customers. It
2 takes a lot of money to do that, but we are
3 motivated to try to do that as cheaply as
4 possible, and that's true under any framework,
5 period.

6 PBR, though, again, the key thing is
7 it takes away one of our financial levers, which
8 is to file a rate case to increase our levers --
9 sorry -- to increase our revenues. So that has
10 us being intensely motivated to find efficiencies
11 to maximize our earnings and to maximize our
12 enterprise value and serve our customers as
13 efficiently as we can.

14 So it really comes from that long-term
15 stay-out. It comes from the ability to earn our
16 authorized ROE by having revenues that provide us
17 enough support to run the business, and to have
18 an earning sharing mechanism, as we're proposing,
19 that allows for some additional sharing of
20 earnings above the authorized level.

21 I think the science would say an
22 earnings sharing mechanism actually dampens the
23 Company's incentive to operate efficiently. If

1 you didn't have an earning sharing mechanism, the
2 theory would be, well, you're motivated to
3 extract all savings that you can.

4 Our motivation is to just try to have
5 a framework that lets us earn closer to our
6 authorized ROE and not have to have rate cases
7 every two years. And so that's why we have an
8 earnings sharing mechanism in place as a customer
9 protection, knowing, in our view, it's a
10 necessary component of a PBR, especially a
11 first-generation PBR. It's a lot -- just the
12 depth of detail we're in now, we know this is a
13 lot to bite off. Having an earnings sharing is a
14 catchall seatbelt in case something goes awry,
15 you know, to the detriment to the customers, yet
16 still having the incentive for us to try to earn
17 as much as we can.

18 CHAIRMAN GOLDNER: And that's the
19 integral calculus I was having trouble doing,
20 because if you're -- I would think the Company
21 would be motivated to -- in terms of making money
22 for its shareholders, would be motivated to spend
23 up to the cap in something like K-bar, which is,

1 of course, a big portion of any change that would
2 happen year on year, and that that would be a
3 greater incentive than the revenue sharing, which
4 the Company only gets 25 percent of.

5 And so, I couldn't quite do the math,
6 but I would think the incentive would be greater
7 to spend up the cap and no more, and that the
8 profit-sharing piece would be, sort of, not --
9 not as big an impact.

10 MR. HORTON: Okay. It was recommended
11 to me at the break that I'm long-winded, and I
12 need to be more succinct and stuff, so I -- this
13 is hard, because this gets me going. I love this
14 conversation.

15 So this is what I would say. If you
16 think about the notion of gold-plating, which we
17 are constantly faced with, if that were real --
18 and, look, I'm a Company guy. I'll be the first
19 to admit it. I love Eversource. I love what we
20 do. I don't believe there's any of this
21 happening, but here's why. If we were
22 gold-plating, spending beyond our means, to
23 achieve this notion of growing value or earnings

1 or benefitting shareholders, that's a death
2 spiral that never comes to fruition, because the
3 only way -- so shareholders get what's left in
4 any year. Shareholders are the owners of the
5 Company. They pay out all -- in simplest form,
6 they're paying out all operating expenses of the
7 business. They're left with what's left.

8 So if we're constantly spending more
9 to quote/unquote gold-plate and spend beyond what
10 we have in revenues, shareholders are never left
11 with anything that's sufficient that's what's
12 left.

13 If we were spending beyond what we're
14 getting through revenues, we're doing two things.
15 We're decreasing the numerator. We're decreasing
16 our net income, because we have depreciation
17 expense, we have property taxes, we have carrying
18 costs on that capital that's not reflected in
19 rates, so our net income is declining.

20 And the denominator is increasing,
21 because we have to finance that investment with
22 something. Because just the math says, we're not
23 getting that revenue. It is not sufficient to

1 finance that capital. We have to go get it from
2 somewhere, and we can't just rely on debt. We
3 have to balance our equity and our net.

4 So the denominator is increasing,
5 while the numerator is falling. So shareholders'
6 earnings are constantly declining. And
7 shareholders, just like any person who is
8 fortunate enough to invest a dollar, is going to
9 look for the best return that they have.

10 And if we at the Company, as managers
11 of the Company, are giving them constantly
12 declining returns in this pursuit quote/unquote
13 of gold-plating to increase returns, it never
14 happens. You're constantly outspending what
15 you're getting for rates. You never catch up.
16 It just doesn't work.

17 So I -- I discard out of hand this
18 notion of gold-plating. It just doesn't work.
19 If we were in the business of just maximizing
20 earnings for shareholders, we would stop
21 spending. And that is actually why, when you go
22 back to PBR, in places that have adopted it, they
23 have said, this is our concern. And that's what

1 utilities will do. So they have service quality
2 metrics that come into play that say, let's make
3 sure that service doesn't degrade, that Companies
4 don't do that.

5 And that gets into a whole, you know,
6 separate part of our discussion on the metrics
7 and performance and accountability.

8 CHAIRMAN GOLDNER: Let me just ask
9 one, and then I'll turn it back over.

10 So, in the conventional revenue
11 requirement calculation, the Company is -- many
12 people view it as the Company is motivated to
13 gold-plate, because if you -- you add capital,
14 you get a 7 percent weighted-average cost of
15 capital return on that. That money gets passed
16 to shareholders, and that's the logic that some
17 people use for saying the Company is maybe -- any
18 utility is maybe spending more than it
19 necessarily has to.

20 I think your case might be that, if
21 you're increasing the amount of assets that you
22 have in your system, then the shareholder
23 actually receives a lower rate of return as

1 capital relates to O&M, because you're only
2 getting -- well, now I've confused myself.

3 How does that -- I'm just not -- I'm
4 just trying to follow your logic enumerators and
5 denominators and how it fits together, because
6 this is a very interesting and important topic.
7 So please don't let anyone tell you you're
8 long-winded. Take as much time as you need.

9 MR. HORTON: I think I might be about
10 to engage in an argument with myself.

11 On the one hand, I think the -- so the
12 notion that we're gold-plating to do what you're
13 saying -- I get it. In the math, you're earning
14 on rate base. So the simple analysis would say,
15 you want to go rate base, so you can earn on
16 that. However, just if we think about that, what
17 that means, if you're constantly doing that,
18 you're never earning. You're never earning,
19 because you're having to grow your denominator to
20 do that. We have to --

21 CHAIRMAN GOLDNER: When you say
22 "denominator," you mean your asset base?

23 MR. HORTON: Equity.

1 CHAIRMAN GOLDNER: You're growing
2 your X, so -- so I can see how that works, yeah.

3 MR. HORTON: So as an investor, you
4 are the equity component of rate base, right? As
5 an investor, you own the equity.

6 And so, for us to grow rate base, we
7 need to be able to attract capital in the form of
8 debt and equity to grow that rate base. So in
9 order for us to do that, we have to increase the
10 denominator, which is our equity balance. If our
11 rate base is growing and we're balancing that
12 rate-based growth with equity and debt, the
13 denominator is increasing.

14 So as an equity investor, I'm sitting
15 there saying, you need more of my money to
16 facilitate this gold-plating pursuit that you're
17 on, Eversource.

18 Now, as an equity investor, I'm also
19 seeing Eversource's net income decline while this
20 pursuit of gold-plating is happening, because as
21 I'm gold-plating -- and just to be clear for the
22 record, I'm using this as -- we're not
23 gold-plating. The argument is, what's happening

1 is you are -- as you are investing in things
2 that, in this theory, you don't actually need to
3 do; you're trying to pursue earnings. You're
4 degrading earnings, because the second that plant
5 goes into service, we recognize depreciation
6 expense, we pay more property taxes, and we incur
7 interest charges on that, such that the amount
8 that's left over for shareholders has gone down.

9 That's earnings attrition. That's --
10 if you want to call it regulatory lag. But
11 it's -- our earnings are declining, at the same
12 time that our equity needs are increasing, in
13 this reckless pursuit of gold-plating, that is
14 causing the return on the equity investment to go
15 down.

16 So, as an equity investor, if a
17 Company is doing that, I'm telling them to stop
18 doing that, because I'm never getting any -- I'm
19 not getting what's left. If I can earn 6 percent
20 by investing in Eversource in this reckless
21 pursuit of gold-plating, I would prefer to get 6
22 percent in a safer investment somewhere else, and
23 especially knowing that we are going to be

1 accountable to people like you, who are going to
2 look at that and say, well, you gold-plated; you
3 shouldn't get that money. You didn't need to
4 spend on this whatever, so you're not actually
5 going to get the revenue that you set out to
6 pursue in this, again, reckless pursuit of
7 gold-plating.

8 So I just don't see that as being what
9 can actually happen, because if you do that
10 consistently, you'll get disallowances, of
11 course, and you will never actually earn that
12 return on equity that you're promising to the
13 shareholders by them giving you their capital.

14 CHAIRMAN GOLDNER: Okay. Commissioner
15 Chattopadhyay.

16 CMSR. CHATTOPADHYAY: I think I'll
17 pass. You know, already people are in a lighter
18 mood, I can -- "maybe I will." I won't.

19 I just wanted to point out, in your
20 testimony, 1408, Bates page 1408, you had said in
21 the end: For any year in which the return on
22 equity is above 25 basis points, the percentage
23 portion that is to be shared with customers would

1 be credited to customers in the succeeding year
2 over a 12-month period.

3 I think you really meant 25 basis
4 points above the allowed return. Otherwise, this
5 would be great for the Consumer Advocate and me.

6 MR. HORTON: That's a good point.
7 Yes, that would be the end of my career. 25
8 basis points above the allowed.

9 CHAIRMAN GOLDNER: It's too late. We
10 already requested --

11 CMSR. CHATTOPADHYAY: And I'm not
12 pointing you to -- you later talk about it
13 correctly, so -- but, you know, let's just
14 truncate your testimony here.

15 CHAIRMAN GOLDNER: So is there any --
16 just a moment, sir. Just a moment.

17 Is there any -- Mr. Horton, is there
18 any -- can you just help us walk through the
19 logic of being a subsidiary of PSNH here in New
20 Hampshire to the larger Eversource and how that
21 relationship works with respect to the
22 return-on-equity discussion you were -- you were
23 just having.

1 MR. HORTON: Okay. Yeah, and that's
2 -- that's a great question. And, of course, as
3 an entity, PSNH does not issue shares to the
4 market, does not trade publicly. That's done at
5 the parent Company level by Eversource.

6 So, generally, equity investors who
7 are evaluating Eversource stock are looking at
8 the whole Company; whereas, here, we're just
9 talking about the distribution. The same
10 parameters, I would say, would hold true. If
11 Eversource as a stock, or as an investment
12 overall, is constantly degrading its earnings
13 because it is pursuing investments that aren't
14 yielding any return, the same will happen. As
15 investors are looking at Eversource stock,
16 evaluating whether, you know, the Company will be
17 able to uphold its commitments in terms of
18 dividend growth and earnings per share, which is
19 generally how equity investors grade a company,
20 they're going to take into account, will it
21 actually earn what it says it's going to? Will
22 it actually produce the dividends it's going to?

23 So I would say, although it's a

1 different conversation, the same dynamic holds as
2 what we're talking about.

3 CHAIRMAN GOLDNER: Okay. There is --
4 one the consultants wanted to jump in.

5 MR. ROS: Hello. Good morning. My
6 name is Agustin, A-g-u-s-t-i-n, Ros, R-o-s,
7 Senior Managing Director of Ankura Consulting and
8 adjunct professor at Brandeis University.

9 Just very quickly, the difference
10 between the incentive effects between the current
11 system of rate of return, cost of service
12 regulation and PBR. There are very significant
13 incentive effects that the Company -- a Company
14 that goes to PBR has, compared to rate of return
15 regulation.

16 Rate of return regulation, you're
17 regulating the profits, so the Company is
18 regulated by how much profit they can earn.
19 Price cap and revenue cap regulation, you're
20 regulating the rates that are allowed. Both, if
21 you do them correctly, result in just and
22 reasonable rates.

23 The big incentive effect is, under

1 PBR, you're loosening the link between a
2 Company's actual cost and rates. You're
3 loosening it, depending on how the system is
4 developed. It could be a very specific delinking
5 of cost to rates, or it could be less. It really
6 depends on the system.

7 Whereas, under cost of service, if
8 you're regulating cost of service perfectly every
9 period, there's less of an incentive to cut
10 costs, because those costs have to be returned in
11 rates in the next period.

12 So a big issue -- or how you evaluate
13 PBR and the incentive effects that occur under
14 PBR, compared to cost of service regulation, I
15 think that kind of -- at a high level, when we
16 were talking about, you know, understanding PBR
17 in general compared to what we have now, I think,
18 you know, that's an important point to add to the
19 conversation.

20 CHAIRMAN GOLDNER: Thank you. That is
21 helpful. The part that I'm having a hard time
22 moving past is just that, if you're PSNH and the
23 parent Company expects something from you, they

1 expect dollars. They want dollars to flow to the
2 parent. And not at any cost. They're not going
3 to spend a billion dollars to return \$10, but
4 they -- the parent Company wants dollars in
5 return.

6 So I'm just having -- I'm still having
7 trouble, despite the excellent explanations,
8 untangling this business of returning dollars to
9 the parent, and the incentive to do that, and --
10 and, you know, how that incentivizes the Company
11 to spend less in a PBR environment. So I'm just
12 having trouble connecting the two. Yes, sir.

13 MR. KOLESAR: Okay. So you're really,
14 I think, trying to express some concerns about,
15 why is the Company not going to be motivated
16 to -- and the term you used was "gold plate."
17 Why aren't they just going to spend as much as
18 they can? Because the revenues that they get
19 that their -- within which they have to run the
20 business are restricted by the PBR formula. So
21 they've only got so much money they can actually
22 work with.

23 So, the only reason why they would

1 want to spend capital is -- well, not the only
2 reason, but one of the things that they would
3 want to consider in any decision to invest
4 capital is, does that investment in capital make
5 me more efficient, make me more productive, so
6 that I can earn a greater return, given the limit
7 that I'm under with respect to how much revenue I
8 get.

9 So, in effect, the incentive to
10 gold-plate really goes away, because there's no
11 upside. There's no upside to me gold-plating.
12 There's no upside to me investing more money than
13 I can recover under the revenue cap that I have
14 to live under. So, in effect, the incentive to
15 gold-plate really goes away.

16 CHAIRMAN GOLDNER: Yeah, and maybe
17 we're all saying the same thing. I'm just trying
18 to process information. So in the business that
19 I used to work in, we had a 12 percent hurdle
20 rate, so if the investment couldn't meet the
21 hurdle, then we just discarded it, because it
22 wasn't good enough.

23 And, so, I'm just trying to understand

1 how that works in a regulated environment, and
2 maybe --

3 MR. KOLESAR: It's fundamentally
4 exactly --

5 CHAIRMAN GOLDNER: -- the same, yeah.

6 MR. KOLESAR: It's exactly the same,
7 but now, their hurdle is gonna be, at least
8 somewhat, dictated by the fact that we've got a
9 revenue cap we have to live under, so --

10 CHAIRMAN GOLDNER: And wouldn't that
11 result, in theory, in a higher hurdle,
12 effectively? I mean, wouldn't you -- if you had
13 limited dollars, you would choose the best
14 projects, and you would get the highest return.

15 The challenge in this environment is
16 we have a flat revenue profile.

17 MR. KOLESAR: Uh-huh.

18 CHAIRMAN GOLDNER: So I'm just
19 puzzling over this and trying to understand how
20 it works from the Company's point of view.

21 MR. HORTON: And there's a few -- few
22 differences, too, because, of course, we have an
23 obligation to serve -- we have to serve our

1 customers, and we can't approach each investment
2 as if it's a moneymaker. And that's where I get
3 so passionate about the gold-plating, is because
4 we don't look at, hey, can we make the most
5 amount money.

6 If you're looking at PSNH, I think
7 you're saying, well, what's to stop PSNH from
8 spending more capital? And I think the parent
9 Company dynamic may complicate this.

10 CHAIRMAN GOLDNER: And just not to
11 interrupt too much, but -- and how does PBR help?
12 Ultimately, that's what I'm trying to understand,
13 is how does PBR help -- help in this analysis.

14 Sorry. Go ahead.

15 MR. HORTON: No. So, number one is,
16 we have to keep in mind, that although some -- if
17 we're talking about, like, making our workforce
18 more efficient, certainly there's an analysis
19 where you could say, wow, that's going to cost me
20 a lot of money.

21 You know, a good example is -- is
22 maybe not a current one, but AMR meters. You can
23 look at when we went from walk-up meter-reading

1 activities to AMR drive-by meter-reading
2 activities.

3 You could do a business case analysis
4 -- and we did. We didn't say, we're going to
5 make this investment because it's going to make
6 us more efficient, it's going to lower our
7 overall cost structure, and that's going to help
8 us from a shareholder perspective, and then it's
9 going to help us from a customer perspective.

10 And we did that investment, without a
11 separate tracker. We did it because it was a way
12 to reduce our overall cost structure.

13 So some investments we make are like
14 that. Some investments we can't approach that
15 way. So the analogy does fall a little bit
16 short.

17 However, I think you're asking -- to
18 go back. You're saying, well, what's to stop
19 PSNH from just stop spending more money under
20 the --

21 CHAIRMAN GOLDNER: Sorry, just to
22 invert that. It's really, what's the incentive
23 to spend less?

1 MR. HORTON: And I think, if you boil
2 it down just to that, the incentive to spend less
3 is because that's how you maximize your earnings.
4 That's how you achieve the hurdle rate that
5 you're trying to get to.

6 CHAIRMAN GOLDNER: So maybe said
7 differently -- I mean, the way I was thinking
8 about this this morning was, you're effectively
9 establishing a budget. The Company is asking for
10 freedom to operate within that budget, subject to
11 the usual prudence and, you know, reviews and so
12 forth over time, but to be able to, sort of,
13 operate freely within that budget, so the Company
14 could make game-time decisions efficiently,
15 knowing that a certain amount of spending was
16 allowed; a certain amount of spending, while not
17 being disallowed, would roll over to the next
18 rate case and be more challenging and
19 problematic, and lags, and so forth would enter
20 into the equation.

21 Is that -- am I thinking about your
22 perspective on PBR? Is that the way you think of
23 it as well?

1 MR. HORTON: Exactly, because we're
2 taking away -- so if we're spending more than the
3 budget gives us the ability to spend and still
4 earn our authorized ROE; if we agree that our
5 authorized ROE is what we should be earning,
6 that's our hurdle rate.

7 The only way we can earn our
8 authorized ROE within a year is if we spend under
9 that envelope of the revenues or that budget.
10 And PBR incentivizes us to do that, because it
11 takes away one of the two levers we have to pull.
12 It takes away our ability to come in to you and
13 say, I need more revenues. I have to stay out of
14 a rate case.

15 So now, I'm incentivized to find any
16 efficiency I can, whether it's through a capital
17 investment in people, processes, or technologies,
18 or a way to do more with less on the O&M side, or
19 what have you.

20 In order for us to deliver that value
21 to our shareholders, in this case, Eversource
22 parent Company, but it would be the same as if we
23 were independently traded. In order for us to

1 make a compelling case that, no, we're either --
2 earning the return that you require us to earn,
3 we would have to spend less. We'd have to find
4 ways to operate efficiently. We can't go in and
5 increase our revenues. That's the only lever we
6 have.

7 CHAIRMAN GOLDNER: And so wouldn't --
8 trying to find the balance is, obviously, the
9 hard part. Because if the parties were to work
10 together and come back with a settlement, and it
11 was to have -- or massively somehow reduce the
12 spending, the Company's perspective would be,
13 well, I'm leaving a lot of good projects, a lot
14 of projects that would be helpful to the Company
15 on -- I'm having to take those off the table,
16 because I now don't have the budget to do what I
17 feel like I need to do in order to do all the
18 projects that need to be done.

19 So, first, you have to prioritize the
20 projects, and then you have some kind of cut
21 line. And then below that cut line, then you
22 have all the issues that we talked about in terms
23 of revenue lag and so forth.

1 So -- and we can save this for after
2 lunch, but really, my question will boil down to
3 the Company's, sort of, optimization algorithm or
4 the optimization process, how -- given you have
5 some kind of budget you just have to deal with,
6 and every Company has a budget that they have to
7 deal with, how does -- what's the Company's
8 process? Because I think this business of the
9 incentive to spend less and how -- how a Company
10 can thrive in an environment where revenues
11 aren't growing is puzzling to me. I'm just
12 trying to understand how that works.

13 And so, I appreciate the time and the
14 discussion on this topic today, and we can -- we
15 can resume after lunch and pick it up again.

16 So the action that I have, Attorney
17 Chiavara, was to talk about when it made sense to
18 have this discussion on investor requirements,
19 and so, after lunch, we can come with that.

20 I'm going to rip people off with 55
21 minutes, but let's come back at 1:00. We will
22 plan to wrap up by 4:30 today, the normal ending
23 time, earlier if possible. But just so people

1 know, we're not -- we'll terminate somewhere
2 between -- somewhere prior to 4:30.

3 So off the record, and back at 1:00
4 o'clock. Thank you.

5 (Luncheon recess.)

6 CHAIRMAN GOLDNER: Okay. We'll go
7 back on the record. Attorney Chiavara, I think
8 you had some updates.

9 MR. KREIS: Mr. Chairman, before you
10 recognize Attorney Chiavara, I respectfully
11 request the opportunity to be recognized myself.

12 CHAIRMAN GOLDNER: It might not be
13 timely, Mr. Kreis. What is the issue?

14 MR. KREIS: I would be committing
15 Consumer Advocate malpractice if I did not stand
16 up and renew the objection that I made first
17 thing this morning with a vengeance at this
18 point.

19 I would really like to know with some
20 clarity what it is exactly that we are doing
21 here. If the Commission truly thinks that
22 keeping faith with its RSA 374:4 duty to keep
23 informed allows all of us to sit here and listen

1 to a self-serving presentation, such as the one
2 we have been sitting through this morning, then
3 I'm just flabbergasted. I don't see where
4 anything in New Hampshire law justifies this.

5 It's one thing to listen to the facts.
6 It's another thing to listen to sermonettes about
7 what a public-spirited, awesome, selfless bunch
8 of people Eversource is, who would never do
9 anything that reeks of gold-plating or anything
10 else that isn't completely virtuous.

11 I would like to know what this is.
12 There's gonna be a transcript of this proceeding.
13 These people are testifying, but we don't have an
14 opportunity to cross-examine them. They are not
15 even under oath. This entire thing is improper,
16 and we should all go home right now.

17 CHAIRMAN GOLDNER: All right.

18 So I'll just remind you, Consumer
19 Advocate, that the Commission clearly has the
20 right to inquire of the Company regarding its
21 rate case proposals, and the Commission clearly
22 has the right to conduct prehearing conferences
23 to enhance its understanding.

1 And in any event, no hearing was
2 sought for No. 27,029, and so we will continue.

3 Attorney Chiavara.

4 MS. CHIAVARA: If you could -- sir, if
5 you could give me just one moment?

6 CHAIRMAN GOLDNER: Of course.

7 MR. KREIS: And while the Company is
8 conferring, let me just say, they should be very
9 concerned about what's going on here, because at
10 the end of this rainbow, if the result in this
11 case is not acceptable, there is going to be a
12 really, really interesting appellate proceeding,
13 and they're going to have to go in the front of
14 the Court and defend what they did here.

15 CHAIRMAN GOLDNER: Attorney Chiavara --
16 Mr. Skoglund, yes.

17 MR. SKOGLUND: Yes. Thank you,
18 Mr. Chair. Chris Skoglund, Director of Energy
19 Transition, Clean Energy New Hampshire.

20 I wonder if it might just be simpler
21 -- well, not simpler. I make no comment on the
22 Consumer Advocate's particular framing of the
23 issue, but do maybe have another way to ask a

1 similar question.

2 And if there could be clarity on how
3 the transcript will be used and how this
4 proceeding -- coming at it from a non-lawyer, and
5 actually as an educator, I'm wondering, is this
6 just for the edification of the Commission, how
7 the transcript will be used? Because there have
8 been instances today where it has been referred
9 to as testimony or witnesses, and no one has been
10 sworn in, so it is a little bit unclear as to --

11 CHAIRMAN GOLDNER: There are no --

12 MR. SKOGLUND: -- the nature of how
13 this will be used in the future.

14 CHAIRMAN GOLDNER: No problem.

15 There are no witnesses. There is --
16 nobody's been sworn in. This is an interrogatory
17 between the Commission and the Company for its
18 own understanding.

19 The other parties and participants
20 here today are welcome to stay and listen, and
21 that is not a problem at all, but this is -- this
22 is for the Commission's information, pursuant to
23 374:4, and we intend to continue. So I

1 appreciate the comments, but we will proceed.

2 Attorney Chiavara.

3 MS. CHIAVARA: Yes. Thank you,
4 Chairman.

5 In regard to making the -- the DSP
6 witnesses available, tomorrow was a little bit of
7 a stretch.

8 CHAIRMAN GOLDNER: Not witnesses.

9 MS. CHIAVARA: Or -- they're not
10 witnesses, yes.

11 The people that would speak to the DSP
12 are not available for tomorrow, but we can make
13 them available next week. Some may be able to be
14 in person, but we would want to reserve the
15 ability to have some of them attend remotely.

16 CHAIRMAN GOLDNER: Remote
17 participation is no issue.

18 MS. CHIAVARA: Okay.

19 CHAIRMAN GOLDNER: I guess my question
20 would be, how does the Company propose to share
21 the information? And would you break it into
22 pieces, or what would be the Company's proposal?

23 MS. CHIAVARA: The information being

1 the answer to -- with revenue flat-wise,
2 investment needed in the system?

3 CHAIRMAN GOLDNER: Yeah, so -- I'm
4 sorry. First things first. So, operationally,
5 please make sure to file a request for the remote
6 participation.

7 MS. CHIAVARA: Yes.

8 CHAIRMAN GOLDNER: So, I know you
9 would do that anyway --

10 MS. CHIAVARA: Sure.

11 CHAIRMAN GOLDNER: -- but please do.

12 Secondly, there are, really, three
13 different components to the question. One is
14 the -- to help the Commission understand why the
15 investments are required, this new technology,
16 grid modernization, etcetera, inside the PBR
17 bubble. So whatever is inside PBR to help us
18 understand the need for this investment in a
19 flat-revenue environment.

20 And then also -- because I believe
21 these are actually connected, but perhaps outside
22 the Venn diagram, mostly of PBR, the Distribution
23 Solutions Plan and solar PV -- Company-owned

1 solar PV, those components, which I think are
2 related to the PBR. I'm not quite sure they're
3 in or not, but that would be good to help us
4 understand what's going on in those three areas.

5 MS. CHIAVARA: All right. And as far
6 as someone speaking to that today, the President
7 of PSNH Operations, Bob Coates, who is sitting
8 two seats to the right of me, would have some
9 comments today for the Commission if they -- if
10 the Commission would like to hear those.

11 CHAIRMAN GOLDNER: Okay. That would
12 be great. And then, how would the rest of it
13 roll out? Would we do it next Tuesday or --

14 MS. CHIAVARA: I believe next -- we're
15 still getting information from the people who
16 would be speaking to those issues. It looks like
17 we may be able to do it by next Tuesday.

18 CHAIRMAN GOLDNER: Could you do any
19 piece of it tomorrow, or would it all be next
20 Tuesday?

21 MS. CHIAVARA: We're having a tough
22 time getting -- we've gotten no feedback from
23 anybody for tomorrow.

1 CHAIRMAN GOLDNER: Okay.

2 MS. CHIAVARA: But we could speak to
3 metrics tomorrow. There's still a lot of PBR
4 information that we could speak to tomorrow.

5 CHAIRMAN GOLDNER: For sure. For
6 sure, yeah. I think the earlier we can roll this
7 forward, the better. I wouldn't want to wait
8 until the last day.

9 MS. CHIAVARA: Okay. So --

10 CHAIRMAN GOLDNER: So if you can do it
11 on Tuesday, if you could encourage the team to --

12 MS. CHIAVARA: Sure.

13 CHAIRMAN GOLDNER: -- rearrange their
14 schedule, if needed, that would be fine. And
15 being on screen is fine, so just -- if you could
16 file a request on that.

17 MS. CHIAVARA: Sure.

18 CHAIRMAN GOLDNER: Okay. All right.
19 Anything else on that, Attorney Chiavara?

20 MS. CHIAVARA: No, that is all. Just
21 the statements from Mr. Coates, whenever you're
22 ready for those.

23 CHAIRMAN GOLDNER: Okay.

1 MR. DEXTER: Mr. Chair, before we
2 proceed, the Department of Energy had a
3 housekeeping question.

4 CHAIRMAN GOLDNER: Of course, please.

5 MR. DEXTER: So the Procedural Order
6 that was issued September 26th mentioned this is
7 an opportunity for the Commission to ask
8 questions as well as the parties.

9 We have a consultant on the screen,
10 Nick Crowley, from Christiansen Associates, who
11 has about 20 to 30 minutes of questions planned
12 for Eversource.

13 Would there be time to do that today,
14 or could we work that into the schedule?

15 CHAIRMAN GOLDNER: Yeah. No, thank
16 you for that, Attorney Dexter.

17 Just a moment, please. I want to
18 confer. (Conferring.)

19 So what I would suggest is the -- at
20 this point, we -- we can take a recess in a
21 little bit and, sort of, sort out the -- that
22 piece of it.

23 Our intention today was just for the

1 Commission to ask questions of the Company, and
2 we hadn't anticipated -- I need to go back and
3 read the order myself to see what it says, but
4 that was -- it was just meant to be a dialogue
5 between the Commission and the Company, with
6 everyone, of course, welcome to attend in a
7 public setting. So that was the intention, but
8 let me -- let's take a break in a little bit,
9 Attorney Dexter, and we can confer with Counsel
10 and come back to you.

11 MR. DEXTER: All right. Thank you.

12 CHAIRMAN GOLDNER: All right. Yes.
13 Attorney Chiavara, you had a suggested course of
14 action?

15 MS. CHIAVARA: Yes. I was going to
16 turn things over to Mr. Coates as this point.

17 CHAIRMAN GOLDNER: Thank you.
18 Mr. Coates.

19 MR. COATES: Good afternoon. I just
20 wanted to offer a few comments with respect to
21 the comm -- the questions about flat revenues
22 over-earning projects -- trying to drive projects
23 to over-earn.

1 I want to just have people understand
2 that, while revenue and growth may be minimal,
3 the fact of the matter is, if you look at that
4 across the state -- I understand the statistics.
5 But when you look at regional pockets, there's
6 pockets of heavy growth that we have to address,
7 and those investments are necessary to address
8 the growth piece metroplex in the -- actually,
9 there's several projects that we have where this
10 growth is going on.

11 In addition, we have lots of projects
12 that are addressing aging infrastructure as a
13 condition of resiliency and reliability.

14 Again, holistically, looking at
15 reliability across the organization, the entire
16 service territory represents one condition, but
17 there are areas that are struggling with
18 reliability performance, and those projects would
19 be necessary to address.

20 So my point there is, frankly said,
21 you know, we have more work than we have money,
22 and the idea that we could take and drive one
23 project, just from an earnings perspective, on

1 the PBR or any ratemaking infrastructure, is just
2 not viable with all the work that we have going
3 on.

4 So there are pockets of low growth and
5 pockets of reliability need, resiliency need, and
6 infrastructure need. And the DSP will discuss
7 that in more detail next week, but I just wanted
8 to share that the likelihood and, realistically,
9 the driver, to just drive projects for, you know,
10 an over-earnings perspective is very, very
11 unlikely.

12 CHAIRMAN GOLDNER: Okay. Thank you --

13 MR. COATES: Thank you, Mr. Chairman.

14 CHAIRMAN GOLDNER: -- Mr. Coates.

15 So let's return to the topic when we
16 left at break about the Company's operational or,
17 sort of, optimization algorithm that it uses,
18 given it has a finite amount of funding in terms
19 of determining projects.

20 Is it -- how does it -- what's the
21 Company's process for determining the projects
22 that it works on or doesn't work on?

23 MR. HORTON: Yeah, I'll start, and

1 then Mr. Coates can chime in, perhaps from an
2 overall PBR perspective, the margin, and I'll
3 chime in as well.

4 But -- so I think your question was
5 driving at, what is the cutoff point where the
6 Company snaps the chalk line for needed
7 infrastructure investments. And that's an
8 excellent question. It is not a pure algorithm,
9 as if there's not judgment, you know,
10 consideration taken into account. There's a lot
11 of factors that go into it.

12 ROE tends to be the measure that at
13 least I look at from the rates' side of the house
14 to say our revenue is sufficient to support the
15 business. So a lot of the discovery that we've
16 been engaged in so far, we're putting out the ROE
17 as a measure of how well the support mechanisms
18 are doing with keeping up with those investments,
19 but it doesn't really get to the question you're
20 asking.

21 I would say it like this. And, again,
22 Mr. Coates can chime in. We start from a capital
23 perspective with, what are the system needs,

1 which is an effort that's undertaken from the
2 engineering operations, those on the frontline,
3 knowing the system and what it requires in order
4 to keep the lights on and operate safely. And we
5 build a bottoms-up list of those projects that
6 need to be funded.

7 While at the same time, on the finance
8 side of the CFO, well, of course, we have our
9 budget. We have -- you know, we're -- to keep it
10 simple, if you were to just think of PSNH as a
11 standalone. It has revenues that it knows it's
12 going to recover. It has expenses it knows it's
13 gone to incur. It has requirements to keep
14 sufficient cash flow and targets for earnings,
15 etcetera. But what we're really trying to do is
16 -- and where I think it falls off from other
17 businesses is that, we are starting with a
18 fundamental obligation to serve our customers,
19 and to do so reliability and safely.

20 So it's typical that the earnings,
21 that ROE as a measure of how well the revenues
22 are keeping up with our needed infrastructure
23 investments, are declining. And that's true in

1 New Hampshire. That's true in Connecticut.

2 That's true for electric, gas, water. That's
3 just the state of affairs that we're in.

4 We don't have and are not operating --
5 and I don't think it would be the responsible
6 thing to do to say, 9.3 percent is our
7 authorized; therefore, we will not fund Project
8 X, because it would put us in a position of
9 earning less than our authorized.

10 And that's where I get back to the
11 discussion we had earlier, gold-plating. If the
12 motivation was to typically hit the level of
13 earnings, I think the motivation would actually
14 be the opposite. It wouldn't be to overinvest
15 but to underinvest, so you're actually earning,
16 in any given year, a level of return on
17 investment, and that's just not how we approach
18 it, nor do most utilities.

19 I think -- I don't have a clear and
20 concise answer as to, well, how do we snap that
21 chalk line, because it really starts with what
22 the system needs. In a conversation between Bob,
23 at the lead, and our finance organization, what

1 is basically the -- I guess, the minimum
2 investment that we're able to make and sleep
3 comfortably, that we're going to be able to
4 uphold the responsibility to our customers, while
5 still maintaining our financial viability, and
6 it's not any one metric or any one -- you know,
7 there's a lot that goes into that conversation.

8 CHAIRMAN GOLDNER: How does the
9 Company intend to over-design? So from an
10 engineering perspective, you know, nobody ever
11 got fired for things working, right, but you --
12 you tend -- as an former engineer, you'll
13 over-design if you have the choice, because you
14 want to make sure it works, and you get to keep
15 your job, and -- and so you're -- you know, you
16 typically don't design at the margin, and you
17 design with multiple factors of safety, just to
18 make sure that nothing goes wrong.

19 What's the Company's process for
20 dealing with that, sort of, classic engineering
21 problem?

22 MR. HORTON: Mr. Renaud, Vice
23 President of Engineering, is going to speak.

1 MR. CHAIRMAN: Perfect. Thank you.

2 MR. RENAUD: Hi. Paul Renaud, Vice
3 President of Distribution Engineering. Excuse
4 me.

5 So the question, you know, how do we
6 prevent over-designing, I think is what you're
7 asking. You know, I look at it as, you know, we
8 -- we need to have a -- we need to design to a
9 minimum to meet whatever criteria we're looking
10 at. It could be safety codes, National Electric
11 Safety Codes. It could be our own internal
12 criteria and -- which we have quite a few of.
13 We'll talk more about it on Tuesday with the DSP
14 discussion, to talk about those types of things,
15 and how we categorize projects.

16 But after -- once we're doing that,
17 you know, over-designing, to me, is really just
18 eating into things that we -- we would have to
19 trade off. So if we over-design for one thing,
20 we wouldn't be able to work on something else, or
21 do another project or do something like that. So
22 it's somewhat of a waste of capital, so to speak.

23 So there's that incentive that we have

1 to keep things, to a minimum, to our criteria.
2 That's why we design criteria, so we know -- so
3 all our folks, our engineers and our operators,
4 know this is -- this is what we're saying is a
5 minimum requirement for us to provide service to
6 customers.

7 So, you know, we don't want to go
8 above that. We have to justify that. We have
9 processes in place where we justify how we're
10 designing facilities or designing a line or part
11 of the system, and people would challenge that if
12 we tried to go too far.

13 And, you know, going back to criteria
14 standards, and we know, you know, we have the
15 checks and balances here, that we have to sit
16 down in front of the DOE and Commission and have
17 those same discussions when it comes time to say,
18 this is what we spent money on.

19 So there's lots of checks and balances
20 that we do think about when we're doing that.

21 CHAIRMAN GOLDNER: Okay. Thank you.
22 Very helpful.

23 Okay. Let's take 20 minutes to work

1 through the legal questions that came up, and
2 we'll return at 20 of. Off the record.

3 (Recess taken.)

4 CHAIRMAN GOLDNER: Back on the record.
5 So I'll just remind everyone of the scope of the
6 proceeding today, which is for the Commission's
7 benefit. And I think, what I understood,
8 Mr. Dexter, is that the Department has some
9 questions for the Company that could help us
10 understand the mechanics, understand how the --
11 how PBR works, and that that would be helpful for
12 the Commission.

13 Is that the thinking?

14 MR. DEXTER: Well, yes, I think it
15 would also be helpful for the Department's
16 consultants, that --

17 CHAIRMAN GOLDNER: Okay. And just --
18 just maybe I'll add to this, that the -- from the
19 Commission's perspective, given the break with
20 the DOE back in 2021, the Commission doesn't have
21 access to discovery. We can't pick up the phone
22 and call the Company, So this is really our only
23 opportunity to understand, which is why it's

1 great that the parties have some questions for
2 the Company that can be helpful in our
3 understanding? But that all the parties have
4 access to discovery, which the Commission doesn't
5 have. So our time is limited to these four days
6 in terms of understanding how PBR works, the
7 mechanics of it, so we do appreciate the
8 opportunity to learn more from the Department's
9 experts.

10 So the idea would be today, let the
11 Commission finish the line of questioning. We
12 still have a ways to go, and it will probably
13 drift into tomorrow. As soon as we, sort of,
14 finish with this topic area, then we would turn
15 to questions, and, of course, afford all the
16 parties the same opportunity that the DOE is
17 requesting, just reminding everyone that the idea
18 here is to help the Commission's understanding of
19 the mechanics.

20 And then we can turn on Tuesday to the
21 separate topic that we discussed, and then sort
22 of follow the same process, so bite this off into
23 kind of two chunks, would be the idea. So that's

1 the -- that's the plan.

2 So from the Department's perspective,
3 would -- it likely would be tomorrow. It could
4 be Tuesday, if things go long. Would your expert
5 be available on those days?

6 MR. DEXTER: I believe Mr. Crowley was
7 planning on attending all the sessions to observe
8 the Commissioner questions and the Company's
9 answers, so --

10 CHAIRMAN GOLDNER: Okay. Thank you,
11 Attorney Dexter.

12 Very good. Okay. Let's move forward.

13 MS. CHIAVARA: Excuse me,
14 Mr. Chairman, if I may.

15 CHAIRMAN GOLDNER: Yes.

16 MS. CHIAVARA: I guess I was just
17 wondering -- you said covering the mechanics, and
18 so we have some limited staffing issues as far as
19 scheduling goes for tomorrow. Mr. Horton won't
20 be available in the morning, and so I was
21 wondering if you -- if you had slightly more
22 specifics about -- we could certainly talk about
23 metrics and mechanics tomorrow morning, but we

1 might need to be a little bit strategic on the
2 aspects of the PBR plan that we address.

3 CHAIRMAN GOLDNER: Sure. Sure. The
4 preview of coming attractions is to finish going
5 through the high-level equation, and then talk
6 about the other pieces that were in the
7 testimony, things like exogenous factors and
8 offsets and stretch factors and so forth, so sort
9 of grind through the details to give the
10 Commission the next depth of understanding beyond
11 the high-level equation.

12 And then after that, we're also
13 interested in what the Company proposed in
14 Massachusetts and what it ultimately implemented.
15 So that transition from what was proposed to what
16 was implemented, and then the differences with
17 what you implemented there -- and I'm talking
18 about PBR -- with what you proposed in New
19 Hampshire and why.

20 So that transition would be helpful
21 tomorrow. Anytime in the morning or afternoon,
22 I'm sure, would be fine there.

23 And we're also interested in the

1 comparative use, which was in the testimony, in
2 the U.S., and I think there's some Canadian data
3 in there as well. So we're interested in that
4 comparative yield at the same time, so, really,
5 the competitive viewpoint of PBR is also
6 addressed to the Commission.

7 You know, ultimately, we're
8 just trying to understand PBR's benefits, costs,
9 risks from both the Company and the ratepayer
10 point of view, so that's the next piece of it.

11 And let me check here. What else?
12 We'd like to discuss the record requests, which
13 were quite helpful, and we just have some
14 follow-on questions to those record requests.

15 And then, you know, ultimately, what
16 we're just trying to get to is the -- you know,
17 assuming PBR is implemented as requested by the
18 Company, how much exactly will it cost? What's
19 the max? What's the min? How does it vary
20 around?

21 And then, we've talked a little bit
22 about this, but what does the Company -- what do
23 ratepayers get in return? So kind of the highest

1 level of extraction. We were going kind of from
2 the bottom up to try and understand the whole
3 picture, mechanically how everything works, and
4 what the result would be in the end.

5 MS. CHIAVARA: Okay. All right.

6 CHAIRMAN GOLDNER: How does that work
7 with your schedule and Mr. Horton's schedule?

8 MS. CHIAVARA: We can work that out.

9 CHAIRMAN GOLDNER: You can make that
10 work?

11 MS. CHIAVARA: We'll discuss it, yes.

12 CHAIRMAN GOLDNER: Okay. Okay. Let's
13 return to the equation itself and how everything
14 fits together. I think -- I don't know if
15 there's anything else that the Company would like
16 to add to the interest rate and the K-bar before
17 we move on to a different topic, or at least high
18 level. I think we're going to come back to some
19 sub-questions, but if there's anything else that
20 the Company would like to add before move on.

21 All right. So maybe next, there is a
22 CD, which is .015 when "I" exceeds .2 [sic]
23 percent.

1 And, I guess, just helping the
2 Commission understand what that is, why it's
3 there, and why it's .15 and not something else.

4 MR. HORTON: I can start. The
5 consumer dividend, or the CD, is, as part of a
6 performance-based ratemaking framework, a way to
7 share in the efficiency gains over the course of
8 the PBR term with customers.

9 In our proposal, we have two main
10 facets of that. One is, we've presented evidence
11 that the X factor should be a negative 1.42, but
12 we are setting the X factor to zero. If we had
13 implemented an X factor at negative 1.42, the
14 corresponding PBR rate changes over the
15 intervening period for the PBR term would be
16 greater, because you'd have inflation plus 1.42.

17 So by setting that X factor to zero,
18 there is an inherent benefit, or sharing in time,
19 with customers out of the gate for that.

20 The consumer dividend is established
21 at 15 basis points when inflation is in excess of
22 2 percent, really as a way to say that, in times
23 of lower inflation, recognizing that we've

1 already built in a negative 1.42 stretch factor
2 into the equation, we have less opportunity,
3 knowing the pressures that we have on the
4 business currently, to extract savings when the
5 -- when the revenue support is lower, by function
6 of the fact that inflation is less, than if
7 inflation were higher. And so we're proposing to
8 have a consumer dividend at 15 basis points, only
9 to the extent that the actual inflation is at 2
10 percent or greater, but I'll ask Paul Eisman
11 [sic] to chime in on some of the --

12 CHAIRMAN GOLDNER: The follow-on for
13 that is, how did the Company arrive at .15
14 instead of .2 or .7 or point -- something else?
15 Yeah.

16 MR. KOLESAR: I actually don't know
17 exactly how the Company --

18 MR. HORTON: No, I -- I was looking to
19 them for more of the theoretical basis for the
20 consumer dividend, which, if you want, I'm
21 sure --

22 CHAIRMAN GOLDNER: We would, yeah. We
23 can do that next, yeah.

1 MR. HORTON: The 15 basis points was
2 really aligned with -- (Conferring.)

3 CHAIRMAN GOLDNER: Mr. Horton, please
4 proceed.

5 MR. HORTON: The 15 basis points was a
6 holdover from Massachusetts, which was the
7 established rate there. And, again, there are
8 ways that you can try to quantify, but, again --
9 and I'll ask Mark and Dr. Ros to chime in. In my
10 view, it's more of an art than a science. And I
11 don't have a methodological basis to establish it
12 shall be this. It's more reflecting, like I
13 said, that we see an opportunity with inflation
14 at 2 percent or greater to be able to extract
15 additional savings and to share them in real-time
16 through the operation of a consumer dividend, and
17 establishing it at 15 basis points was our
18 attempt to try to strike that right balance.

19 CHAIRMAN GOLDNER: Okay. Thank you.

20 MR. ROS: I can add some context to
21 that. Earlier, I mentioned about the incentive
22 gains in going from rate of return regulation to
23 price cap or revenue cap. There's to be

1 increased incentives to reduce costs.

2 In one of the first PBR plans in
3 telecommunications in the early '90s, there was a
4 recognition that there should be something called
5 a consumer dividend, also known as a stretch
6 factor, which is a sharing of these benefits,
7 these efficiency gains, these incentives, the
8 sharing of that immediately with customers. So
9 that when you move from rate of return regulation
10 to PBR, the first cut benefits of that change is
11 going to go to consumers. So that's why it's
12 called the consumer dividend or the stretch
13 factor.

14 This is on top of the X factor,
15 which -- we can get into the X factor later -- is
16 the productivity of the industry. So the way the
17 equation is -- the revenue equation is written
18 is, it tries to mimic the changes in rates that
19 we would observe in competitive markets. That's
20 why you have this inflation factor, minus a
21 productivity factor.

22 So in a competitive market, a firm is
23 going to change their rates based on how their

1 input costs change, minus how productive they are
2 in taking those --

3 So that's the X factor, and we have a
4 study for what the X factor is, which is a Total
5 Factor Productivity study of the industry. But
6 in addition to that, there's this consumer
7 dividend, this stretch factor, which is -- from a
8 public policy perspective, it's a way to share
9 these benefits of the switch -- of the switch
10 from rate of return to PBR, to go initially to
11 the consumers.

12 The TFP has a long, theoretical,
13 methodological way of being calculated. It's
14 been done many times, not only in regulated
15 industries. The U.S. Government calculates total
16 factor productivity. The OECD calculates it. So
17 there's a well-established methodology of how
18 that's done. Not so for the consumer dividends
19 or the stretch factor. Historically, it's been
20 viewed more as a policy judgment by the regulator
21 in balancing the overall PBR plan, so taking a
22 look at the elements that you're going to prove
23 for the PBR plan provide a certain level of

1 efficiency incentives, and no two PBR plans are
2 the same.

3 So the stretch factor is using the
4 judgment of the regulator, given this PBR plan,
5 how effective are the incentives going to be, and
6 to kind of guide you in determining whether it
7 should be .15 or .2 or what have you.

8 What Doug was saying is that, in a
9 sense, the PBR plan of the Company, because we
10 calculated an X factor of minus 1.42, but the
11 Company is coming in with an X factor of zero,
12 implicitly -- a lot of that difference can be
13 considered a consumer dividend or a stretch
14 factor as well, in the sense that it's giving
15 benefits to the consumers. So that was also, I
16 think, a consideration, is, you know, the exact
17 level of what the consumer dividend should be.

18 And then, finally, I think you had
19 mentioned earlier about interest in what other
20 regulators have done, in Canada, in the U.S.,
21 with respect to the stretch factor. We have
22 some -- some benchmarking on that in our report.
23 And, again, this is all judgment based on the

1 regulator, but we see a range between zero and
2 .6, seemed to be typical ranges of stretch
3 factors in electricity distribution.

4 The last thing I'll mention is that
5 there is also an approach to try to quantify, or
6 help quantify, the consumer dividend, by looking
7 at the Company's costs compared to the industry
8 costs, and we can get into that as well. We put
9 together a econometric cost benching analysis
10 that looks at how Public Service New Hampshire
11 compares in cost to the industry, and that has
12 been used as an additional element in helping one
13 come up with the consumer dividend. So there's a
14 lot of moving parts in how one comes up, and how
15 regulators have come up, in the past, with the
16 consumer dividend.

17 CHAIRMAN GOLDNER: Thank you. I guess
18 the follow-on question would be, if inflation was
19 10 percent or 8 percent or 12 percent, .15 is a
20 pretty small number. But if, you know, inflation
21 is 2 percent or 2.2 percent, it's a pretty big
22 number. So I was curious as to why it was a
23 fixed number as opposed to some sort of

1 percentage.

2 MR. ROS: Yeah, so I think that's
3 right. But if you look at, in the past, some of
4 the telecom consumer dividends tended to be a
5 little bit higher, because TFP coming out of the
6 telecom industry was much higher, because you had
7 a lot of growth. And so that -- that result was
8 holding everything else hostage in higher
9 productivity growth. So you can go back and see
10 a relationship between the consumer dividend at
11 the X factor. That's possible to do, and there
12 is something near to that. But in general, it's
13 been usually on basis points; how many basis
14 points does the regulator add for the consumer
15 dividend, and that could be from zero to 60 basis
16 points.

17 CHAIRMAN GOLDNER: Thank you. I'm not
18 sure if our microphone has gone mad.

19 (Discussion off the record.)

20 CHAIRMAN GOLDNER: Commissioner
21 Chattopadhyay.

22 CMSR. CHATTOPADHYAY: This is for
23 Eversource. Was there a CD for Eversource in

1 Massachusetts?

2 MR. HORTON: There was, and I believe
3 I misspoke. So in Massachusetts, the same
4 consumer dividend kicks in at 2 percent or
5 greater, and it's 25 basis points.

6 The -- similarly, though, in
7 Massachusetts, we currently do not have an X
8 factor, although the evidence suggested that the
9 X factor would be negative, so the same general
10 construct, but -- and as I described.

11 CMSR. CHATTOPADHYAY: So if the
12 inflation is -- needs to be more than 2 percent
13 to allow kicking in of this CD, you know, 15
14 basis points, a question I have is, have you seen
15 in other places, like, the CD defers, based on
16 what the inflation rate is? Do you know anything
17 about that or not?

18 MR. HORTON: I think that was a
19 similar question. I don't have direct
20 experience. Why don't you --

21 MR. ROS: Yeah, I mean, my experience
22 is that Massachusetts has it. Public Service of
23 New Hampshire is proposing it. But I personally

1 have not seen that in other jurisdictions, that
2 the consumer dividend is a function of the
3 inflation rate. I don't know if you want to --

4 MR. HORTON: What I think was your
5 question, is it -- is your question, should the
6 consumer dividend -- or would the consumer
7 dividend be different at different levels of
8 inflation?

9 CMSR. CHATTOPADHYAY: Yes. And then,
10 I'm just asking and trying to understand, what's
11 the record in terms of in the U.S.?

12 MR. KOLESAR: I think the answer to
13 that is the consumer dividend, which is also the
14 stretch factor, is a function of the level of
15 productivity the Company's expected to be able to
16 achieve. So, ordinarily, your stretch factor is
17 an add-on to your X and doesn't fluctuate with
18 the rate of inflation.

19 The only wrinkle in this plan that's
20 perhaps different from some other plans, and it's
21 basically adopting what's been done in
22 Massachusetts, is it's having the consumer
23 dividend kick in only when inflation is greater

1 than 2 percent.

2 But the actual amount of the consumer
3 dividend itself is not a function of the rate of
4 inflation. It's a function of the expected
5 growth in productivity that the Company has to
6 achieve under the PBR plan. So I don't know if
7 that helps answer your question.

8 CMSR. CHATTOPADHYAY: Yes, it does
9 provide some information that's helpful. I had
10 the -- had the utilities, sort of, in
11 Massachusetts, when they proposed the CD -- I
12 should put it differently.

13 Did the Utility actually propose a CD
14 in its initial filing in Massachusetts?

15 MR. HORTON: I believe so. My
16 recollection is we proposed it, just as we have
17 here, that it would kick in when inflation
18 exceeds 2 percent, which was ultimately what was
19 adopted.

20 CMSR. CHATTOPADHYAY: Was the proposal
21 25 basis points or 15 basis points?

22 MR. HORTON: 25 basis points. And
23 similar to what Dr. Ros noted. We had, at that

1 time, produced a cost benchmarking study that
2 supported that. Although there is not -- it's
3 not something, as I understand, that you point to
4 and say, this is the number that it should be.
5 There's ways to confirm that it's a reasonable
6 amount.

7 But can I just confirm one thing with
8 Dr. Ros? I just wanted to ask him a question.

9 CMSR. CHATTOPADHYAY: Absolutely.

10 MS. BOTELHO: And I have an answer to
11 your earlier question. You asked, like, are
12 there different consumer dividends at differing
13 levels of inflation.

14 Eversource didn't adopt this in
15 Massachusetts, but National Grid did have a
16 consumer dividend that changed, based on the
17 level of inflation. So I believe Mr. Kolesar had
18 in his testimony -- it's Table 8. It's
19 Attachment ESMK-AR-1 on Page 28. I don't have
20 the Bates number, but it's Table 8, that shows a
21 comparison of the X factors adopted for
22 Eversource, NSTAR Electric, National Grid.
23 There's Quebec, Alberta, Ontario, and Hawaii.

1 There's different comparisons of the stretch
2 factors for consumer dividends in those cases.

3 CMSR. CHATTOPADHYAY: So were there
4 CDs -- or are there CDs in some jurisdictions
5 where you don't have any such cutoff for
6 inflation?

7 MR. KOLESAR: Yes. If you go to -- in
8 the joint testimony that Dr. Ros and I
9 provided -- I'm not sure what the exhibit number
10 is. There's probably not an exhibit number.
11 It's 01891. If you go to Page 29, it -- there's
12 a table there that provides the consumer
13 dividends for a number of fairly recent PBR
14 plans.

15 CMSR. CHATTOPADHYAY: Thank you.

16 MR. KOLESAR: And in addition to that,
17 there was a recent decision in Massachusetts for
18 Unitil that also adopted a consumer dividend that
19 only kicks in when inflation is greater than 2.

20 CMSR. CHATTOPADHYAY: Thank you.

21 MR. HORTON: And if I could just
22 add the -- so the 15 basis points in
23 Massachusetts is in place for the NSTAR gas, not

1 electric Company. And we're just looking up --
2 just to correct what I had said. We had
3 originally, in the NSTAR Electric case, proposed
4 15 basis points when inflation was 2 percent or
5 greater, and then, through the course of the
6 proceeding, updated that to 25 basis points. I
7 just don't recollect why.

8 And the last point I just wanted to --
9 which I know you'll understand, but we are
10 talking about just the bandwidth between 2
11 percent and 5 percent. Because in the event that
12 inflation were 10 percent, effectively, by
13 capping inflation, you're giving -- you know, I
14 would say that's an additional consumer dividend
15 of whatever the amount is above the 5 percent
16 cap.

17 CMSR. CHATTOPADHYAY: Except that --
18 that 5 percent cap doesn't apply to the K-bar.

19 MR. HORTON: Correct.

20 CHAIRMAN GOLDNER: I just need help
21 with some simple math. So I think the effect of
22 the Company's proposal, based on the current
23 revenue requirement, the proposed revenue

1 requirement, would be about \$800,000. Is that --
2 can somebody please check my math. I may have
3 dropped a zero or two. I think I took 15 basis
4 points of 525. I get roughly 800,000, but I just
5 wanted to check to make sure I understand the
6 size of the breadbox here.

7 MR. HORTON: That's what I'm coming up
8 with as well.

9 CHAIRMAN GOLDNER: Thank you. Okay.
10 So that's -- in the current proposal, that's, you
11 know, just roughly \$800,000. Okay. I'm just
12 trying to track all the numbers.

13 Okay. I think we can move on to the
14 earnings sharing adjustment factor, if somebody
15 could kind of walk us through how that works and
16 what the max and min is on that.

17 MR. HORTON: Yeah, I can start.

18 Mechanically, the way the earnings
19 sharing mechanism is proposed to operate is that,
20 when our actual earned return on equity exceeds
21 the authorized return on equity by 25 basis
22 points or greater, the earnings sharing mechanism
23 would kick in. And for each dollar above that

1 threshold, we would share the earnings above that
2 threshold, 75 percent with customers, 25 percent
3 with the Company.

4 CHAIRMAN GOLDNER: Okay. Very good.

5 And how does that compare to Mass.?

6 MR. HORTON: In Massachusetts, it's
7 the same, except that the debt band is 100 basis
8 points. So in Massachusetts, earnings sharing
9 will kick in when earnings have exceeded 100
10 basis points above the authorized amount.

11 CHAIRMAN GOLDNER: Okay.

12 Commissioner Chattopadhyay, any
13 questions on that aspect?

14 CMSR. CHATTOPADHYAY: No, I think I'm
15 all set.

16 CHAIRMAN GOLDNER: And there's no --
17 no max on that. It just goes to infinity. If
18 the Company makes 20 percent, then it's 75/25.
19 It's 20 minus whatever the rate of return was,
20 and then you just -- the Company keeps 25
21 percent, and the ratepayers get 75 percent.
22 There's no cap?

23 MR. HORTON: Correct.

1 CMSR. CHATTOPADHYAY: Just out of
2 curiosity, again, was that -- was what you shared
3 about Massachusetts, that was your initial
4 proposal, or that was --

5 MR. HORTON: Great question. If
6 memory serves, so the Massachusetts PBR, we're in
7 our second iteration. So the original
8 performance-based ratemaking was in a docket from
9 2017, which is going back a bit. But if memory
10 serves, we had proposed a larger debt band in
11 tiers in that case, if I recall, which was really
12 a legacy from PBR that had been in place in
13 Massachusetts from decades prior.

14 So my recollection is, we had proposed
15 to have different tiers of sharing and broader
16 debt bands above the authorized. Ultimately, the
17 Department, in that case, if I recall,
18 established the 100 basis point threshold, and
19 then 75 percent to customers, 25 percent to the
20 Company thereafter, which, in this proceeding, I
21 believe we just proposed to continue.

22 And it is asymmetrical. There's not a
23 sharing that kicks in if we were to under-earn.

1 We do have a proposal in the proceeding, only in
2 the event that our PBR is extended to a next
3 term, but we're not proposing that there's an
4 automatic earnings share on the downside here.

5 CMSR. CHATTOPADHYAY: Do the
6 consultants have anything to say about ESM, how
7 it's used as part of PBR, generally speaking?
8 And I'm looking at -- I'm trying to understand
9 what is the reality in -- in U.S. mostly.

10 MR. KOLESAR: I'm probably more
11 familiar with the Canadian context. The U.S.
12 context is pretty much limited to Massachusetts,
13 and we pretty much heard that the original plans
14 that were adopted in Canada generally didn't have
15 an earnings sharing, because the expectation was
16 that earnings sharing would blunt the incentives
17 for the Company to find all of the efficiency
18 gains that they could, recognizing that consumers
19 benefitted in two ways.

20 One, it would benefit by the fact that
21 the prices that they were paying would be capped
22 for the entire term. And then they would
23 ultimately benefit at the end of the PBR term

1 when the costs and revenues were relinked, and at
2 that point, everything would be rebased, and the
3 efficiency gains that the Company would have
4 achieved during the PBR term would then flow
5 through and be accounted for when you reset rates
6 at the commencement of the next PBR term. So
7 those initial plans didn't include any earnings
8 sharing. The most recent plans in Alberta do
9 actually have an earning sharing mechanism.

10 So, depending on what the Commission
11 wants to achieve -- the Commission, obviously,
12 has latitude with respect to what their
13 objectives are and what kind of a sharing they
14 want to include and when they want that sharing
15 to actually occur.

16 So, different regulators sometimes
17 take a different approach to whether they're
18 going to put earning sharing into a plan and what
19 the structure of that earning sharing should be,
20 based on what they ultimately want to achieve.

21 CMSR. CHATTOPADHYAY: If you remember,
22 what is the sharing mechanism in Alberta?

23 MR. KOLESAR: I have that somewhere.

1 Just let me find it.

2 In the current plan, there's a
3 symmetrical earning sharing mechanism with a debt
4 band of 200 basis points, so the earning sharing
5 only kicks in when the ROE is 200 basis points --
6 200 basis points above the approved ROE. And
7 then, between 200 basis points and 400 basis
8 points above the approved ROE, the Utility
9 retains its 60 percent, and customers receive 40
10 percent. And above 400 basis points above the
11 approved ROE, the Utility retains 20 percent and
12 customers keep 80 percent.

13 So it's a very different perspective,
14 and I would suggest that the perspective, at
15 least in Alberta, leans toward maximizing the
16 incentives for the Utility to find all the
17 efficiency gains that it can, so it's going to be
18 fairly immediately rewarded for that. And then,
19 of course, when you get to the rebasing, a lot of
20 those efficiency gains ultimately flow through.

21 So it's -- it's just a different
22 perspective on what the Commission's trying to
23 achieve there with respect to its PBR plan. It's

1 not what the Company currently proposes here.

2 CMSR. CHATTOPADHYAY: Thank you. I'm
3 all set.

4 CHAIRMAN GOLDNER: All right. And
5 then the final variable in the main equation is
6 the exogenous cost adjustment, Z.

7 MR. HORTON: And so that is a
8 mechanism that is to be rarely used. It would be
9 an adjustment that would need to be based on
10 some, like, discrete triggering event, a change
11 in tax law, a change in regulation that requires
12 us to do something that's not reflected in our
13 cost basis or otherwise, you know, accommodated
14 through the mechanism, so it's not something that
15 we expect to be using frequently. But it would
16 be an event where, if there's a tax change, a
17 federal change in taxes, to me is the perfect
18 case, our rates have been set assuming 21
19 percent, and if rates -- corporate tax rate is
20 adjusted to something other than that, like it
21 was a few years ago -- it went to 35.1. To me,
22 that would be the prime example of an exogenous
23 event.

1 Others could be if there's a specific,
2 you know, piece of legislation that requires a
3 pole replacement plan, to a level that doesn't
4 exist today, it would be a discrete triggering
5 event that has a cost associated with it, that
6 exceeds a level of materiality, we would then
7 propose to have an exogenous adjustment.

8 We determined the level of materiality
9 based on -- there was previously in New Hampshire
10 an exogenous threshold set at a million. We
11 applied inflation to that over the period of time
12 since that was established, which got us to
13 roughly 1.3 million, and then we rounded up. So
14 our exogenous threshold is one and a half
15 million. If we have a triggering event that
16 results in a cost change, up or down, of one and
17 a half million or more, that would then cause us
18 to submit a filing, requesting a cost change, up
19 or down, of the full amount. If it's a \$1.8
20 million item, credit or cost, we would seek to
21 credit or collect that through rates.

22 CHAIRMAN GOLDNER: Okay. And then,
23 we'll talk more about the inner workings of your

1 DSP and your Company solar PV, but where can we
2 find that in the equation? Where does that
3 investment show up?

4 MR. HORTON: Yeah, so it's -- that
5 would simply be if -- and there are -- going back
6 to the K-bar calculation, it would show up there.
7 The way it would show up is, right now, when we
8 talked about the capital forecast of our core
9 investments, we're setting that, not taking into
10 account two general categories of capital, but
11 we're calling grid modernization as one, and then
12 co-optimization is the other.

13 The grid modernization capital
14 investments, which are outlined in our DSP, are
15 certain resiliency, reliability, enhancements,
16 Company-owned solar.

17 And then the co-optimization, we have
18 a couple of examples on the horizon. Again, it's
19 not often, but the idea would be that if, through
20 this proceeding, the Commission agrees that we
21 should be pursuing both categories, being the
22 grid modernization, including those Company-owned
23 solar addition and co-optimization, we would

1 simply be adjusting the way the cap is applied to
2 allow for those infrastructure investments to
3 work their way through the K-bar mechanism, just
4 like anything else. Whereas, today, we're not
5 intending to move forward with those and
6 incorporate them into the cap to be calculated.
7 To do so would require an adjustment to the cap.
8 And then they just naturally look through the
9 K-bar piece of this.

10 CHAIRMAN GOLDNER: Okay. That was
11 complicated, so I'm going to see if I can just
12 make sure I zero in.

13 So I think that both the DSP and the
14 Company-owned solar and, really, all capital
15 investments, I think what you said, was that's
16 it's all captured in the K-bar -- in the K-bar
17 analysis. So everything is in there. There's
18 nothing that falls outside the K-bar analysis?

19 MR. HORTON: That's correct. Except
20 that -- well, I'll try to say it more succinctly
21 than I did the first time. I apologize.

22 So the idea is that we have a base
23 capital expenditure forecast, which does not

1 reflect the grid modernization investments or the
2 co-optimization investments. It's not reflected
3 in the capital forecast that we have based our
4 K-bar calculus on.

5 CHAIRMAN GOLDNER: But the actual
6 investment would be subject to the same limits of
7 your K-bar calculation, or the K-bar would
8 increase, depending on the Company's investment
9 in those two areas?

10 MR. HORTON: So if we get the green
11 light through this proceeding; that, yes, we want
12 to move forward with grid modernization
13 investments and the co-optimization investments,
14 which are not currently in our forecasted
15 capital, then we would do that. We would move
16 forward with that -- with those costs, those --
17 the revenue support would come through the K-bar.
18 There would be no other tracker or other change.

19 All that I'm saying is that the cap
20 calculation for the K-bar, which is based
21 currently -- and we talked earlier about the fact
22 that our current forecast, we're snapping the
23 chalk line on that right now. It won't change.

1 But the forecast that we provided in
2 Exhibit ES-DPH-2, that's where we calculate --
3 you had asked earlier, couldn't you have just
4 given us a straightforward calculation of the
5 cap? We saw -- we actually did that in ES-DPH-2.
6 That doesn't include those two categories of
7 costs.

8 So the cap right now is set. It's set
9 at a level that doesn't include those. If we
10 were to move forward with these categories of
11 costs, we would simply be adjusting the cap to
12 reflect those categories of cost, so that we
13 wouldn't be, basically, spending above the cap
14 and not have the revenue support for the spending
15 above the cap.

16 CHAIRMAN GOLDNER: Okay. That's
17 helpful. And then, what would be the process
18 from the Company's point of view of -- for moving
19 forward with any of those projects that are
20 currently outside of the K-bar cap?

21 MR. HORTON: So for co-optimization
22 investments, again, we see -- we're aware of two
23 opportunities currently. And what we would

1 intend to do is notify the Commission that we
2 have -- because these are customer-driven
3 projects, largely out of our control, requires
4 the customer to engage with us.

5 CHAIRMAN GOLDNER: Is this, like,
6 Manchester Airport? I kind of remember the
7 filing. Was this one of them, or no?

8 MR. HORTON: Yes.

9 CHAIRMAN GOLDNER: Yeah, we're just
10 trying to understand, what is a co-optimization
11 project? And there were two mentioned, and if
12 you could just remind us what they were.

13 MR. HORTON: So it's the -- Mr. Renaud
14 can --

15 MR. RENAUD: Yeah, one of them was
16 Manchester Airport. The second was the Northern
17 Reliability Project, which these are
18 associated -- these are projects that are
19 associated with customers who want us to do
20 something, but we can go further and further
21 other objectives and serve better other
22 customers, not just the direct customer that's
23 asking for the service from us.

1 CHAIRMAN GOLDNER: Okay. So when you
2 say "co-optimization," that means that some of
3 the costs are, sort of, paid for by the customer,
4 and some are paid for by the Company, and,
5 therefore -- but you're not including it in the
6 K-bar, so that would be a separate process that
7 would be pursued in order to move forward with
8 those projects?

9 MR. HORTON: What we would do is, when
10 one of these projects comes to fruition, and we
11 have a customer-driven request, we look at it and
12 say -- to benefit the overall system, not just
13 for this customer, but there's an opportunity for
14 us to co-optimize investment, which will benefit
15 other customers, and wouldn't be appropriate for
16 us to charge all those costs to a single
17 customers.

18 The cost of that co-optimized
19 investment isn't currently in our forecast, but
20 it could be material on its own.

21 CHAIRMAN GOLDNER: It may be a
22 question for Mr. Renaud. The -- so what kinds of
23 costs are paid for by the Company versus what

1 kinds are paid for by the customer? We're just
2 trying to understand what this co-optimization
3 really means from a physical perspective.

4 MR. RENAUD: We would look at what it
5 would take to fulfill the direct ask of the
6 customer. So in the Northern Reliability, you
7 know, if we had to build a line over to the
8 customer, that would take X amount of dollars.
9 If we built it a little bit bigger, a little
10 farther and served other customers, created a
11 tie, in that case, that would serve other
12 customers, there'd be more capacity built into it
13 that the customer doesn't need, but other
14 customers, including the co-op could use. That
15 would be -- that wouldn't be charged directly to
16 the customer. That wouldn't be right for the
17 customer to pay for that.

18 CHAIRMAN GOLDNER: I see. So, sort
19 of, the minimum -- what -- the minimum required
20 is paid for by the customer. Anything over that,
21 to enable more opportunities for the Company and
22 more revenue, potentially, would be -- would be
23 in the Company or ratepayer bucket?

1 MR. HORTON: That's right. And what
2 we would envision is, as this is happening --
3 again, if it's accepted as proposed -- we would
4 notify the Commission, as one of these customer
5 projects -- customer-initiated project is coming
6 to fruition, that this is now coming, and we
7 expect that we would submit an informational
8 filing with the Commission to notify them as we
9 get more information on the timing, the scope,
10 and all of that.

11 CHAIRMAN GOLDNER: So would the
12 Company be seeking pre-approval on such a
13 project?

14 MR. HORTON: So -- no, we're not
15 seeking pre-approval of any of the investment.
16 There's -- all the investment that will flow
17 through the K-bar mechanism will be subject to a
18 prudency review at our next rate case.

19 All we're asking for here is, although
20 it's complicated, at the end of the day, the
21 K-bar and the I minus X is giving us an envelope
22 of revenues, a budget to run the business.

23 Right now, that budget is being

1 capped, because we haven't included these
2 co-optimization expenditures or grid
3 modernization expenditures. So the cap is not
4 contemplating these things happening.

5 With both of these categories, the
6 grid modernization and co-optimization -- we're
7 talking about just the second right now,
8 co-optimization. If it were to be allowed as
9 proposed, all we are envisioning is that the
10 K-bar cap would be adjusted to basically let the
11 revenues flow through the mechanism -- let the
12 cost, I should say, flow through the mechanism.

13 We're not looking for
14 pre-authorization to go ahead and do anything.
15 We're saying that we have an opportunity, and
16 it's going to cause us to spend, whatever it is,
17 30 million more than we thought we would. It's
18 not reflected in our base capital spending plan.

19 So when we come to do the K-bar
20 calculation based on actuals, we would adjust the
21 cap to reflect that there's \$30 million of
22 capital additions that we didn't have in our base
23 plan that we're snapping the chalk line on now.

1 That's really what we're talking about. All that
2 investment be subject to later -- future prudency
3 review.

4 CHAIRMAN GOLDNER: Okay. Can we just
5 play that moving forward quickly. So, let's say
6 it was in two years. I think what you're saying
7 is, the Company would come forward in its annual
8 filing, and inside of its PBR annual filing, the
9 Company would -- the Company would ask for --
10 request an increase in the K-bar, based on the
11 work that it had done to figure out how much the
12 project would cost, and the cost sharing and so
13 forth.

14 And then -- and then, what would be
15 the review process? Would it be something that
16 the Department and the other parties would review
17 before hearing? Or how would that adjustment in
18 the K-bar actually be made? What would be the
19 process for that?

20 MR. HORTON: So, great question. I
21 think, if we go back to -- we were trying to work
22 through what the cap is in a given year, and I
23 can remember we said the cap was like 325

1 million. So in that year, the forecasted
2 expenditure was 295 million. 10 percent above
3 that would say that the K-bar cap was at 325.

4 So let's say that's the math that
5 we're working with. We come out of this case,
6 and in that year, the K-bar cap would only let
7 295 million base go through, up to the 10 percent
8 cap, so 325 would be capped out on the K-bar.

9 And let's say that we had a \$50
10 million co-optimization project come to fruition.
11 As soon as this happens, our plan would be to
12 notify the Commission and, certainly, the docket
13 participants, that this development has happened,
14 and here's -- we have this, now, project that we
15 would like to move forward with, and would be
16 treated under the K-bar, as I'm trying to
17 describe, and it's \$50 million.

18 So, now, we would come in -- and let's
19 say, we all otherwise spent the 295. We were not
20 otherwise over the cap. We were at 295. We
21 spend the \$50 million for this co-optimized
22 project, which would put us at 345. So on its
23 own, that would put us above where we had

1 forecast and above the 10 percent cap of 325.

2 What we would be doing is, we would be
3 having an exception to the cap, to basically say,
4 well, the \$40 million co-optimization project put
5 us over the cap, so we're going to exclude that
6 from the cap's component, and then let that 40
7 million naturally flow through the K-bar
8 calculation, as if there wasn't a cap on that
9 piece.

10 It doesn't say that we're uncapped and
11 there isn't the rigor or cost control necessary
12 to get recovery, but it would allow for the
13 revenue support, through the K-bar, to recognize
14 that we have an additional \$40 million, in this
15 example, of valid capital additions that
16 shouldn't be capped out.

17 CHAIRMAN GOLDNER: So, I'm not sure I
18 understood the math. Let me see if I can repeat
19 it back, and I think I'm repeating it back wrong.

20 So the 295, which was your base, and
21 the 325, which was the plus 10 percent, you added
22 50 to the 295, so you get 345. Would you come in
23 and request 20, the difference between 345 and

1 325? Or -- I think you might have said there
2 might be some sort of special, off to the side,
3 process as -- I'm just not sure I understood what
4 you were saying.

5 MR. HORTON: I think -- I don't know
6 the process here, and I know that there's a lot
7 of discussion on that. So I don't want to
8 overstep bound. I think it would really help if
9 we could do an example to show, because what I'm
10 trying to convey is not a separate process or
11 special process.

12 If the example I'm trying to lay out
13 were to happen and there was no exception, we
14 would have moved forward with this project, not
15 in our plan today, and we would then be over the
16 cap and capped out, is the term I'm using. So
17 the K-bar would provide less revenue support.

18 And what we're saying is, while we
19 think it makes sense, and we hope the Commission
20 would find value in us moving forward in these
21 projects, but they're not reflected in -- right
22 now, we're snapping the chalk line on the
23 forecast, and these projects aren't in them.

1 So, really, all we're trying to do is
2 to say, you would do the calculation, so that we
3 wouldn't be capped out on this project. You'd
4 still only reflect, you know, one-third in the
5 K-bar formula, but it's just that the math that
6 would lead you to the K-bar adjustment wouldn't
7 be capped out for that one component.

8 CHAIRMAN GOLDNER: Yeah, I think it
9 would be very helpful to have an example for that
10 on Tuesday, because I think this is all sort of
11 related.

12 MR. HORTON: Yes.

13 CHAIRMAN GOLDNER: Anything
14 that's outside -- so K-bar, the way that we read
15 it the first time, I was thinking, okay, well,
16 there's a fixed number. That's easy to
17 understand what the limit is. Maybe just
18 increase it to the limit instead of having a 10
19 percent thing. But, in any case, easy enough to
20 understand.

21 But then, if there's this other
22 process coming on top of it, how exactly does
23 that work? I think it would be probably

1 interesting for everybody, but certainly for the
2 Commission to understand, you know, how the
3 process would work, not only from a numbers
4 perspective, but also from an annual filing and
5 this kind of thing. We would just want to know
6 more about how this -- how the Company is
7 proposing that it works.

8 Commissioner Chattopadhyay, I think you
9 had a question.

10 CMSR. CHATTOPADHYAY: Yes. Going back
11 to the discussion on exogenous costs. I'm
12 reading from your testimony, and Bates page 1420,
13 it says: Currently, there are two matters that
14 could trigger the exogenous events recovery
15 mechanism.

16 And you talk about costs to implement
17 functionality related to the PUC 2200 rules
18 governing municipal aggregation and the New
19 Hampshire statewide data-sharing platform.

20 I think when you were describing it,
21 you talked about the change in tax codes. You
22 also mentioned something about legislative
23 changes, if I heard it correctly. You're

1 probably describing the legislative changes piece
2 here or -- I want to understand this piece a
3 little bit more. So those two things can
4 potentially be the exogenous cost in the future?

5 MR. HORTON: Yes. It would be a
6 federal or state tax change or regulation, a
7 change in law that has a cost component to it, or
8 an act of the Commission are, generally, the
9 types of things we're talking about. Things that
10 are discrete events that impose an activity on us
11 that's comes with a cost, that's not reflected in
12 our rate.

13 So those are examples where there's
14 the potential for us to need to incur additional
15 cost in support of the two examples you mentioned
16 that's not otherwise going to be incurred by us.
17 It's not otherwise reflected in our rates. So if
18 there's a triggering event like that that has a
19 cost component that exceeds the materiality
20 threshold, then we would seek to recover that
21 cost for that activity.

22 CMSR. CHATTOPADHYAY: And you also
23 have net metering and energy efficiency programs

1 in the same bucket, sort of?

2 MR. HORTON: Correct. And to be clear
3 on that, because we're proposing to not implement
4 revenue to coupling and proposing to eliminate
5 the loss-based revenue calculation for energy
6 efficiency in net metering, the exogenous trigger
7 for those activities would only be if the
8 programs themselves expanded in scope. So if
9 there were some change in legislation or
10 regulation that changed the size of those
11 programs, that would trigger the need for -- it
12 would trigger -- make the loss-based revenue
13 exceed that threshold, then it would result in us
14 making a proposal, and, again, it would be
15 subject to the scrutiny of the Commission, of
16 other stakeholders.

17 This isn't to try to be a catchall for
18 things that just happened. It's an isolated
19 event that couldn't be foreseen that would be
20 material. We're trying to just allow for the PBR
21 plan to continue and catch things that would be
22 material on their own.

23 CMSR. CHATTOPADHYAY: Thank you.

1 CHAIRMAN GOLDNER: So I want to
2 return -- we didn't quite get all the way through
3 K-bar before the gory details so that we wouldn't
4 want to pass up the opportunity to go through all
5 of that. I'm on 1436. We'll come back to that
6 in a minute, but a couple of other high-level
7 questions.

8 In the big picture, I think PBR
9 replaces -- my question is, does it replace
10 loss-based revenue in its entirety at the
11 Company, or are there still some pieces of that
12 that remain?

13 MR. HORTON: So, no, it replaces --
14 we're proposing to eliminate loss-based revenue
15 with the implementation of this plan. There are
16 times where there's like a lag period, where we
17 need -- the rate may stay in effect longer,
18 because there's a period of recovery that extends
19 -- it's for a prior term, but extends beyond.

20 So that, I would need to refresh my
21 memory on those specifics. But with the
22 implementation of new rates in this proceeding,
23 we are proposing to eliminate loss-based revenue

1 going forward, again, unless there's an exogenous
2 rate-based event.

3 CHAIRMAN GOLDNER: Okay. And so, this
4 is just a reconciliation, is what you're saying
5 there might be on that?

6 MR. HORTON: Correct.

7 CHAIRMAN GOLDNER: Okay. And the
8 Company never had coupling, so there's -- it's
9 not proposing decoupling. It's eliminating
10 loss-based revenue, and all of that gets replaced
11 with PBR; is that fair?

12 MR. HORTON: And we have -- as part of
13 our prior Settlement Agreement, there was a
14 commitment to have a decoupling proposal. So we
15 have honored that commitment, but we are
16 proposing to not implement that. But there is a
17 proposal -- in fact, there was an element of our
18 filing that includes decoupling, should the
19 Commission seek to move forward.

20 CHAIRMAN GOLDNER: Okay. Thank you.
21 And just to summarize this long conversation,
22 before we just go back to finish up on K-bar.

23 I have tried to add everything up as

1 we went through this. I believe that in, at
2 least, Year 1, the inflation would be about \$10
3 million. The CD is pretty small, less than a
4 million. The K-bar would be about 20 million, if
5 we average, if we said -- the double is 42, but
6 it's basically 20 million a year, if we even it
7 out.

8 And so, if we assume no exogenous
9 events, which it sounds like is probably a bad
10 assumption, because there's four projects that
11 the Company has highlighted, but if we assume
12 none, then the increase, sort of, on average over
13 the course of this -- over the course of this,
14 you know, rate case would be about 30 million a
15 year; am I in the right ballpark?

16 MR. HORTON: Yes.

17 CHAIRMAN GOLDNER: Okay.

18 MR. HORTON: The exogenous, I just --
19 I'm getting fine, though, the -- I mean, I don't
20 have an expectation of exogenous. Again, those
21 are trapdoors. I know I was confusing matters,
22 and I'm talking about the co-optimization. Those
23 wouldn't be an exogenous event, not as we

1 proposed it.

2 So I think, in the supplement to the
3 response where we provide the example, we can
4 better articulate how we are planning to account
5 for co-optimization and grid modernization.
6 Those wouldn't be in the exogenous category.
7 That would truly be, again, a discrete,
8 unforeseen circumstance that happens at some
9 point in the future.

10 CHAIRMAN GOLDNER: Okay. So
11 difference -- thank you for that. So exogenous
12 events are things like tax law changes --

13 MR. HORTON: Right.

14 CHAIRMAN GOLDNER: -- and changes in
15 the law and so forth. That's -- that's what
16 you're -- that's the category.

17 These -- let's call them
18 opportunities, for grid modernization,
19 co-optimization, would fit squarely inside the
20 K-bar scheme, though, it's not included in the
21 Company's forecast here.

22 MR. HORTON: Yes.

23 CHAIRMAN GOLDNER: Fair enough?

1 MR. HORTON: Yes.

2 CHAIRMAN GOLDNER: Okay. Thank you.
3 Okay. And I keep promising to get back to K-bar,
4 but I can't quite get there.

5 On grid mod, is there anything
6 different about that than what you described in
7 the co-optimization projects and the way that it
8 works inside K-bar and so forth?

9 MR. HORTON: Effectively, no, except
10 that it's Company driven, rather than customer
11 driven. So the way that we would handle it
12 mechanically would be the same. The way that it
13 would work -- again, we can describe this -- it's
14 not dependent on a customer's decision-making
15 process, so there's -- but, mechanically, it
16 would be the same.

17 CHAIRMAN GOLDNER: Okay. And then,
18 I'm not quite able to follow, back on
19 Company-owned solar and DSP. Where, again, did
20 that fit in? I must have missed that.

21 MR. HORTON: Well, simply -- take a
22 step back. You know, you were asking around,
23 well, how do we get into our decision-making

1 process? How do we ensure we don't
2 over-engineer?

3 The DSP -- and the panel that will
4 speak to it more fully, will do much better than
5 I.

6 But the DSP was our attempt to explain
7 that with our initial filing, so it's a holistic
8 approach to how do we plan for the distribution
9 needs on the system, which all feeds into our
10 capital plan, which is part of the K-bar, right.

11 CHAIRMAN GOLDNER: So it is -- you
12 said before, and I think I just -- it's getting
13 late in the afternoon. It's embedded in the
14 K-bar, so both community-owned solar and DSP are
15 embedded in your K-bar already?

16 MR. HORTON: The DSP is a
17 comprehensive document that includes our core
18 capital planning. It references as well the
19 co-optimization investments. It references grid
20 modernization investments. It references
21 Company-owned solar. So all those things are
22 outlined in the DSP, including how we plan for
23 all those things.

1 The K-bar is fashioned after the
2 capital reflected in the DSP, but only the core
3 capital. We didn't try to -- the K-bar right
4 now -- the cap, effectively, doesn't take into
5 account grid modernization investments, which
6 wouldn't be pursued in the absence of a green
7 light to do that. And the -- including the
8 Company-owned solar. And it also doesn't include
9 and reflect the co-optimization investments.

10 All this we can better describe in
11 writing, because I know I'm not doing well right
12 now.

13 CHAIRMAN GOLDNER: No, no. This is
14 actually very helpful.

15 So, basically, the co-optimization,
16 the grid mod, and the Company-owned solar are
17 subsets of the DSP? The DSP is the
18 overarching --

19 MR. HORTON: Yes.

20 CHAIRMAN GOLDNER: Okay. And then, so
21 you've got pieces inside the DSP, these three
22 pieces, and maybe there's some other little
23 chunks in there, that are not part of your

1 currently proposed K-bar, and what you're
2 highlighting to the Commission and the parties is
3 that that's -- that's not in your K-bar, and that
4 that is, you know, a process that needs to be,
5 sort of, fully fleshed out.

6 MR. HORTON: Exactly. And it's just
7 simply that, in the absence of a K-bar that's
8 adjusted to accommodate those investments --
9 that's all it would be, is an adjustment to the
10 K-bar. In the absence of those -- that
11 adjustment happening, these projects would be
12 de-prioritized, wouldn't be pursued in the
13 short-term. That's it.

14 CHAIRMAN GOLDNER: Okay. Okay. Thank
15 you. That's very --

16 Commissioner Chattopadhyay, any
17 follow-up on those topics?

18 CMSR. CHATTOPADHYAY: No. Thank you.

19 CHAIRMAN GOLDNER: Yes, let's take a
20 quick break. We'll come back at 5 till, and then
21 we'll wrap up today somewhere between 4 and 4:30.
22 Off the record.

23 (Recess taken.)

1 CHAIRMAN GOLDNER: We'll pick back
2 up -- back on the record -- with, sort of, the
3 rest of the PBR plan. There's a couple of areas
4 that we haven't covered. Some of them might be
5 easier than others, but maybe the Company can
6 just go through the term and stay-out period and
7 the Company's proposal on those.

8 MR. HORTON: Yes. So, the term would
9 allow for three PBR adjustments, so August 1,
10 2026, '27, and 2028, so that the earliest we
11 could file for a rate case with new rates
12 effective August 1, 2029.

13 We did, in response to Puc 3, though,
14 present an alternate framework. Not to get too
15 far, but that framework had a K-bar adjustment
16 taking effect commensurate with affirmative rates
17 in this proceeding in lieu of what we have
18 proposed in our original filing, which was to
19 have permanent rates include 2024 investments as
20 well.

21 But, effectively, that's the idea, is
22 that you have a PBR framework with a stay-out of
23 four years. Earliest that we could file a rate

1 case, August 1 of 2029.

2 CHAIRMAN GOLDNER: Thank you. And
3 then, there's the sort of follow-on where there's
4 a proposal for, sort of, a continued -- continued
5 process. How would that work?

6 MR. HORTON: By December of 2028, we
7 would submit a request to the Commission to
8 extend the PBR term and ask for the Commission to
9 rule on that within 60 days, such that, if the
10 PBR could be extended for another four years, we
11 would then be able to make a subsequent PBR and
12 K-bar filing on August 1, 2029. Or, if not, if
13 it's decided to not extend, that we would be in a
14 position to file a rate case for temporary rates
15 effective August 1, 2029.

16 CHAIRMAN GOLDNER: So this process,
17 this extension process, would be, sort of,
18 independent of it rate case filing? It would be
19 just a separate -- a separate process?

20 MR. HORTON: It would be a separate
21 process, and, you know, if the request were made,
22 it would be in lieu of a rate case filing.

23 CHAIRMAN GOLDNER: I see.

1 MR. HORTON: It would be essentially
2 saying, we have a four-year term, and from our
3 perspective, it's working. Our revenues are
4 sufficient enough for us to continue with this
5 framework, and so we are asking the Commission to
6 extend it another four years. Or, in the
7 alternative, since the plan would expire and the
8 PBR wouldn't continue, we would be in a position
9 to file a rate case for temporary rates, August
10 1, '29.

11 CHAIRMAN GOLDNER: So, really, the
12 Company would inform the Commission, I think you
13 said 2029, whether you were going to -- whether
14 you would request a continuation PBR or not.
15 Either way, I guess you would file. And if you
16 requested -- I guess in both cases, it would
17 follow with a rate case, or how would it work?

18 MR. HORTON: No, if on the one hand --
19 if we don't extend, then we would be filing a
20 rate case for rates effective August 1st, 2029.
21 So sometime in early of 2029, we would -- there
22 would not be a PBR filing, because the term will
23 have expired. We will instead file, just like we

1 are today, a rate case for temporary rates
2 effective August 1, 2029. That's one scenario.

3 If, though, the PBR revenues are
4 keeping pace and we don't see the need or value
5 in filing for a rate case, we would submit a
6 request to the Commission -- after working with
7 the DOE and the OCA, to incorporate any feedback
8 that we can, we would submit a request to the
9 Commission to continue the PBR for four more
10 years.

11 And that would mean there wouldn't be
12 a rate case filing. It would just mean that on
13 August 1, 2029, no rate case filing. We would
14 propose -- just like we would have for August 1,
15 '28, '27 and '26, we would have a PBR and K-bar
16 adjustment that would go into effect August 1,
17 '29.

18 CHAIRMAN GOLDNER: Okay. Thank you.
19 All right. That's clear.

20 All right. Now, at long last, we can
21 go back to K-bar and wrap that up. I know there
22 were a lot of details that were in the middle of
23 the spreadsheet that we were hoping to go

1 through.

2 And I'm on 1436, and I think that was
3 at least the starting place.

4 MR. HORTON: Yeah. Do you have a
5 question, or how would you like to proceed?

6 CHAIRMAN GOLDNER: It was just
7 really -- we went over the big picture, I think,
8 on Lines 12 through 16 and how that was
9 calculated. And then we went to the bottom of
10 the spreadsheet, and we looked at the deltas, and
11 you explained how that worked, on Lines 53 through
12 56, and that made perfect sense. I'm just trying
13 to understand what's in between, and how should
14 we think about that.

15 MR. HORTON: Sure. Just one moment.

16 CMSR. CHATTOPADHYAY: Do mention the
17 worksheet number as well.

18 MR. HORTON: Yes.

19 So if we look at Excel Column N, Excel
20 Row 34, which, in the pdf -- sorry, I have to
21 adjust my view again. So pdf Row 20. I'm on the
22 Tab 3, K-bar Detail, in the Excel. It's just
23 1436 in the pdf.

1 And we just go to Column N. August 1,
2 2026. If you look at the K-bar additions, which
3 we walked through, \$251 million, so I think we've
4 covered how that line is calculated.

5 Up top, we're also referencing
6 supporting pages that's calculating cost of
7 removal, retirements, and accumulated deferred
8 income taxes, or ADIT.

9 And we can go through each of those
10 tables -- tabs. I will probably need some help.
11 But if we just jump down for a moment and stick
12 with additions first to start.

13 So if you look at Excel Row 41,
14 staying in the August 1, 2026, Column N, which is
15 Line 27 on the pdf, Gross Plant Beginning, that's
16 -- conceptually, that's rolling forward, if you
17 were to look to the left. It's starting with our
18 castoff rate, gross plant. And so, from our rate
19 case, you'd be able to tie out the ending gross
20 plant, per our cost of service, of 2.7 billion --
21 2.76 million.

22 And then it's just adding to it.
23 K-bar additions, as we calculated and we walked

1 through above, right? So it's taking the
2 additions, the three-year average, inflated at
3 GDP-PI, saying here are what the K-bar additions
4 to rate base are, based on the calculation of the
5 K-bar methodology.

6 So you can see on Excel Row 42, pdf
7 Line 28, the K-bar plant additions of 251
8 million, that's what's calculated on the line
9 above I was just referencing, the same 251. So
10 that's going through that tab where we walked
11 through. It's showing, how do you derive that
12 251.

13 The same thing is happening on the
14 retirements, which is happening on the next line,
15 Line 43, K-bar Retirements. It has its own tab.

16 CHAIRMAN GOLDNER: What does that
17 mean, K-bar Retirements?

18 MR. HORTON: Similarly, for the
19 additions, we're also -- when we do the K-bar
20 rate base, we're reflecting in K-bar rate base
21 gross additions, as well as retirements. So it's
22 essentially doing the same K-bar philosophical
23 math to say, what is the theoretical rate base in

1 the rate year, applying the same concept of
2 three-year moving average, inflated to the rate
3 year.

4 CHAIRMAN GOLDNER: Why doesn't the
5 K-bar itself include -- or maybe it does --
6 include the retirement. I would think would be
7 netted.

8 MR. HORTON: It is. That's what's
9 happening here.

10 CHAIRMAN GOLDNER: Okay.

11 MR. HORTON: We're netting them here.
12 Showing the math that nets out retirements,
13 exactly.

14 CHAIRMAN GOLDNER: Okay.

15 MR. HORTON: And that's the negative
16 36 on the row labeled 29, Excel Row 43, K-bar
17 Retirements.

18 All I'm saying is there's a separate
19 tab showing the calculation. You'll see it looks
20 just like the additions tab. It's starting with
21 actuals. It's inflating it by inflation. It's
22 taking a three-year average. That's where the
23 36 million deduct comes from for retirements.

1 CHAIRMAN GOLDNER: Okay. Thank you.

2 MR. HORTON: So that gets you to --
3 I'll call it a K-bar gross plant of 3.534
4 billion, August 1 of 2026. Conceptually, we're
5 starting with the known approved -- as if this
6 rate case was filed and approved as filed, the
7 known approved, you know, rate base, net plant
8 additions, and rolling it forward, based on the
9 K-bar logic, and I'm just zooming in on August of
10 '26, to try to articulate and facilitate the
11 point.

12 Depreciation is the same. Just give
13 me one moment. I went to make sure.

14 So I -- depreciation expense is
15 calculated on Excel Line 61 or pdf Line 47. So
16 you can see it's labeled Depreciation Expense on
17 Tab 3, K-bar Detail, and I'm still on Bates 1436.

18 So you can see, August 1, 2026,
19 there's 114 million of depreciation expense, and
20 that's saying if I take the -- if you're in the
21 Excel, you can perhaps see it better, but the
22 note clarifies how it's done as well. So it
23 takes -- it's essentially saying, based on the

1 K-bar math of plant additions, what is the
2 depreciation expense that could be expected in
3 that year.

4 So, mathematically, what's happening
5 is, it's taking the current year's ending balance
6 of plant from Line 30, and the prior year ending
7 balance of plant also from Line 30, or Excel Row
8 44, and multiplying it by the depreciation
9 expense rate, the composite depreciation rate,
10 also assumed to be approved in this proceeding.

11 And so that math is simply taking
12 3.319 billion, which is Column M, plus 3.534
13 billion in Column N, gross plant ending -- the
14 K-bar calculation of gross plant ending, August
15 1, 2025, and August 1, 2026, and then multiplying
16 it by the depreciation rate, which is 3.32
17 percent. So to say, in that rate year, the K-bar
18 depreciation expense will be 114.

19 That expense is also reflected --
20 again, the whole idea -- and I think you want me
21 to, but I'm way down in the details, but the idea
22 here is we're trying to get to what is a K-bar
23 rate base. Because the idea we're buying into is

1 that K-bar rate base is a theoretical rate base,
2 not giving us dollar-for-dollar recovery, but
3 saying, this is what, based on PSNH's
4 spending brought -- recent spending trends
5 brought forth to today, we can say that
6 rate-based needs to be. So we're trying to
7 figure out, what is that theoretical rate base.

8 So we're calculating the gross plant
9 on the first lines that I walked through,
10 including plant additions and retirements. Now
11 we're calculating accumulated depreciation. So
12 that's what's happening here. We're starting
13 with the accumulated depreciation from the cost
14 of service and rolling it forward, for a
15 theoretical K-bar accumulated depreciation. So
16 that's what happening on Excel Lines 46 to 50, or
17 the pdf lines labeled 32 to 36.

18 And we do the same thing on ADIT or
19 accumulated deferred income taxes. It's the same
20 thing, where you go to -- one second. Yeah, we
21 have an ADIT, Tab 7. I'm not going to go through
22 it. If you look at it, it looks the same as the
23 additions tab, as the cost of removal tab, as the

1 retirements tab. They all look the same, because
2 they're all starting with actuals, inflated based
3 on the PBR, to get to the rate year, and then
4 taking a three-year average. They're all
5 calculated very similarly.

6 So we're doing the same, sort of,
7 exercise for all components of rate base to get
8 the -- again, the theoretical K-bar rate base.

9 So ADIT is factored in on Line --
10 Excel Line 56, labeled 42 in the pdf. And,
11 again, it's doing the same thing. It's starting
12 with the cost of service, ADIT, rolling it
13 forward for the K-bar calculus, like I just said,
14 to get to ADIT, which is an offset to rate base,
15 like accumulated depreciation. The ADIT balance
16 is a deduct of 413 million.

17 Which all gets us to an ending K-bar
18 rate base, on Line 58 or pdf 44, back on Tab 3,
19 K-bar Detail, of 2.24 -- 2.224 billion for August
20 1, 2026.

21 CHAIRMAN GOLDNER: And how do we
22 correlate Line 44 on the pdf, the ending K-bar
23 rate base, to the lines below? How does that --

1 how do we do the math there? Unfortunately, I
2 have the pdf. Commissioner Chattopadhyay has
3 probably already figured this out.

4 MR. HORTON: So the depreciation
5 expense, on Line 47 or Excel Line 61, is what I
6 described previously. So it takes the ending
7 plant balance times the approved composite
8 depreciation rates from this proceeding.

9 Rate base takes the line that you just
10 asked me about. It takes the average rate base
11 for the prior year, so 2.084 billion; in the
12 current year, 2.224 billion, times the pretax
13 return on rate base, which is shown in -- it's --
14 in Excel, it's Column C, Row 62, 9.482 percent.
15 On the pdf, it's going to be pretax return on
16 rate base, again, as per this proceeding.

17 Do you see that?

18 CHAIRMAN GOLDNER: No, I'm actually a
19 little bit lost. So if we just start on
20 depreciation expense, there's a column that shows
21 3.32 percent.

22 MR. HORTON: Correct.

23 CHAIRMAN GOLDNER: And it's 3.32

1 percent of what number on the spreadsheet?

2 MR. HORTON: That column is -- 3.32 --
3 it's taking the average of the -- beginning and
4 ending net plant balance from Line 30, Excel Line
5 44. The beginning and ending gross plant
6 balance, I should say. I think I said "net
7 plant." Gross plant balance. So it's the K-bar
8 gross plant, calculating depreciation expense,
9 which is calculated on gross plant investments.
10 So it's taking 3.32 percent times the average of
11 Line 30 from the prior year and the current year.

12 CHAIRMAN GOLDNER: So just to drive it
13 home, it's taking 3194 plus 3534, taking a simple
14 average, and then multiplying that by 3.32
15 percent?

16 MR. HORTON: Yes, except it's -- you
17 said 3194. It's 3319.

18 CHAIRMAN GOLDNER: I'm looking at the
19 wrong line. I was looking at the 2025 line. I
20 assume you're taking the average of '25 and
21 '26 -- oh, I need, probably, August of '26,
22 right?

23 MR. HORTON: Correct. So it's

1 taking -- actually, it's the July 26, 3319.

2 CHAIRMAN GOLDNER: July 26. Huh.

3 Okay. I'm sorry for being lost on a simple
4 thing. So I see the August 1st, 2026. That's
5 3534. And then where do I go for the August 1st,
6 2025, number?

7 MR. HORTON: So the August 1st, 2025,
8 number is the 3194; you're right. The August
9 1st, 2026, balance -- I'm going to ask for a
10 lifeline here from Jon. (Conferring.)

11 Yeah, so -- so, the reason that we're
12 taking the beginning balance is -- as of August
13 1, 2025, is 3319. What the -- 3534 is really the
14 ending balance as of the rate year, which is
15 starting August 1, '26.

16 So, mathematically, it's saying, what
17 is my beginning balance for that K-bar rate year,
18 starting August 1, 2026. The beginning balance
19 is going to be the balance right before that,
20 which we're calculating in the cells to the left
21 of it.

22 So the balance right to it is 3319.

23 Mr. Kallen was pointing out a detail that that's

1 saying July 2026. In actuality -- so it probably
2 should be one additional month, but,
3 mechanically, it's not going to make a big deal.

4 The point is that, for this first
5 year, you have the monthly calculus happening,
6 and it's saying that for the August 1, 2025,
7 beginning balance, it is 3319. The ending
8 balance as of the end of the rate year, starting
9 August 1, 2026, is 3534.

10 CHAIRMAN GOLDNER: Okay. That makes
11 sense. Otherwise, you added a lot of stuff
12 between the last day of July and the first day of
13 August. So that makes sense, right?

14 MR. HORTON: Right.

15 CHAIRMAN GOLDNER: Because it goes
16 from --

17 MR. HORTON: Right. It was a very
18 busy month.

19 CHAIRMAN GOLDNER: -- 3319 to 3534.
20 Okay. Thank you for that.

21 So now we understand how to calculate
22 the depreciation, and then, now it'll probably be
23 easier to follow along.

1 So how did you calculate the pretax
2 return on rate base? You multiply 9.40 percent
3 times what?

4 MR. HORTON: Times Row 44 on the pdf,
5 or Excel Row 58, ending K-bar rate base.

6 So we're doing the same thing. We're
7 taking the average as of the end of that August
8 1, '26, rate year, 2.224 billion, as the ending.
9 The beginning is 2084 billion.

10 CHAIRMAN GOLDNER: Okay.

11 MR. HORTON: Sum, divide by 2,
12 multiply by that composite pretax return on a
13 rate base.

14 CHAIRMAN GOLDNER: Okay. Very good.
15 And then, the property taxes.

16 MR. HORTON: Same idea, except
17 multiplying that one by a little bit more
18 complicated math, just to reflect the way that
19 property taxes flow into rates. So it's actually
20 taking the net plant balance as a way to
21 calculate the proxy for property tax expenses,
22 relying on net plan investment. So that's taking
23 2483, which is on Row -- pdf Row 38, Excel Line

1 52, for the July 2026 balance. It's taking that,
2 effectively, times the composite property tax
3 expense rate of 1992 percent. But there's some
4 additional math happening, because it's taking --
5 sorry, hold on. (Conferring.)

6 Yeah, so it's basically -- it's
7 basically representing the lag in property tax
8 expense billing, is what I would say, and it
9 would probably be easier if we explain that
10 timing in writing.

11 But basically it's saying, we don't
12 get billed, like, concurrently for property tax
13 expense. It's after the plant is placed into
14 service, and so the property tax expense is
15 incurred and recognized on a lag, and that's what
16 the math is showing there.

17 CHAIRMAN GOLDNER: Because it looks
18 like that's roughly 50 -- the 59 -- or 55,
19 rather, million dollars a year. So what are we
20 really looking at there? That's a property tax
21 lag. How do I think about that 50 million?

22 MR. HORTON: Yeah. No, you're right.
23 It's the property tax expense based on the

1 composite property tax expense rate proposed in
2 this proceeding. It's saying that property tax
3 expenses generally increase with investment for
4 utilities.

5 So we're saying, as our investment
6 base grows, so, too, does property taxes, and
7 we're just calculating a proxy for that based on
8 net plant changes.

9 CHAIRMAN GOLDNER: Okay. Thank you.

10 MR. HORTON: And so that gets you to
11 the sum of those three things: depreciation
12 expense of 114, pretax return on rate base of
13 204, property tax of 49, gets you to a K-bar
14 revenue requirement for the rate year beginning
15 August 1, 2026, of 367, which then carries down
16 to the last thing I'll talk about.

17 Which is simply to say, the K-bar
18 calculus is saying, we should have 367. The PBR
19 gives you 325, which, when we started the day,
20 is, you know, the 319 million of capital-related
21 revenue requirement, inflated by 2 percent, to
22 get you to 325. So then the K-bar adjustment is
23 the difference between the two, 42 million. The

1 42 million is in addition to the 10 million, and
2 is large, relative to every other year, because
3 it's reflecting more years of capital. Whereas,
4 once you transition to the K-bar, then every year
5 is only reflecting one year of capital.

6 CHAIRMAN GOLDNER: And there was
7 something in your filing, I didn't quite follow
8 it. Actually, it was in the Commission's record
9 request, that talked about 31 months versus 24.
10 Can you help us understand what that was all
11 about?

12 MR. HORTON: Sure. So if we just
13 think about that first K-bar going in August 1,
14 2026, and we think if we -- if we go back --
15 which is what the 52 million is based off of.
16 And it's saying that we have plant additions in
17 base rates and the permanent rate that will go
18 into rates August 1, 2025.

19 In our proposal, we have rolled
20 forward additions through '24 into that August 1,
21 2025, calculation. There's a natural disconnect
22 from the way rates are set for that permanent
23 castoff rate and the way the K-bar is designed to

1 collect rates -- designed to set rates. Meaning,
2 traditionally, with an historical test year, that
3 castoff rate, August 1, 2025, is reflecting plant
4 additions on a historical basis and the revenue
5 requirement on that going forward.

6 Now, we're going to be at a point,
7 August 1, 2025, where -- so that means that base
8 rates are set on a cost of service that includes
9 only plant through 2024. Well, we're in 2025 and
10 actively investing in 2025. So, right out of the
11 gate, that castoff rate, temp rate, is lag, and
12 that's just natural. That's how historical test
13 years work.

14 So the first K-bar adjustment is a
15 transition year, to catch up for multiple years.
16 Base rates are going to reflect investment
17 through 2024.

18 The K-bar adjustment that goes in
19 August 1, 2026, by its design, is trying to get
20 to a theoretical level of revenue support for
21 investments that will be made and in service in
22 that rate year, August 2026 through July of 2027.

23 So now, that K-bar adjustment for that

1 first year has to take into account investments
2 in 2025, because those aren't in base rates, and
3 investments made in 2026. So by the first day,
4 that first K-bar goes into effect, if you just
5 take all of 2025, that's 12 months of investment
6 that's not in the rates. Plus, just to get to
7 the first day of the rate year, August of 2026,
8 you're looking at another seven full months, so
9 19 months. And I think that's probably the
10 number you were referencing that didn't make
11 sense, because I wrote it. It's 19 months to --

12 CHAIRMAN GOLDNER: It's -- sorry for
13 interrupting, because you were going to get
14 there. So it was 31, which I couldn't figure
15 out. So 19, I'm with you. How did you get to 31
16 again?

17 MR. HORTON: Because by the end of
18 rate year -- by the end of that rate year is
19 another 12 months. So by the start of that rate
20 year, August 1, 2026, we're going to have to
21 catch all '25, seven months of 2026. So by the
22 start of the rate year, we're catching up for 19
23 months.

1 By the end of that rate year, that
2 K-bar is designed to give us revenue support for
3 all investments made in '26 as well, so it's 19
4 to 36 months of the catchup.

5 CHAIRMAN GOLDNER: Okay. Thank you.

6 MR. HORTON: Sorry, 19 to 31 months.

7 CHAIRMAN GOLDNER: Okay. Thank you.

8 And I think the last question, at least that I
9 have, on K-bar is the -- and I think we talked
10 about this earlier, but I'm not sure I completely
11 tracked.

12 So how can the K-bar -- can you walk
13 us through how the K-bar can become disconnected
14 from your actual investments, your actual capital
15 investments? How would that work?

16 I think I understand the over -- if
17 you spend over your K-bar, then you have to wait
18 until the next rate case, so that part I
19 understand.

20 Could it be disconnected on the other
21 side, if you under-spend?

22 MR. HORTON: It could. It could,
23 mechanically. Either way, because, mechanically,

1 you're taking your most recent three years of
2 actual additions, inflating them, and then
3 effectively taking the average, so you're getting
4 a third of each year in there.

5 What we're seeing is that's not --
6 it's not going to be -- it's not likely to be
7 lower, just based on the demands on the system,
8 but in all scenarios -- well, what we're seeing
9 is -- because of the level of investment that's
10 increasing at a rate greater than inflation,
11 we're showing that, even without having to impose
12 a cap, the K-bar -- and, again, this is part of
13 the design of it. It's supposed to work like
14 this. It's supposed to give us revenue
15 recognition, but not dollar for dollar, and still
16 have lag built in.

17 That we are seeing rate base greater
18 than what's supported through rates. And that's
19 a function of, like I said, effectively, our
20 capital expenditures are increasing at a rate
21 greater than inflation.

22 So when you take the two dynamics, you
23 take -- you're only getting your most recent

1 year, the average is only giving you recognition
2 for one-third of that. It takes three years to
3 catch up to your most recent years of investment
4 in the K-bar. So if you're consistently
5 increasing your investment, you're never -- the
6 K-bar is never keeping up. So you're constantly
7 going to be under, as long as that increase is
8 greater than inflation, and in our experience it
9 is.

10 CHAIRMAN GOLDNER: So, really, I think
11 that the K-bar becomes disconnected from your
12 actual capital investments unless the capital
13 investments exactly equal K-bar. So you're
14 always going to have some kind of disconnect in
15 there. And then, I think we said earlier is, any
16 disconnect gets trued up at the next rate case,
17 and that's the thinking behind the -- dealing
18 with any disconnect.

19 MR. HORTON: Yeah. In all cases,
20 that's right. A rate case would be where you
21 would bring rates back in alignment with costs,
22 yeah.

23 CHAIRMAN GOLDNER: And what -- what

1 does the Company propose those carrying costs
2 are?

3 MR. HORTON: There wouldn't be, so --
4 and I just want to make this point clear. The
5 K-bar is just giving revenues to operate the
6 business in any year. When we come in for a rate
7 case in the future, there's gonna be prospective
8 reviews. There's going to be reviews to say,
9 okay, now our new cost of service is X, based on
10 our actual expense and our actual additions.

11 We're not clawing back whether -- if
12 an investment is found to be imprudent, the K-bar
13 wouldn't be retroactively adjusted. And,
14 similarly, since we have regulatory lag, where we
15 have greater rate base than what the K-bar is
16 giving us revenue support for, there's no request
17 to go back and say, we're going to go get that
18 dollar we didn't collect, with carrying charges
19 today. It's going to be on a prospective basis.

20 CHAIRMAN GOLDNER: Okay.

21 MR. HORTON: All the K-bar is trying
22 to do -- sorry -- it's just -- it's giving us a
23 budget, an envelope of revenues, that's going to

1 more closely track with our costs over time, but
2 still preserve the incentives that we would
3 have -- it's all just to -- to not just file a
4 rate case, to not just come in and say, hey,
5 let's increase our revenues. It's designed --
6 PBR generally, all of it, it's trying to say,
7 give the Company the incentive so they try to
8 maximize their cost savings, they bring out any
9 efficiency they can that helps customers.

10 That's all PBR is trying to do,
11 because the idea of the theory is, if you don't
12 have -- if you can just file a rate case, you
13 will, and then the Company's agenda becomes,
14 let's gear up for rate cases. Let's just get
15 this machine working. And that's the idea. The
16 theory is that's not in the best interests of
17 customers.

18 CHAIRMAN GOLDNER: Okay. Thank you.
19 All right. Anything else you want to ask about,
20 Commissioner?

21 CMSR. CHATTOPADHYAY: No.

22 CHAIRMAN GOLDNER: There's a section
23 called Minimum Return on Equity Trigger. Can the

1 Company walk us through what that means? Is that
2 different than something we've already talked
3 about? It's page 22, Section K, Roman VIII.

4 MR. HORTON: Okay. So that would
5 simply be -- that would only come into play in
6 the scenario where we've extended the PBR. So
7 we've said it's working, and we want to extend it
8 for another four years, and the Commission
9 approves that.

10 What we're looking for there is an
11 off-ramp, because now we're into the second four
12 years. It's eight years from today. Something
13 could go awry, even after having extended it. So
14 this would be an off-ramp to say that, only in
15 that second extended term, if we earn an
16 authorized ROE at 7 percent or below for two
17 consecutive quarters, it would be a signal to us
18 that something has gone awry, and we now need to
19 file a rate case.

20 CHAIRMAN GOLDNER: All right. And
21 then, can you -- can you, at a high-level
22 picture, what is the trigger? How does the
23 trigger work? I mean, what is it? Mathematical?

1 I read the section a few days ago, and now I
2 can't remember how the trigger worked.

3 MR. HORTON: It would be mathematical,
4 so we submit our quarterly distribution returns
5 on equity. So if the actual ROE were to, in that
6 second period, dip below 7 percent, that would
7 allow us to file a rate case, without recourse,
8 if you will. We would simply be able to file for
9 a rate adjustment, go through this process that
10 we're going through now, and start the process to
11 reset rates.

12 CHAIRMAN GOLDNER: And when is the
13 first opportunity to file for that trigger?

14 MR. HORTON: That would be only after
15 we -- so December 2028 would be when we would
16 submit a request of the Commission to extend.
17 Then we would, in this scenario, get that
18 extension and file for a PBR August 1, 2029.

19 So, you know, I guess, technically,
20 it's any point after that. But I would think, if
21 we're making that request of the Commission
22 December of 2028, we're certainly not triggering
23 it in 2029, and I would think it would be

1 unlikely to be triggered in 2030. It would
2 really just be if we're in 2030, 2031, something
3 substantial has happened to us that we didn't
4 know about, you know, basically two years before
5 when we asked to extend this PBR.

6 It would just be an off-ramp in that
7 scenario, in the latter half of that second PBR
8 term, to say, we just can't make it the rest of
9 the way; we need to come in.

10 CHAIRMAN GOLDNER: Because if that
11 happened, you probably wouldn't file on December
12 28, because you probably file a new rate case,
13 right?

14 MR. HORTON: Correct. Yes, we would.

15 CHAIRMAN GOLDNER: Okay. Thank you.

16 CMSR. CHATTOPADHYAY: Related
17 question?

18 CHAIRMAN GOLDNER: Please.

19 CMSR. CHATTOPADHYAY: So, talking
20 about the off-ramp. The way I look at the rate
21 cases in New Hampshire, it's based on test years.
22 So let's say beyond 2029, there's a particular
23 year where you have two consecutive quarters that

1 are producing returns that are below 7 percent,
2 but it turns out it's happening in the first and
3 the second quarter, and the third quarter and the
4 fourth quarter turns out to be you made 25
5 percent return, both of them, hypothetical. So
6 overall, for that particular year, you're still
7 fine, but because you had two consecutive
8 quarters below 7 percent, would you come back
9 with a rate case?

10 MR. HORTON: I mean, that's a great
11 question. I think it's hard in a hypothetical.
12 It's a trigger to say we would have the ability
13 to. Our corporate philosophy is, we would prefer
14 to not have rate cases. So I would think, if we
15 could see that we met this trigger and chose to
16 file a rate case, it would be because whatever
17 has happened is permanent. It's where we would
18 need a rate case to fix it.

19 If it was some temporary blip that
20 would -- essentially, the scenario turned around
21 even before we filed the rate case, because we
22 would have experienced the pain first. Then, as
23 we're preparing the rate case, in this example,

1 it will have already corrected itself. We
2 wouldn't be filing a rate adjustment. We would
3 ride it out. It would really be -- it's an
4 off-ramp, that if something has gone awry and we
5 pick two consecutive quarters -- I was trying to
6 indicate that now, this is -- this is consistent.
7 It's here to stay. And we would have to believe
8 that, too, because a historical test year is
9 still subject to normalization. If there's
10 something that happened that was anomalistic, it
11 would be found through this process, if we didn't
12 find it on our own, so --

13 I know that, mechanically, we have the
14 ability to do it. I think, in reality, that
15 scenario wouldn't result in a rate case to be
16 filed.

17 CMSR. CHATTOPADHYAY: And it could be
18 that in the first quarter, you had an excellent
19 result, second and third quarters were really
20 bad, and the fourth quarter was excellent, and
21 overall for that year, you were still making
22 enough money. So that's why I'm asking. So at
23 that time, you won't come back?

1 MR. HORTON: That's right. That's
2 right. I mean, there's so many hypotheticals
3 that we, generally, would like to use a calendar
4 test year. So if there's quarterly things, like,
5 we're generally going to -- because it's cleaner
6 to use a calendar, so --

7 CMSR. CHATTOPADHYAY: That's where I
8 was going, when it's better to have a look at the
9 entire year. Thank you.

10 CHAIRMAN GOLDNER: And then last part
11 of it, I guess this section of the discussion,
12 there's reliability and performance metrics
13 listed in two of the testimonies. Perhaps you
14 could walk us through how -- how those -- how
15 those work as well. Yes, let's talk about that.

16 MR. HORTON: And we do have the
17 metrics panel here, so good news for all, I will
18 probably not be the one speaking a lot on this.

19 CHAIRMAN GOLDNER: You'll get a free
20 dinner tonight, though, from your colleagues.

21 So we can maybe just start off with a
22 high-level view, maybe orient us to where in the
23 testimony we should be looking, and then maybe

1 just help us understand how the reliability
2 metrics work and the motivation behind the
3 particular metrics that were chosen.

4 MS. GAGNON: Good afternoon. This is
5 Sandra Gagnon with Eversource, Manager of
6 Regulatory Affairs.

7 I will point you to the testimony, and
8 Bates page 1912 is the testimony of Bob Coates,
9 Paul Renaud, Brian Dickie, Warren Boutin, Shamus
10 O'Brien, and Amy Findlay.

11 CHAIRMAN GOLDNER: All right. And
12 it's in the testimony as opposed to the
13 attachments?

14 MS. GAGNON: Oh, you had just
15 mentioned the testimony, but there is two
16 components. So there's the testimony, which I
17 just mentioned, as well as the attachments, which
18 includes the actual table of the metrics.

19 CHAIRMAN GOLDNER: All right. And
20 should we go to the attachments to start or --

21 MS. GAGNON: Sure. So the attachment
22 is Bates 1944.

23 CHAIRMAN GOLDNER: All right. Not the

1 best Bates marking of all time, but I can find
2 it. It's in the middle of the table, I think.
3 So the administrative staff might get a B minus
4 for that one.

5 All right. We can -- Commissioner
6 Chattopadhyay, have you found the table? I'll
7 wait until you're there.

8 CMSR. CHATTOPADHYAY: Can you repeat
9 the names of the witnesses?

10 MS. GAGNON: Sure. So the subject
11 matter experts who participated in the
12 development of the metrics that are proposed as
13 part of the PBR metrics include -- there's really
14 five overarching categories associated with the
15 metrics, with seven metrics themselves, so the
16 first being the service quality metrics, and that
17 includes Paul Renaud, who's our Vice President of
18 Distribution Engineering; and Brian Dickie, our
19 Vice Present of Electric System Operations.

20 Then we have -- the next category is
21 customer satisfaction. Our subject matter expert
22 is Shamus O'Brien, the Director of Voice of the
23 Customer and Customer Experience Strategy.

1 Next we have the solar generator
2 metric, and our subject matter expert for that
3 metric is Warren Boutin, the Vice President of
4 Customer Grid Electrification Solutions and
5 Experience.

6 Then we have a metric -- or a
7 category. The next category is operations
8 customer work requests, and that is co-sponsored
9 by Warren Boutin as well as Paul Renaud.

10 And, finally, the last metric is the
11 advanced demand response metric, and that is --
12 the subject matter expert is Amy Findlay, the
13 Manager of Emergency -- of Energy Efficiency; and
14 Marc Lemenager, Supervisor of Regulatory,
15 Planning and Evaluation, is here as well, to
16 assist with questions on that.

17 CMSR. CHATTOPADHYAY: Thank you.

18 CHAIRMAN GOLDNER: All right. Yeah,
19 perhaps just start at the beginning -- start at
20 the top, and maybe just walk us through the
21 metric, how it works, why you chose it. That
22 would be helpful.

23 MS. GAGNON: Sure. So why don't we

1 start from the beginning. The first metric in
2 the table includes the customer satisfaction
3 metric, so I will hand it off to Shamus O'Brien.

4 MR. O'BRIEN: Good afternoon. My name
5 is Shamus O'Brien. I'm the Director of our Voice
6 of the Customer and Customer Experience Strategy.

7 We have chosen two metrics under our
8 customer satisfaction section, the first being
9 number of customer complaints reported to the
10 DOE, New Hampshire DOE. More specifically, we're
11 focused on reverse complaints, and those are the
12 complaints that -- where the Company is making an
13 error or we are at fault. So those are
14 complaints that would be justified from our
15 customers.

16 We are proposing to calculate that by
17 standardizing the metric and using a number of
18 complaints by 10,000 customers that standardizes
19 the metric, so as our population grows, we're
20 still getting the same similar rate of comparable
21 rate, and it also allow us to benchmark with some
22 of our peers.

23 We're looking -- as far as setting a

1 target, whenever we're looking at customer basing
2 metrics, we try to align the baseline with the
3 plan period. So we are looking to set a baseline
4 with years -- counter years, 2022 through 2024,
5 so we will -- at the end of 2024, we will
6 determine a baseline using the averages of those
7 three years. And through the plan, we intend to
8 perform better than that baseline each year.

9 The second metric is a transactional
10 customer satisfaction metric. This is where
11 we're measuring the transactional or interaction
12 experience with five of our key or major touch
13 points with our customers, the first being our
14 outage experience, our power restoration with
15 BlueSky events -- and by "BlueSky events," we
16 mean routine events during our routine business
17 days that excludes our significant events.

18 Satisfaction with our phone
19 experience, whether it's through a live agent or
20 our automated system.

21 Satisfaction with our solar
22 installation process. This one particularly
23 aligns with some of our other operational metrics

1 in here, and this focuses on the experience with
2 working with Eversource through the
3 interconnection process.

4 Fourth is our new connect -- new
5 service connect with our construction customer --
6 new construction to the grid.

7 And then, lastly, satisfaction with
8 our website experience.

9 Again, these are our five major touch
10 points, and we will be looking to set a baseline
11 from year -- counter years 2022 through 2024.

12 For each of the metrics, we will
13 determine a baseline and then multiply those by
14 25 percent each, so they each have an equal
15 weight in the index for a composite score of all
16 five.

17 CHAIRMAN GOLDNER: And does the -- do
18 the metrics target some kind of -- I'm not sure
19 I'm quite following the formula, but are the
20 metrics driving for some improvement or status
21 quo, or how does -- how are the goals derived for
22 the metrics?

23 MR. O'BRIEN: So once we determine a

1 baseline, we will be looking to make sure that we
2 maintain performance within a margin of error
3 from those results. Of course, we're always
4 driving for improvement in those. Currently, in
5 a few of those metrics, we are performing
6 slightly better than our peers, so we'll
7 definitely be looking to maintain that as we go
8 forward.

9 Again, these are hard to maintain if
10 you're not doing anything because, as you know,
11 technology evolves, so we need to make sure that
12 we're doing -- making the right investment,
13 making the right process improvements, to make
14 sure that we're keeping up with our customers'
15 expectations.

16 CHAIRMAN GOLDNER: Okay. And then,
17 I'm sorry, Mr. Horton, back to you.

18 How do these metrics roll into the
19 equations that we were talking about? Where does
20 it show up?

21 MR. HORTON: So these metrics are
22 designed in a couple of ways. Many of them are
23 reporting metrics to -- as Mr. O'Brien mentioned,

1 although they don't have a direct financial tie,
2 whether it be an incentive or a penalty, our goal
3 with these metrics is to show transparency and
4 accountability. So, although not a direct tie,
5 our intention and objective in establishing them
6 is to hold ourselves accountable and have others
7 see our progress.

8 In terms of actual firm penalty
9 exposure, there is, but for the
10 reliability-related metrics for MBI and SAIDI, so
11 that -- and Mr. Dickie or Mr. Coates can speak to
12 that better than I, but, effectively, we have a
13 financial penalty exposure for degradation of
14 performance for the reliability category, and I
15 can ask Mr. Dickie to speak about it.

16 CHAIRMAN GOLDNER: I think, for SAIDI
17 and for MBI, it was something like a million and
18 a half dollars, plus or minus, depending on the
19 performance. Am I remembering that correctly?

20 MR. HORTON: That's right, except it's
21 that it's a penalty exposure. We're not
22 proposing to have recovery of the one and a half
23 if we were to exceed our performance benchmark.

1 In the event that we exceed our
2 performance benchmark, what we're proposing is
3 to, essentially, allow for a going-forward credit
4 to offset a future penalty. So if we have a
5 solid year of performance where we outperform, we
6 wouldn't collect a penny. We would put that in
7 the bank, if you will, and then, in a subsequent
8 year, if something were to happen where we showed
9 the opposite, we would offset that future
10 penalty.

11 CHAIRMAN GOLDNER: Okay. Thank you.
12 It's good to understand how that works.

13 All right. So I think we understand
14 customer satisfaction.

15 Commissioner Chattopadhyay.

16 CMSR. CHATTOPADHYAY: On the customer
17 satisfaction reporting metrics, you're just
18 calculating the baseline using PSNH data, or
19 you're looking at industry-wide?

20 MR. O'BRIEN: So our baseline will be
21 based -- it's Shamus O'Brien again.

22 Our baseline will be based on our
23 performance over the calendar years '22 through

1 '24.

2 CMSR. CHATTOPADHYAY: Are those, like,
3 standard measures?

4 MR. O'BRIEN: So we chose the customer
5 satisfaction and transactional customer
6 satisfaction index, because we're focused on --
7 those are our five key areas. I would say that
8 our number of customer complaints is an industry
9 metric. And if it helps, those are metrics that
10 we have either agreed to or proposed in other
11 states as well, or were already reporting.

12 CMSR. CHATTOPADHYAY: Okay. But the
13 baselines would be based on --

14 MR. O'BRIEN: New Hampshire results.

15 CMSR. CHATTOPADHYAY: Thank you.

16 CHAIRMAN GOLDNER: And maybe just
17 follow up with one last question on customer
18 satisfaction.

19 Were these -- it sounds like these
20 were developed by the Company previously and in
21 other states, probably, and then your -- have
22 these been something that you measured in New
23 Hampshire for a while, or is this something that

1 you're proposing that you move into the New
2 Hampshire paradigm?

3 MR. O'BRIEN: That was a good
4 question. Thank you.

5 These metrics, specifically the
6 transactional customer satisfaction index, each
7 of those surveys have existed, and we measure
8 them. The customer experience in New Hampshire,
9 we've been doing that for quite a while. The
10 newest being our solar connectivity satisfaction.
11 That survey began in 2022.

12 CHAIRMAN GOLDNER: Okay. Thank you.
13 Commissioner Chattopadhyay, anything
14 else on customer satisfaction?

15 CMSR. CHATTOPADHYAY: No, I just
16 wanted to understand how the baseline was set.

17 CHAIRMAN GOLDNER: Thank you. Yeah, I
18 think the reason you're probably getting some
19 questions is, I guess, that I'm accustomed, at
20 least, to seeing improvement in a metric. You
21 know, you have a baseline, and then you look to
22 improve. So whenever you see status quo, you
23 kind of wonder if that's aggressive enough, but

1 that's -- that's the reason for the questioning.
2 When it was status quo, it -- it evolved into
3 some more questions.

4 Okay. So we can move to the next
5 category, which I think was called solar
6 generator.

7 MR. BOUTIN: Thank you. My name is
8 Warren Boutin. I'm the Vice President of
9 Customer Grid Solutions here at Eversource.

10 So, solar generation, again, that's a
11 reporting metric. Shamus talked about customer
12 sat. metrics, where this is different. This
13 measures ourselves. Okay? So the customer sat.
14 measures, we go out and measure satisfaction with
15 customers. This is more of an internal metric to
16 make sure we meet baselines.

17 So, again, we look at three simple
18 baselines that we're establishing. One is called
19 simple service, which is your typical residential
20 service. That's for 100 KW or below.

21 The second measurement that we're
22 going to look at is for what we call standard
23 projects. Those are for 100 KW and above, not

1 requiring a system impact study. Okay? So these
2 are projects that do not require a system impact
3 study.

4 And then three is for standard
5 projects, again, 100 KW and above, that do
6 require a system impact study, but are small
7 enough, such that, they don't require an ISO
8 study. An ISO study is typically 500 KW or one
9 megawatt and above.

10 So the target -- these are new metrics
11 that we're looking at. Again, these are internal
12 metrics. We're looking to establish baselines on
13 this. We've just rolled out our customer portal
14 called PowerClerk in September of 2023. What
15 that does, it time stamps customer applications,
16 when they come in, and allows us to do the
17 measurements. So it allow us to measure the
18 timeframe it takes us, once we have a completed
19 an application, to ensure that application is
20 complete; you know, the load information is
21 there, the solar information is there, the
22 account number is there. And it allows us to
23 review that, and then allow the developer, the

1 issuer of permission, to interconnect.

2 So, again, that's the front end of the
3 interconnection. We review it. We allow the
4 customer to build the system.

5 Now, that can take, you know, as long
6 as -- as long as the developer takes. In some
7 instances, like, they have up to a year to do it
8 to maximize their incentives. Sometimes they
9 oversell. There's a lot of differences on the
10 customer side of the house. So that end, we
11 don't measure.

12 So we measure ourselves on the front
13 end. We don't measure the customer timeline.
14 But once the project is complete and all those
15 customer obligations are met, including a formal
16 wire inspection, then we measure the time it
17 takes us to actually issue a permission to
18 operate. That allows the customer to come
19 online. So that's what we're measuring, too.

20 So, again, with the rollout of
21 PowerClerk for those three categories, what we
22 went to do is start establishing baselines on how
23 long it takes us to do each of those steps that

1 Eversource owns.

2 CHAIRMAN GOLDNER: What does it mean?

3 In the final box, it says: Percentage of solar
4 applications meeting performance targets.

5 Who sets those performance targets,
6 and what are those?

7 MR. BOUTIN: That's what we're going
8 to establish as a baseline. So we were looking
9 at three years to establish a baseline. Again,
10 PowerClerk was just rolled out September 2023, so
11 we're going to have all of 2024 data, and then
12 we're going to be able to establish baselines for
13 those three categories. And then we're looking
14 to measure, like, probably within, like, plus or
15 minus one standard deviation of that baseline.

16 CHAIRMAN GOLDNER: And I guess where I
17 was going was, it's a performance target on the
18 solar array itself? It's a performance target of
19 how quickly the Company responds to the initial
20 outreach? What do you mean by "performance
21 target"?

22 MR. BOUTIN: Response in how the
23 Company performs, so yes. How long it takes us

1 to issue the permission to install from that
2 initial outreach from the customer. And then
3 once that final closing documentation is
4 received, how long it takes the Company to
5 actually issue the permission to operate.

6 CHAIRMAN GOLDNER: Thank you. And
7 then a final question from me, and I'll turn to
8 Commissioner Chattopadhyay.

9 On your baseline one, two, and three,
10 if you were to snap it off today over the last 12
11 months or something, how many would fall into one
12 versus two versus three? I would imagine that
13 95 percent of them are in category one, or is
14 that not true?

15 MR. BOUTIN: That's true. Yes, sir.

16 CHAIRMAN GOLDNER: And two and three
17 would be very small, I guess?

18 MR. BOUTIN: Smaller, yes. So
19 typically, we're looking to probably do about
20 5,000 applications in New Hampshire. I would say
21 between 90, 95 percent of those would be category
22 ones. The rest would be fall in category two and
23 three.

1 CHAIRMAN GOLDNER: And it might be not
2 much of a distinction, but would you expect more
3 in category two or more in category three?

4 MR. BOUTIN: More in category two.

5 CHAIRMAN GOLDNER: Okay. Thank you.
6 Commissioner Chattopadhyay.

7 CMSR. CHATTOPADHYAY: Going to the
8 last box. Again, the performance targets would
9 be based on PSNH data?

10 MR. BOUTIN: Correct, strictly PSNH --
11 PSNH's.

12 CMSR. CHATTOPADHYAY: Are you tracking
13 anything in the other states already?

14 MR. BOUTIN: Yes. We're tracking very
15 similar metrics in the other states as well.

16 CMSR. CHATTOPADHYAY: Have you already
17 introduced performance targets in the other
18 states?

19 MR. BOUTIN: I would have to check on
20 that, to be quite honest with you. I know we did
21 introduce them as a performance metric for
22 Massachusetts. I do not think it was considered
23 a performance metric. I believe they came back

1 to us and said it needs to be a reporting metric,
2 but I'll verify that.

3 CMSR. CHATTOPADHYAY: Okay.

4 MR. BOUTIN: Again, the distinction
5 performance is tied into incentives and
6 penalties. Reporting was just reporting.

7 CMSR. CHATTOPADHYAY: Even then, I
8 mean, there may not be any financial impact,
9 but --

10 MR. BOUTIN: We are reporting them out
11 in Massachusetts, yes.

12 CMSR. CHATTOPADHYAY: -- to understand
13 whether you're doing good or not. When you're
14 talking about performance targets, I'm just
15 curious whether you already have something in
16 place in other states, and if -- even otherwise,
17 if it's -- if this is a standard way of doing
18 things, then are there other states already
19 implementing some measures that are pretty
20 standard, so there's -- have you looked at it --

21 MR. BOUTIN: Yes. Yes.

22 CMSR. CHATTOPADHYAY: -- and maybe you
23 already know what the targets should be.

1 MR. BOUTIN: We have rolled them -- we
2 are looking at them in both Connecticut and
3 Massachusetts. We are starting -- we have the
4 same, similar-type metrics, different -- slightly
5 different categories, and we're using the same,
6 you know, three years to establish a baseline.

7 CMSR. CHATTOPADHYAY: I would -- this
8 is just, again, out of curiosity.

9 MR. BOUTIN: Yeah.

10 CMSR. CHATTOPADHYAY: If there are
11 standard measures already out there, you really
12 need to wait for more than, you know, one year.
13 Maybe just collect data for one year and, sort
14 of, have a sense of where you are, really, to
15 where things should be. And then, if there is
16 some adjustment needed, you should be able to put
17 that in place sooner. Purely, I'm just asking,
18 why do you have to wait three years?

19 MR. BOUTIN: So what we would do is
20 we'll be reporting these metrics to the
21 Department each year, so we will know. What
22 we're looking to do, in case there was, like, you
23 know, something that was, like, out of whack in

1 one year, we would look to average the three
2 years, but we're reporting out -- you know, '24,
3 '25, and '26. So you will see those numbers.
4 Again, we're just using the three years to
5 establish, like, an average, just in case, again,
6 one year was like, you know, way different,
7 whether it's a COVID year, whether it's a supply
8 chain issue, something like that that was out of
9 our hands.

10 CMSR. CHATTOPADHYAY: Okay. We can
11 move on.

12 CHAIRMAN GOLDNER: And just to wrap up
13 on solar, but actually, it's larger. I'll look
14 at the front table for the answer to this
15 question.

16 So I assume the reason the Company is
17 suggesting these reporting metrics in the PBR
18 section is that, perhaps in a future filing, the
19 reporting metrics would turn into penalty or
20 perhaps even reward areas, similar to MBI and
21 SAIDI.

22 MR. HORTON: I think that's fair, and
23 I think that's what Mr. Coates was about to say.

1 And some of these -- certainly, MBI,
2 SAIDI, reliability, these are things that we
3 track, report. It's our bread and butter and,
4 for us, is right for right-out-of-the gate
5 inclusion as a penalty measure.

6 Some of these other things -- you
7 know, we're trying to find the right area of
8 focus for New Hampshire, and we don't feel it's
9 appropriate today to come out with a direct
10 financial tie incentive or penalty. We do think
11 eventually and over time, though, they could lend
12 themselves to it. But we wanted to start slow
13 and to start the process and kind of prime the
14 pump. I could definitely see, you know, at least
15 maybe some, not all, evolving into a future
16 penalty, like, with a direct financial tie, I
17 guess.

18 CHAIRMAN GOLDNER: All right. Thank
19 you.

20 MR. COATES: The only caveat I'd add
21 to that is that, while we're in that journey, we
22 are going to be driving continuous improvement.
23 We don't just set metrics to set status quo.

1 Like Doug -- Mr. Horton highlighted, Regulatory,
2 we've got decades of industry-wide experience
3 with that. Some of the regulatory constructs are
4 slightly different for these -- these elements,
5 so that's why we wanted to do the level set, set
6 a baseline, continuously grow, and then
7 understand where that is before we introduce it
8 as a credit or penalty.

9 CHAIRMAN GOLDNER: Okay. Thank you.

10 MR. HORTON: I don't want to derail
11 us, but I just -- I think it's a healthy debate
12 that happens anytime we talk about PBR metrics,
13 and I just wanted to offer some recent experience
14 where we have PBR in Massachusetts. Just in the
15 last week, we have -- NSTAR Gas has the same
16 dynamic, which we're talking about here with
17 reporting metrics. In fact, I'm not aware that
18 there's a financial tie in any of the metrics.

19 So there are no reporting metrics that
20 we submit to the Mass. DPU. And we just had a
21 filing this past week, where we had to provide a
22 comprehensive update. We're in the middle of a
23 long-term PBR plan, and there were reporting

1 metrics, you know, that we had to report on, some
2 of which had shown we hadn't been meeting our
3 target or our baseline. So we had to explain why
4 that was; how do we get back on track, was there
5 a discrete reason as to why.

6 My point is, with all this, and to
7 Mr. Coates's point, we feel that with PBR, with
8 the transparency it brings, even if there's not a
9 direct tie, and this is -- again, it takes a
10 level of trust in knowing that this is how it
11 will work, but the idea is that we're presenting
12 information in a -- in a way that we haven't
13 before and providing focus and accountability.
14 Even if there's not a direct tie, if we're
15 showing you performance that's degrading and just
16 holding status quo, that's not in the spirit of
17 PBR. So that would be, you know, a future
18 consequence, whether PBR will continue, or can we
19 ask for -- we'd lose credibility with our
20 regulator, with the regulatory stakeholders.

21 To us, those are real. And so that's
22 part of what we're trying to do, though, is to
23 start with these. We're trying to increase the

1 level of transparency. But over time, we'd see a
2 direct financial tie or an ancillary financial
3 tie, if we show a degradation of performance of
4 these other areas.

5 CHAIRMAN GOLDNER: Thank you. And
6 then, a final question before we move on the next
7 category.

8 Would any Company-owned solar show up
9 here, or would that be a separate thing?

10 MR. O'BRIEN: No, this is just
11 customer. Customer solar.

12 CHAIRMAN GOLDNER: Okay. Thank you.

13 Okay. Let's move on to the operations
14 category.

15 MR. BOUTIN: Sure. So Warren Boutin
16 again from Eversource.

17 So operations are through customer
18 work, so that's customer-requested work, such as
19 if you're building a residential home, if you're
20 being a new office building, or even like a
21 sky-rise, so that would be new customer work.

22 So, very similar to what we're doing
23 with solar, we're looking at establishing

1 baselines. We're looking at four separate
2 baselines. Again, simple service, which is your
3 typical residential hookup, single span, or a
4 connection in the underground, what we call
5 customer requested. So that's customer-requested
6 work, so that could be a, you know, disconnect/
7 reconnect. It could be cover the wire with
8 rubber if they're doing painting. You know, that
9 type of service.

10 And then the third category is
11 developments, so that's your typical residential
12 development, which could be 10 or 15 homes in a
13 development. This would be the backbone for that
14 development.

15 And then complex services. Complex
16 services are services that could require detailed
17 engineering. We need to send an engineer out to
18 the site, who needs to work with that customer,
19 talk about the best approach and the most
20 cost-effective approach. Okay?

21 We do have data on those four. We
22 have a work management system that has been in
23 place for a few years, unlike the PowerClerk

1 system I talked about in solar. So we do have
2 baselines that we have established. So for the
3 simple service, we're looking at eight business
4 days or less, and, again, that's depending on
5 final customer obligations. So that customer has
6 to have made all payments, has to have that the
7 wiring inspection called in. Once the final
8 obligation is met, we're looking to do service
9 within eight business days.

10 If the customer requested work that I
11 described earlier, again, cover wires, etcetera,
12 we're looking to have that work done within 11
13 business days. Okay?

14 A disconnect/reconnect may require a
15 wiring permit, so, again, once that final
16 customer obligation is made. Okay?

17 The developments, we're looking to
18 establish a baseline. We've established a
19 baseline of 90 days.

20 And for the complex services, 43 days.

21 So any questions on that? Again, very
22 similar to what we did for the solar. Again, we
23 have a work management system, so we've

1 established baseline targets that we're working
2 towards.

3 CHAIRMAN GOLDNER: Thank you.
4 Commissioner Chattopadhyay, any questions?

5 CMSR. CHATTOPADHYAY: So these numbers
6 are averages, right?

7 MR. BOUTIN: These numbers are averages
8 based on 2023 data, yes.

9 CMSR. CHATTOPADHYAY: Do you have data
10 for 2022, 2021?

11 MR. BOUTIN: So we have partial data
12 for 2022. No data for 2021. Again, what we did
13 with our work management system, we switched over
14 to a new work management system called Maximo.
15 So, again, we don't have all that data.

16 CMSR. CHATTOPADHYAY: So, going to the
17 point of one year may not be representative,
18 should these -- if I understood you right, you're
19 already using these standards?

20 MR. BOUTIN: Yes. So, but '22 and '23,
21 we're going to use the two-years standards, yes.

22 CMSR. CHATTOPADHYAY: But you may not
23 have enough sample points here to actually get to

1 something that is truly representative of what
2 would be a nice cutoff, for example, for complex
3 services. I'm just curious whether you have
4 enough trust in just one year's data or even one
5 and a half year's data.

6 MR. BOUTIN: So, again, with the work
7 management system, we have trust in that data.
8 But, again, this is a reporting metric, not a
9 Venn metric. So, again, we're going to strive to
10 meet these dates. But based on the data we have
11 and the experience we have, we do feel that we
12 can make these target dates. But that's why it's
13 a reporting metric, not a Venn. Does that make
14 sense?

15 CMSR. CHATTOPADHYAY: It does. But
16 when you're trying to calculate a percentage, you
17 know, that's sort of explained in the last box,
18 giving 25 percent advantage to each of these --
19 what I'm trying to get at is, yeah, it's
20 important, but maybe -- when you talk about the
21 baseline, the baseline probably hasn't been
22 properly identified yet, even though you're --
23 because you're just using one-year data, that's

1 my point, or one, one-and-a-half-year data.

2 MR. BOUTIN: Just to close this one
3 out. So we do about 16,000 new customer work
4 orders per year, where we do 5,000 solar
5 applications per year.

6 CHAIRMAN GOLDNER: Thank you. That's
7 good to know, how big it is.

8 Okay. So let's move to peak demand
9 reduction.

10 MR. LEMENAGER: Marc Lemenager. I'm
11 Supervisor with Energy Efficiency. With me as
12 well is Amy Findlay, Manager with Energy
13 Efficiency as well.

14 We're proposing this metric as a
15 reporting metric. As you are probably aware, we
16 have the active demand response, the ADR
17 programs, as part of our energy efficiency
18 programs, and they currently reside within there
19 and contribute towards the performance incentive
20 within those programs. That's why we're
21 proposing this as a reporting metric within this
22 framework.

23 However, we do recognize the value

1 that these programs have been able to
2 demonstrate, and we are cognizant as well for the
3 ability of these programs to help customers
4 realize reduced costs due to activating these
5 programs during times of system stress.

6 We also recognize that forecasts for
7 ISO New England predict a doubling of the load
8 over the next ten years and a shift from a summer
9 peaking system to a winter peaking system --

10 CHAIRMAN GOLDNER: I'm just going to
11 pause you there, sir. This is what's baffling.

12 So there's a doubling of demand on the
13 one hand, and then there's an one percent
14 increase on the other hand, and I'm not able to
15 track what's going on here. So, like, which way
16 is it?

17 MR. LEMENAGER: Yeah, this is for ISO
18 New England. This is not strictly PSNH
19 territory.

20 CHAIRMAN GOLDNER: But how could it be
21 so different? Like, if ISO New England is going
22 to double over the next ten years, but
23 Eversource's own forecasts show basically a flat

1 load, like, what am I missing? Where's the
2 disconnect?

3 MR. LEMENAGER: I believe the idea
4 might be behind the electrification that is
5 expected to happen, through electric vehicles and
6 electrification efforts in other states.

7 CHAIRMAN GOLDNER: But wouldn't the
8 Eversource load reflect that? That's what
9 we're -- in the rate case, we're looking at the
10 forecast, which says, basically, a flat load. So
11 I don't understand why there's such a disconnect.

12 MR. LEMENAGER: And I did not develop
13 the ISO New England forecast, but my
14 understanding is that it's the projections for
15 electrification, as well as electric vehicle
16 adoption, so -- as a primary purpose.

17 CHAIRMAN GOLDNER: Behind you there's
18 a --

19 MR. DICKIE: Yeah, I think it's the
20 time period we're taking about, right? So how
21 long is this, sort of, one percent flat? We
22 usually use a longer time period, electric
23 vehicles, swapping over to heat pumps in the

1 climate areas where you can. That, to me, is --

2 CHAIRMAN GOLDNER: Yeah, it would just
3 be quite a hockey stick if, for the next five
4 years, it a was flat one percent growth, and then
5 in ten years, it was 100 percent growth. That
6 would be quite a difference

7 MR. DICKIE: That's what they're
8 forecasting.

9 CHAIRMAN GOLDNER: Somebody is wrong,
10 either Eversource or ISO New England.

11 MR. DICKIE: So in the short term, you
12 know, one hour, one percent, right, which real
13 load projected out over a short period of time.
14 But the long-term projection are much higher.

15 CHAIRMAN GOLDNER: My encouragement
16 would just be for the Company to align, for the
17 Commission, in terms of what it believes is going
18 to happen, and then have the metrics and so forth
19 align, because it's kind to hard to correlate.
20 We listen for the first seven or eight hours, do
21 a one percent increase, and then at the end,
22 we're talking about a doubling. And I understand
23 it's ten years versus five years, but that means

1 the load would double over the five years from
2 2029 to 2034, so that doesn't really -- one of
3 those don't make any sense.

4 MR. HORTON: And if I could add --
5 and, you know, we can do what he just said.
6 We'll do that for -- but another aspect of this
7 is kilowatt hour sales versus kilowatt demand.
8 We do expect kilowatt demand to go up, but as
9 more renewables are put on the system, solar --
10 customer solar, those kilowatt hours that will be
11 generated, hopefully we'll never see. So that's
12 part of the equation that we'll have to spell out
13 for you.

14 CHAIRMAN GOLDNER: Okay. Thank you
15 for that offer. We'll take you up on that.

16 MR. COATES: And we will have more
17 tomorrow on this. We can answer it tomorrow.

18 CHAIRMAN GOLDNER: Okay. Yeah, thank
19 you. It's very confusing from our point of view.

20 MR. COATES: Yes.

21 CHAIRMAN GOLDNER: At least my point
22 of view.

23 Okay. Yeah, please proceed. I just

1 wanted to stop and pause on that disconnect.

2 MR. LEMENAGER: It was a great
3 question.

4 And one of the reasons why we're
5 proposing this as a reporting metric as well is,
6 as cleaner technologies are adopted in increasing
7 numbers, we believe that active demand response
8 has a role to play in that.

9 So we propose, for a baseline, is the
10 average over the past three years of the
11 programs, just Eversource's New Hampshire
12 programs.

13 For the target, we're proposing the
14 average of Eversource's programs over the course
15 of the '24 to '26 GD plan, and then that will be
16 the target for the timeline during this PBR
17 timeframe.

18 CHAIRMAN GOLDNER: And the reason
19 that -- one of the reasons why it's a reporting
20 metric proposed from the Company is you would --
21 it would be effectively a double count inside
22 energy efficiency, right?

23 MR. LEMENAGER: Correct.

1 CHAIRMAN GOLDNER: Okay. Okay, thank
2 you. But it's good your making it visible, so
3 that's encouraging.

4 Okay. Any questions on that one,
5 Commissioner Chattopadhyay?

6 CMSR. CHATTOPADHYAY: No. Thank you.

7 CHAIRMAN GOLDNER: All right. So
8 let's go to the service quality.

9 Now, here's where we do get into the
10 penalty incentive portions, so that's helpful to
11 have that on the chart. I didn't see that the
12 first time. So SAIDI and MBI.

13 MR. DICKIE: Yup, so Brian Dickie, Vice
14 President of Operations.

15 So the first measure, SAIDI, which is
16 the penalty or incentive, is a typical
17 reliability measure for a utility. It's System
18 Average Interruption Duration Index, which is a
19 measure of the customer -- what an average
20 customer can expect to be without power for a
21 given year. So it's calculated by taking each
22 outage event, number of customers, times the time
23 -- the amount of time it was out, adding all

1 those for a given year, and that's -- that's
2 customer minutes interrupted, dividing that by
3 the total customer service, so that's a -- what
4 we're proposing is a five-year rolling average on
5 our SAIDI, and bounding that with two standard
6 deviations on the real data to set the upper and
7 lower bounds. Are you good there?

8 CHAIRMAN GOLDNER: Good there.

9 MR. DICKIE: All right. Next one is
10 MBI, Months Between Interruptions. So this is a
11 more intuitive way of taking SAIFI, which SAIFI
12 is just an average interruption frequency index.
13 This is just 12 months divided by SAIFI, which
14 gives you an MBI number, which is months between
15 interruption. Just a more intuitive way of...

16 So same thing. We're talking a
17 five-year rolling average, two standard
18 deviations from that rolling average, to come up
19 with the --

20 CHAIRMAN GOLDNER: Okay. Thank you.
21 And then just to clarify, I might have
22 misunderstood Mr. Horton before. Is this plus or
23 minus 1.5 million or only minus 1.5 million, in

1 terms to what the Company is proposing?

2 MR. HORTON: It would be a minus 1.5
3 million. Our proposal is that if we have a year
4 where we exceed -- instead of collecting one and
5 a half million from anybody, we would just, sort
6 of, put that in a bank, to offset a potential
7 future penalty. Trying to say that if something
8 anomalous happens, we've had a really good year,
9 we're not asking to collect that one and a half.
10 We're simply saying, allow us to offset,
11 potentially, a future penalty.

12 CHAIRMAN GOLDNER: So if in a year --
13 in the first year, if the Company were not to
14 achieve this metric, that 1.5 million would be
15 subtracted from the PBR?

16 MR. HORTON: Yeah.

17 CHAIRMAN GOLDNER: And that would be,
18 effectively, collected by ratepayers. But if it
19 was a year in which the Company achieved the
20 metric, then the Company wouldn't collect that;
21 it would just roll to the next year.

22 MR. HORTON: Yes. If we -- if it
23 happens, the order is that we have poor

1 performance in one year, first, you would give
2 customers that credit. And then, in the
3 following year, if we had good performance, we
4 wouldn't collect anything. We would just hold it
5 for the next time.

6 CHAIRMAN GOLDNER: And then it would
7 true-up at the next rate case, or how would it --
8 if it needed to be trued up -- if you were
9 continuing to hold money, how would that get
10 trued up?

11 MR. HORTON: That's a great question.
12 I would think that, as part of it, if we were to
13 roll it forward, it would just continue if the
14 PBR plan were to extend. Our proposal, at this
15 point, is not to -- so, if we're continuing to
16 bank one and a half million a year, we just keep
17 performing well, we wouldn't seek to collect that
18 in the future. If the metric were to continue,
19 the bank would continue.

20 CHAIRMAN GOLDNER: And there would be
21 no carrying costs on this one either?

22 MR. HORTON: No.

23 CHAIRMAN GOLDNER: Okay. And then, is

1 it 1.5 for both SAIDI and MBI, or 1.5 total?

2 MR. DICKIE: I believe it's both.

3 CHAIRMAN GOLDNER: So one point -- so
4 three total?

5 MR. DICKIE: Yes.

6 CHAIRMAN GOLDNER: Okay. Thank you.

7 Yeah, my encouragement would be just
8 to include that in the equation, while we have
9 this -- the equation that we've been talking
10 about all day, and it doesn't -- at least I don't
11 think it shows up in your equation, so it's
12 confusing when not everything is in one place.

13 Have we missed anything in terms of
14 the equation? Is there anything that we haven't
15 talked about today that the Company would collect
16 or give back to ratepayers in PBR? Have we
17 missed anything, or did we -- did we capture
18 everything today?

19 MR. DICKIE: I think we captured
20 everything.

21 MR. HORTON: I do too.

22 CHAIRMAN GOLDNER: Okay. Commissioner
23 Chattopadhyay.

1 CMSR. CHATTOPADHYAY: On the last two,
2 the service quality metrics, do you have that in
3 place in Massachusetts already?

4 MR. HORTON: We do have service
5 quality metrics and reporting in place in
6 Massachusetts, yes.

7 CMSR. CHATTOPADHYAY: Is it just
8 reporting, or do you have penalties?

9 MR. HORTON: There are penalties
10 for -- there are penalties, yes. It's not part
11 of the PBR. It was set up -- I believe set up at
12 the time PBR was first established, but it's not,
13 I guess, similar to this. It's not directly tied
14 to the performance-based ratemaking framework.
15 But we have annual service quality metrics that
16 are penalty only.

17 CMSR. CHATTOPADHYAY: Is it similar to
18 what you have represented here, which is two
19 standard deviations as upper and lower bounds?

20 MR. HORTON: Yes.

21 CMSR. CHATTOPADHYAY: Are you aware of
22 any jurisdiction where, instead of two standard
23 deviations, it's something else?

1 MR. DICKIE: So the purpose of this
2 standard, right, was to provide assurance to our
3 customers, our regulators, that we would maintain
4 first-quartile and second-quartile performance.

5 So in our -- one of the questions that
6 was asked by PUC, we did say that if that
7 standard deviation, which would, you know, change
8 over time, if you wanted, you know, set targets,
9 we could also, you know, look at that as well.

10 CMSR. CHATTOPADHYAY: Okay. Yeah,
11 just -- just, obviously, this is -- I'm just
12 trying to understand. That's all. But, to me,
13 it might seem that -- it may be, again, a
14 gradient test, like, what kind of penalties are
15 going to be put in place, depending on how far
16 away you are from the mean. So, you know, I'll
17 leave it at that. Thank you.

18 CHAIRMAN GOLDNER: And just returning
19 briefly to the Company's PowerPoint, Page 3,
20 where it talks about customer reliability
21 improving due to system investments, and it says
22 in the slide: Investing more than 765 million in
23 New Hampshire electric distribution system over

1 the last five years and remain focused on
2 improving the reliability of service for
3 customers.

4 And then on the right side of the
5 PowerPoint, it has a chart that shows the
6 percentage of customers restored within five
7 minutes, which I think is your metric, and then
8 it shows the metric improving from -- I think I'm
9 doing the math right -- from 2019 to 2023, going
10 from 40 to 52 percent.

11 And so, I just wanted to get the
12 Company's thinking on -- 765 million is a large
13 number, and then the percent increase seems
14 relatively small. And I just wanted to
15 understand, kind of, the Company's thinking on
16 the slide or how that pieces together. I didn't
17 quite understand.

18 MR. DICKIE: So the under five-minute
19 switching was pretty much related to DA,
20 distribution automation and circuit ties.

21 So I don't know the component that
22 makes up the 765 million. I think that's the
23 total. There's a subcomponent of DA and circuit

1 ties.

2 CHAIRMAN GOLDNER: Okay. I just think
3 that would be something over time; that if
4 there's a correlation between a particular
5 investment and a particular outcome, that's
6 always very interesting to know.

7 I think the person who made the slide
8 was probably trying to say, hey, we're investing
9 a lot of money and we're getting good results.
10 But one could read it as, we're investing a lot
11 of money and getting a fairly small result.

12 So I don't think that's what the
13 Company meant, but I would just encourage a
14 correlation between the investment and the
15 outcome, as opposed to -- this looks like maybe a
16 mixing of data.

17 MR. COATES: Yeah, your assessment is
18 absolutely correct. The right side of the chart
19 is really about, as Brian highlighted, switching
20 to restore customers in less than five minutes.
21 That's an indicator or a precursor of good
22 reliability, but the investment has much more of
23 a perspective on SAIDI and SAIFI frequency that

1 we can provide.

2 CHAIRMAN GOLDNER: Thank you. Okay.

3 It just seemed like the two were -- the slide was
4 meant to say, here's what we got for investment,
5 and it wasn't what was intended. So that's
6 helpful.

7 MR. COATES: But to this point, the
8 distribution and automation is embedded in the
9 765, but the distribution and automation did not
10 cause the 765.

11 CHAIRMAN GOLDNER: Any idea if it
12 was -- is it a \$10 million investment or a
13 hundred million? Any idea on that, just roughly?

14 MR. DICKIE: It was significant, but I
15 don't know the exact number.

16 CHAIRMAN GOLDNER: Okay. It wasn't
17 750 or something; it was 765?

18 MR. COATES: No.

19 CHAIRMAN GOLDNER: Okay. So the
20 hearing continues tomorrow. It's 4:20, so --
21 just a moment.

22 Sorry, the technical session -- So the
23 technical session is ending here. The PHC

1 technical session, 4:20. We'll continue
2 tomorrow. And today's session is adjourned, and
3 we'll see you tomorrow at 9:00 a.m. Thank you.

4 (Whereupon, the proceeding
5 was adjourned at 4:20 p.m.)

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