STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

January 7, 2025 - 9:01 a.m.
21 South Fruit Street
Suite 10
Concord, NH
[Remote Hearing conducted via Webex]

RE: **DE 24-070**
PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE D/B/A EVERSOURCE ENERGY:
Request for Change in Distribution Rates
(Pre-Hearing Conference/Tech Session)

PRESENT: Chairman Daniel Goldner, *Presiding*
Commissioner Pradip Chattopadhyay
Commissioner Mark Dell'Orfano

APPEARANCES: **Reptg. Eversource Energy:**
Jessica A. Chiavara, Esq.
Jonathan A. Goldberg, Esq. *(Keegan Werlin)*

Reptg. New Hampshire Dept of Energy:
Paul B. Dexter, Esq.
Jay Dudley
Steve Eckberg

Reptg. NECTA:
James J. Steinkrauss, Esq. *(Rath...)*

Reptg. Residential Ratepayers:
Donald M. Kreis, Esq.
Michael J. Crouse, Esq.
Marc Vatter, Dir. Economics and Finance
Charles Underhill, Dir. Rates and Markets
Office of Consumer Advocate

Reptg. Rate LG Customer Consortium:
Todd Griset, Esq. *(Preti, Flaherty...)*
Eben Perkins

Court Reporter: Judaya Vasquez

I N D E X

P R O C E E D I N G

CHAIRMAN GOLDNER: Okay. Good morning. I'm Chairman Dan Goldner. I'm here today with Commissioner Pradip Chattopadhyay and Commissioner Mark Dell'Orfano. This is the first day of the January pre-hearing technical conferences scheduled for January 7th and 8th, attended and presided over by the Commission regarding the Eversource distribution rate case, docketed DE 24-070. This is the last series of pre-hearing and technical conferences attended by the Commission for this rate case.

The Commission received a very late-filed motion for remote participation from the large customer consortium about noon yesterday, January 6th, from Portland, Maine, outside counsel for the consortium. In the interest of administrative efficiency, the Commission grants the motion here from the bench. That done, the Commission does not intend to make the filing requirements for motions for remote participation a mere formality or nullity. So we admonish all parties to make these filings in a timely fashion in the future.

We also leave it to the large customer consortium to monitor the proceedings today and guide when they would be available for participation as they indicated in yesterday's filing.

We also remind the participants that we have our court reporter taking a transcript here today as a courtesy to the parties, their personnel and consultants, and to aid the Commission.

Eversource made a filing on January 2nd, indicating that it wishes to address the depreciation today and that it requests that rate design topics be addressed this afternoon or on January 8th. The large customer consortium stated in yesterday's filing that their (indiscernible) design concerns this afternoon if its remote participation motion were approved, that it filed on January 3rd. A request that both be discussed in these sessions. The Commission sees a scope to conclude our work in the technical sessions scheduled today with a plan to proceed with the capital investment, followed by the depreciation and finally, redesign in the afternoon.

The Commission has some questions. (Indiscernible) can accommodate questions about (indiscernible). But given the recent settlement of the (indiscernible) issue and the fact that these sessions are meant for informing the Commission, we would like to learn more from Attorney Steinkrauss on this issue.

The Commission believes that we will know by 2 p.m. today if a second day of these sessions is necessary. We'll now take a roll call, beginning with the Company. Please let us know if the Company has presentations on the board topics today. You may elect to make a brief oral argument in favor of integrating polls on this topic as a topic, including an indication of the expected time required for such a questioning. Any other participants indicate if they have any objections to such a conclusion.

Also, to all participants, please let the Commission know if you have any questions for the Company and then (indiscernible), so we can plan accordingly.

Okay, let's begin with the Company.

MS. CHIAVARA: Good morning, Chairman and Commissioners. I'm Jessica Chiavara, here on behalf of Public Service Company of New Hampshire, doing business as Eversource Energy. With me today is cocounsel, Jonathan Goldberg, senior counsel from Keegan Werlin. We do have one presentation which we can provide or not at the Commission's pleasure. It's on -- it's not related specifically to our filing in this rate case, it's more by way of background and education on the capital approval process. We have hard copies here. We also have a copy that we can distribute.

CHAIRMAN GOLDNER: Okay. Very good. And so we would like to see that, so please distribute it at your leisure. And I'll also mention for the court reporter who's online, when folks are speaking for the first time today, is to make sure you introduce yourself with your name so that the court reporter knows who's speaking. After the first time, I think it won't be necessary.

Ok. Thank you. So we'll just go down the list in alphabetical order.

Is AARP here today?

[No verbal response.]

CHAIRMAN GOLDNER: Okay, not here.

Aleksandar Cook?

[No verbal response.]

CHAIRMAN GOLDNER: Okay, not here.

Clean Energy New Hampshire?

[No verbal response.]

CHAIRMAN GOLDNER: Not here.

Community Power Coalition of New Hampshire?

[No verbal response.]

CHAIRMAN GOLDNER: Okay, not here.

The Conservation Law Foundation?

[No verbal response.]

CHAIRMAN GOLDNER: Not here.

(Audio interference) aren't here yet. Thank you.

Mary Ellen O'Brien Kramer?

[No verbal response.]

CHAIRMAN GOLDNER: Okay, not here.

The New England Connectivity and Telecommunications

Association, i.e. NECTA?

MR. STEINKRAUSS: Jim Steinkrauss, attorney for NECTA.

MR. WONG: Wong.

CHAIRMAN GOLDNER: Thank you, Attorney Steinkrauss.

The New Hampshire Department of Energy?

MR. DEXTER: Hi, Mr. Chairman and Commissioners. I'm Paul Dexter, legal director for the Department of Energy. I'm joined today at the Department's table by Jay Dudley and Steve Eckberg, utility analyst. And there are a number of other department members seated in the back.

CHAIRMAN GOLDNER: Thank you, Attorney Dexter.

The Office of the Consumer Advocate?

MR. KREIS: Good morning, Mr. Chairman, honorable commissioners, and special warm greeting to Commissioner Dell'Orfano. I think this is my first chance to see him up there on the bench. I'm Donald Kreis, the consumer advocate. With me today is our staff attorney, Michael Crouse. Sitting next to him is our director of economics and finance, Marc Vatter. And sitting next to Dr. Vatter is our director of rates and markets, Charles Underhill.

CHAIRMAN GOLDNER: Thank you, Attorney Kreis.

Standard Power of America?

[No verbal response.]

CHAIRMAN GOLDNER: Okay, not here.

And finally, Walmart Incorporated?

[No verbal response.]

CHAIRMAN GOLDNER: Are there any other persons or entities wishing to be acknowledged here today? Okay. Seeing none.

So we'll just kind of wrap up with the administrative piece, and I have to say that just as we've done for other sessions, we tend to have regular short breaks and a one-hour break around noon.

If there's no other preliminaries, we can perhaps start with the Company's presentation and then proceed to -- I think it was capital additions would be the first topic for questions.

MR. DEXTER: Mr. Chairman, if I could interrupt your introductory comments. You had asked about whether or not parties had questions for the Company and I did address that in my appearance, but the Department of Energy does not have any planned questions for the Company, but we would like the opportunity to potentially ask some follow-up based on the information that we see today.

CHAIRMAN GOLDNER: Okay. Very good.

Attorney Dexter, any other comments or questions before we start today?

Attorney Steinkrauss, do you have any thoughts on what you would like to cover today?

MR. STEINKRAUSS: Yes, Chairman. We have some pre-prepared questions. We expect to take about 10 to 15 minutes. We have four days with Eversource to spend, and if staff's not available to answer those questions, we will follow up. We do believe they address issues of depreciation, and capital investments, as well as some rate design topics.

CHAIRMAN GOLDNER: Okay. Very good. That sounds good.

Okay. Anything else before we start? Okay. Seeing none.

Attorney Chiavara?

MS. CHIAVARA: I'm just sending this out electronically so that everybody has a copy. I'm sending it out to the service list, but the presentation is actually going to be handled by Ms. Landry and Mr. Devereaux.

MS. LANDRY: So do I go up there? Oh, I see here. Hi, my name is Leanne Landry. I'm the director of investment planning for Eversource, from the financial support for the operations group. So I wasn't quite sure what's the easiest way to work this out.

CHAIRMAN GOLDNER: Yeah. You're welcome to come up front, if you like. And then for the court reporter, if you could just introduce yourself from the microphone and then go ahead and get started.

MS. LANDRY: Oh, I'll stand up here. So this is my favorite topic. So --

(Counsel confer)

MR. DEVEREAUX: Hi, I'm Jim Devereaux, manager of finance for VSH (phonetic).

MS. LANDRY: And my name is Leanne Landry. I'm the director of investment planning.

So does everybody have a copy of the presentation? Okay.

CHAIRMAN GOLDNER: I think so. Please proceed.

MS. LANDRY: Okay. So we just thought it would be good today to -- to give you an overview of our capital project and approval process.

So in the first slide there, you know, as you can see, you know, we do have a very -- we have a very comprehensive planning process that really takes the --

Oh, thank you. Woops, I need to get -- yep. Sorry, I'm just -- planning.

So we'll go through the capital project approval process. We'll also give you an overview of kind of what I'm going to call our planning process, our long-range and our annual planning process and how those approvals happen.

And then, you know, as projects are originated, the process that they go through and the process flows, we have -- I don't intend to go through all the details. Don't be alarmed when you see the -- the detailed flow charts. And then the financial oversight and the controls and the monitoring that we do.

So -- so if you go to slide 2, the overview of the capital approval process. So as I said, we do have a very expansive and comprehensive annual and long-range planning process, which is really the foundation for our capital plan.

As you look at our five-year or long-range planning process really starts off, oh my goodness, it's going to be starting off in the first quarter of, you know, this year. And that really is a process we look over the five years. And then that is actually the foundation for the annual planning process. And we can go into that in more detail. As we get into the annual planning process and projects are identified, and they go through engineering and operations; and have -- you'll see here we have scope and justification. So the projects are defined and explained; the risks are assessed, the costs are accumulated.

And then we do a project authorization document. So we follow -- as a company, we have a project authorization policy, which applies to -- to all investments -- capital investments that the Company makes. So it's a document. And we've provided in the docket for all the projects that it applies to. And those documents go through -- and as I said, do cover the scope and justification overview of the project. We'll go through risk alternatives. There'll be a timeline for -- for the projects. There'll be a cost breakdown in there.

And then as those go, those go into our financial system and get routed for approval based on our delegation of authority. So our delegation of authority defines the levels of approval that are required for projects. So it does vary. It starts at manager and director level and can go up to the subsidiary board for projects in excess of $50 million. So -- so that's -- that's the process.

And then, you know, once we do have the projects defined and approved, there's a series of controls and oversight that we do. And Jim will go more into the -- the Capital Budget Review Committee, the CBRC.

Then we also have before the projects are approved, they either go to a state PAC in New Hampshire, project approval committee, or the Eversource Project Approval Committee. And the differentiation there is New Hampshire PAC does kind of the distribution line projects and the Eversource Project Approval Committee or EPAC, does the stations in transmission projects.

CHAIRMAN GOLDNER: And is the process the same across all the states in which Eversource operates?

MS. LANDRY: Yes, the process is the same. Cross is the only difference would be if each state has their own PAC. So at the state level for the distribution, there's a New Hampshire PAC, there's a Massachusetts and a Connecticut, but all follow the same process, approach, review, participation. It's very expansive. So it has, you know, multiple disciplines of engineering, operations, the financial team is there.

CHAIRMAN GOLDNER: Are the dollar limits the same in each state?

MS. LANDRY: Dollar limits are the same in every state, yes. Same corporate policy, and project authorization policy, and delegation applies to all states.

CHAIRMAN GOLDNER: Thank you.

MS. LANDRY: Yep.

So going to the -- the next slide, you're just going into a little more detail here in terms of the -- the timeline and the time frame. So as I mentioned, you know, the five-year, the long-range planning process will be starting shortly. It usually starts in the February, March time frame. And it is a very collaborative and extensive process going through, you know, kind of looking at that five-year horizon. We go through that, that gets presented and approved by senior management in the June time frame. And then that five years, year 1 is -- is really the foundation for the annual plan. So that's kind of what we start with, as you will, the targets or what we see as the annual plan for the following year.

And then as we go through the annual process, that's even at a -- at a more detailed level, going down into the individual projects and -- and programs. But as I said, it really is a collaborative process that does go across multiple groups with a lot of input and insight. Projects are prioritized based on system need, you know, and -- and customer need as we go through. And then we do have a series of programs that you'll see as well that, you know, are just every year we, you know, we have transformer replacements, new customers, small new customer work. But we do have a lot of interaction and steps in the -- the process.

You know, once we get through that process, we have a project portfolio of -- of projects and programs that do go through, and we'll have project authorizations and get reviewed and approved in accordance with the -- the delegation of authority. So that process, you know, we always go back to those two policies, if you will, as the -- the cornerstone. But everything that happens does get ultimately reviewed and approved by senior management through a series of meetings and discussions, you know, within operations and then also, you know, with the executive leadership. So that's -- that's how this works. And you know, the New Hampshire leadership team is very involved throughout this process, you know. And -- and you'll see as -- when -- when Jim goes over the CBRC, the -- the very active engagement and involvement, you know, of the projects once -- once they're all defined and -- and how they're monitored. So -- and we'll -- we'll get into that and we'll have some samples of that in the back here.

So the next slide, slide 4 here. This is just to -- to show you, and some of these -- these documents have been provided in the docket, but just wanted to highlight. So you know, kind of the -- the cornerstone of, you know, everything we follow is called APS or Accounting Policy Statement 1. And that is the -- the project authorization policy that we follow.

And then in addition, supporting that is also the corporate delegation of authority, which really defines the approval levels required for not only capital projects, but as you look at that policy, it also includes approvals of invoices, purchase orders, desktop requisition. So it is the approval policy for kind of all -- I'll call it, in my words, all financial transactions that go on in -- in New Hampshire and in Eversource.

Then as you go, we also provided -- it's called JA-AM 2001, the project approval process. So this is a much more detailed procedure document that documents and outlines all the operations reporting requirements and how we go through the review and approval process. So it's really, it's a -- it's a great procedure document. It has some excellent process flows that I included in here. And it really is the documentation. It defines the expectations of the process and all the -- let's say, integrations and interaction amongst the various groups as we go. And I can get you the reference in the docket. But that has been provided.

And as you look, then we break down. So the distribution line piece is really addressed in the New Hampshire state PAC. And then the stations and transmission are addressed in the Eversource PAC.

So on the station and transmission side, I will point out too, you'll see -- my goodness, we have a lot of acronyms, I apologize. So you'll see the SDC, the solution design committee, that is -- I'll use my words, a technical engineering looking at the technical operational aspects of each of the projects and the -- the ultimate design and solution. So that also -- with a lot of the station and transmission projects, things will start at the solution design committee to -- to develop and come up with the solution. And then it'll go to EPAC is just how that works. And I believe that detailed technical solution design was provided as well.

And then on the foundation is a PowerPlan. So that's our -- really our financial accounting fixed asset accounting system. So projects are routed and approved, and the documentation is housed in that system -- is where we keep that.

So all right the next few slides here are very detailed, and I'd be happy to go through them. But the first one is -- and these are all from that JA-AM, that -- that procedure that I mentioned on the -- the prior page. So this is just a flow chart that shows the process flow for distribution line projects. So you know, the project is developed and initiated and you can see it goes through engineering. The authorization is prepared, it goes through the New Hampshire PAC, and then it will follow, you know, once it gets to there, it'll be input into PowerPlan and routed and approved in accordance with the delegation of authority.

So -- and I should have differentiated. So you can see, there's step 1. There's kind of two flows here for a preliminary or a detailed scope. And really what the differentiation is there is we have some projects that will start off as initial or partial funding. So we need time to -- to do -- a project will be originated to do the engineering and the preliminary design in order to authorize the final project. So if it is -- kind of I'll say some of the bigger projects typically have multi steps, just because they may need that preliminary design, engineering, environmental assessment before they get to the full funding authorization. So that's the differentiation there. Many cases on the distribution side we do have detailed project scopes, you know, there -- there could be a run-of-the-mill jobs, you know, a pole replacement, automation that you don't necessarily need a preliminary scope, it can go, you know, it's -- it's already known what we're going to do. And it just starts as a full funding authorization. So --

Thanks.

Okay. The -- the next ones are very small; I apologize. So the next one, slide 6 here is the project approval process flow for kind of the distribution station projects as well as transmission. And in here, this really is where we see more of the initial funding partial before we get to the -- the full funding, just due to the complexity of some of these projects. So that's really what this is showing. But consistent with distribution line and stations, everything is really -- once the -- the work is identified, the project authorization is done. It's reviewed either, you know, at the -- in this case at EPAC, we have a source project approval committee. It could go a few times before it ultimately gets approved. And then we'll get rooted in the system according with the delegation of authority, which will go in many cases up to the New Hampshire leadership. And then depending on the level, to the CFO and the CEO. So -- but that's what this is.

Yes? Sure.

And then on the bottom here, you can see it says, supplemental authorization process. So just wanted to address that. So once we get through full funding and construction has started. So you know, usually everything -- full funding goes up to pre-construction. You know, once we're in construction, things can happen. We can hit ledge, you know, unanticipated events. And when we do have those, we have a supplemental approval process, which is the same as the project approval process. So we do a supplemental authorization documenting what happened, why is there a cost increase. And that will also go through the delegation of authority approval process.

So -- but we do have that because, you know, inevitably things happen out in the field, schedules could change that. But we do everything we can to manage the project within the authorized amount. And then there's a lot of discussion when, you know, something does change, or go over, or something needs a change control. There's a series of discussions on that. And you know, as Jim will talk about is, you know, as we go through the CBRC meeting, there's discussions there. If anything is at risk of a supplement, then, you know, making sure we stay ahead and that gets documented, you know, when -- when we become aware of it.

COMMISSIONER DELL'ORFANO: Ms. Landry, this is Commissioner Mark Dell'Orfano. I have a question about transmission substation project approval. Is this also the same approval process that's used for regional projects that Eversource might engage in?

MS. LANDRY: So yeah, they all follow the same approval process internally for projects, yes.

CHAIRMAN GOLDNER: Then how do projects come into your funnel? Are they typically -- do they typically come from engineering? Where do they -- what's the source of the projects?

MS. LANDRY: Engineering is -- is the source. But -- and operations is also the source to if there's something known in the -- in the field. But they typically -- engineering is -- is really the -- the -- our primary source of those.

CHAIRMAN GOLDNER: Okay. And then going back a couple of slides, you talked about your five-year long-range planning process and then how that folds into your annual process. Is the five-year plan rolling? Do you do one every year or do you do one every five years?

MS. LANDRY: We do one every year. So we're updating the -- the five-year plan from last year. We'll be updating that for a full five years.

CHAIRMAN GOLDNER: Okay. And then so you had a five-year plan at the last rate case, 19-057. And then, as you just mentioned, you kept rolling it forward, of course. But if you froze at one in time, if you looked at your long-range plan that you used for 19-057 and how that played out or how that turned out in terms of actual capital expenditures, how did that did that compare?

MR. DEVEREAUX: For New Hampshire for the next year in the five-year -- sorry about that. For a five-year period, for the first year, it's been very close. As you go out in time, some of the larger projects, the station projects and those things that the schedule can change. So -- and each time we go through that the first year. So when we do this this spring, for next year, it'll be very close to what the actual budget will be and then the expenditures following that. But as you get year 3 or year 4, year 5, there's a lot of unknowns that were just sort of trending towards.

CHAIRMAN GOLDNER: And that totally makes sense. I guess the high-level question is in terms of dollars. You look at year 0, year 1, year 2, year 3, year 4, year 5. I'm just thinking that projects are going to change. That's just the reality of looking out further in time. Did the dollar values change a lot from 19-057 or was that pretty consistent with what you were expecting?

MR. DEVEREAUX: When that was filed going forward five years, the dollars have increased and the five-year plans have accommodated that. The long-range plans have accommodated that. As I said, for the first year it's pretty close. But as you go forward, station projects in particular can -- can, you know, torque, you know, the other projects there and any change in schedule or in scope could affect that.

CHAIRMAN GOLDNER: So if we just look at the distribution piece, I might have done the math wrong. But when I looked at the 19-057 plan and I look at what actually happened in terms of your capital additions, it looked like it might have been 3 or $400 million more than you were expecting. Is that in the right ballpark or what did you see from 19-057 five-year plan to now?

MR. DEVEREAUX: Are you talking the whole five years of design?

CHAIRMAN GOLDNER: Yeah.

MR. DEVEREAUX: Because year to year, the increases -- I'm going back in memory now. Year to year, the increases weren't that substantial from when that was filed. You combine the whole five years together, year 4, year 5 probably have increased significantly.

CHAIRMAN GOLDNER: Okay. Do you have any idea of the magnitude of the increases? We're really just looking from the last rate case, what the plan was, to now, what was the difference? The reason I'm asking is that the Company is asking for something like $180 million increase, and that's in addition to the steps that we already had in place from the last rate case. So just trying to understand what happened and why the increase is so large.

MR. DEVEREAUX: I can only speak year to year. It's harder to remember exactly what the long-range plan was back then. That was 2018, correct? You know, following the year 2018?

CHAIRMAN GOLDNER: That's the year, yeah.

MR. DEVEREAUX: It has increased from '22 to '3 to '4 and planning for next year also. But I can't, you know, we can certainly give a, you know, a response that will be precise on exactly what changed from there to now.

CHAIRMAN GOLDNER: It would be helpful just to in the aggregate to know what your plan was in the last rate case, the plan, what actually happened. That would be helpful to know, because you're submitting a plan now for the next five years. And if you were really close last time, then that would be one thing. And if you were really far off last time, that might be another thing in terms of what customers and what the Commission should expect. So if the Company could take that back and just do that comparison, that would I think would be helpful for all the parties, including the Commission as well.

COMMISSIONER DELL'ORFANO: Could you perhaps discuss a little bit about why there were changes between the plan that was filed in '19 versus what actually happened? I think some of us can speculate on what those were, but for the record, can we get an idea of what kinds of challenges the Company faced and why those additional capital requirements were there?

MR. DEVEREAUX: Well, certainly COVID played a role. Supply costs increased due to COVID. And you know, that's a significant component of how it increased from what was planned back in '18 and '19 for what happened in '22, '23, '24.

MS. LANDRY: And as we look at that, if we -- when we lay that out, we can address that in that response as well, if that's helpful.

COMMISSIONER CHATTOPADHYAY: A follow-up question. Mr. Chattopadhyay here. As far as transmission is concerned, I'm trying to get a sense of are there transmission projects that are entirely borne by -- the cost is borne by the New Hampshire PSNH customers, or is it equally regionally sort of split the costs between different jurisdictions?

MS. LANDRY: So I have to say it would depend on the -- the project. If it's -- if it's going to be local or regional. So it would -- it does vary based on the -- the project.

COMMISSIONER CHATTOPADHYAY: But are there projects that are entirely funded by PSNH customers? I'm talking transmission.

MS. LANDRY: I would have to -- to check that. I -- yeah. And I couldn't -- but I can check that. But I'd have to talk to my transmission team on that one.

COMMISSIONER CHATTOPADHYAY: Okay.

MS. LANDRY: Thanks. Yeah.

(Counsel confer)

MS. LANDRY: I just don't know the magnitude. There definitely would be some, but I couldn't tell you sitting here the actual project. But there would definitely be some that would be local. I just -- if there was specific ones that, you know, or years that you wanted, I could go back and --

COMMISSIONER CHATTOPADHYAY: No, I just want to understand the -- because if it's discussed transmission costs as well. So those are costs that are borne by PSNH customers in the filing?

MS. LANDRY: So we did not include any transmission in the, you know, this is -- only the distribution is included in this filing.

COMMISSIONER CHATTOPADHYAY: Okay.

MS. LANDRY: Yeah.

COMMISSIONER CHATTOPADHYAY: So capital projects, I did see somewhere that you had also listed transmission projects so --

MS. LANDRY: If there's a transmission and a distribution portion, the distribution portion would be included here.

COMMISSIONER CHATTOPADHYAY: Okay.

MS. LANDRY: Yeah.

COMMISSIONER CHATTOPADHYAY: Thanks.

MS. LANDRY: Sure. You're welcome.

Yes, there would be. Okay. So I'm sorry. So Ella (phonetic) was asking. So just to be clear though, if we have an authorization that could be a -- that has transmission and distribution on it, it would be -- it could be one document that would have the transmission, but it would have specific projects for distribution and transmission. That you may -- excuse me. You may see the end of the total write up, but it would just be the distribution projects that we'd be including there. So yeah.

CHAIRMAN GOLDNER: I think just helping the Commission understand your process is helpful. For example, for your operations guys, are they sort of managing bottlenecks or are they looking for bottlenecks in the system and that's kind of their first pass on what's needed? Are you looking at transformers from 1937 and saying, well, you know, it has a 50-year life. We need to replace that one now. Just giving the Commission some color in terms of your process would be helpful.

MS. LANDRY: Sure. So I'm going to put to the next row I have a great one, is my ops and engineering guys.

MR. DICKIE: Hi, Brian Dickie, vice president of system operations. So for asset management projects, we -- you know, when you say 50 years, we're look at more than just the years, right? We look at condition of the equipment, right? So oil sampling and whatnot. Substations are ranked based on their perceived age. So they could be older than what they are or they could be younger, right? Right? So we do rank those projects and earmark them for replacement if that comes up. Does that answer the question?

CHAIRMAN GOLDNER: I think so. It's the next layer of detail, like, how do you determine an asset that's behaving well. And an asset from 1937 might be performing awesome and doesn't need any changes. And an asset from last year might have some problems. And just how do the engineering and operations teams at Eversource sort through all that?

MR. DICKIE: So for substations, there's a robust inspection and maintenance program. We do oil sampling and we do continuous gas sampling to see what kind of gassing is coming off by the transformers. And from that, we can come up with a trend on what the -- what the life cycle of that equipment would be. And mostly we're talking transformers. So we do have a robust maintenance program where we'll earmark, you know, assets that are aging or that have been out in the field for a while and are perceived to be, you know, at the end of life.

CHAIRMAN GOLDNER: And that's for transformers. You have a gas test that --

MR. DICKIE: We have a gas, oil -- we do the whole inspection, maintenance, it's all kinds of, you know, processes around looking at the equipment and making sure, you know, it's -- it's in good, reliable condition.

CHAIRMAN GOLDNER: And do you inspect every asset annually? Every five years? Is there a --

MR. DICKIE: We inspect them a minimum amount. Yeah. Now, there's -- there's different maintenance that we do on a periodic basis, five years, ten years. But inspections especially are done.

CHAIRMAN GOLDNER: Okay. And then other hard assets, capacitors and so forth, how do you know if -- is it only when the asset isn't working anymore or is there a way of reviewing assets outside of transformers?

MR. DICKIE: So capacitor banks in the station are inspected, you know, both annually and almost monthly. For the lines, line capacitors, we'll go out and do an inspection in the fall and in the late winter to see which capacitors that have blown fuses or whatever. And we'll have those capacitors repaired prior to the spring so we're ready to go for the summer.

CHAIRMAN GOLDNER: Thank you.

COMMISSIONER CHATTOPADHYAY: Conceptual question, are generally, well, situations vary where you may have a project in the five-year plan, but it drops out by the time -- I'm just trying to get a sense of are most projects that are in the five-year plan ultimately get built?

MR. DEVEREAUX: The projects that are further out there, a lot of them are placeholders, and things may change.

If it's a year 4 project, that -- it may become something else. But -- but they want the -- one year out, those projects pretty much stay in there and you'll see the same thing from a five-year plan to what our P-22 (phonetic) filing is, we talk about our capital budget. So those pretty much are there year to year. But as we get further out into the year 4, year 5, most there's a lot of placeholders and just, some uncertainty on exactly the details of a project. It hasn't went through some of the review process that Leanne talked about with the SDCs and other type of review efforts.

CHAIRMAN GOLDNER: We heard a lot during COVID about long lead times, transformers and such were taking -- I don't remember if it was 24 months or something really long. How's the Company deal with lead time and then how are those assets put in service if you have to order something 24 months ahead of time and the lead time changes to 6 months, and you've got a lot of extra transformers on your hands? Just maybe walk us through kind of the engineering process and how you deal with long lead times and how you respond to that. And then from the accounting team, how are those assets put in service?

MS. LANDRY: Do you want to do the engineering piece?

MR. RENAUD: Sure.

Good morning, I'm Paul Renaud. I'm the vice president of distribution engineering, so I'll try to address that. So depending on the exact equipment that you're asking about, you know, power transformers that are in stations have very long lead times, they always have. Distribution transformers, pole-top transformers that are going on the lines, those historically had a shorter lead times that have extended. The larger pad-mounted transformers have, you know, extended even more than those.

We are -- we are always looking at the projects to say when we need to schedule them. So as they get designed, we work with the procurement folks, the supply chain folks. They understand, you know, working with manufacturers all the time on deliveries. We have orders in with them. They're checking to see when those orders are going to be delivered or when we they expect to be delivered. And we do have others that can talk about this more than I can. But what we are continuously looking and working with the supply chain folks on when we think those are going to happen. So we do have to make decisions on modifying schedules because of that. But we are doing that kind of on a continuous basis. There's a weekly meeting that we've been having since this issue has come up to look at transformers, to look at projects that need transformers.

And I think one question was asked about projects that stay in the in -- in the plan or not. We might -- we had to during that period when we couldn't get transformers, move projects out because we didn't -- we didn't have the transformer. So we -- we moved that to the next year, even though it was in our five-year plan in year 1. We might have -- we might have set poles in year 1 and move transformer -- the transformer work out to year 2. So we're continuously looking at those and talking about how we're going to execute the work.

CHAIRMAN GOLDNER: And then before we get to the accounting piece, do you engage in specialty designs for your equipment, your transformers, et cetera. Are they off the shelf? And how does the Company deal with the design aspect?

MR. RENAUD: We try to do standardize on all of our equipment as much as we can. Some of the larger equipment has, you know, depending on if you're doing a brownfield or if you're replacing equipment that's already there, you might have to do something to a piece of equipment in that case. But we try to standardize as much as we can. So we're -- we're leveraging our -- our buying power across the Company.

CHAIRMAN GOLDNER: And so if you're buying a particular transformer that's typical where you buy hundreds or thousands or something for the Company each year, I understand that they're typically off the shelf. And I guess what I'm trying to ask is, does the Company engage with the manufacturer on some of its specs or some of the things they'd like to see in the next generation? How do you engage with your suppliers?

MR. RENAUD: We do. We engage quite frequently with them on what we do. And we -- in a couple of ways. With existing suppliers, we'll work with them. I mean, we even -- if we're asking -- if we're asking for a spec that they don't usually do, for instance, which -- which can happen. We might want something that a manufacturer doesn't do for many other utilities. And so we want to know that. We want to get that feedback. And they'll tell us, well, yeah you're doing this, others don't. And we'll take that feedback and see if we change our spec and vice versa. They might do the same thing for us. We are continuously looking at what manufacturers we use. During this last couple of years, we have increased of vendors that we use in order to widen kind of where the supply comes from.

CHAIRMAN GOLDNER: Excellent. Okay. Thank you very much.

And on the accounting side, I guess those are not put in service until they're actually bolted on and running?

MR. DEVEREAUX: Certainly, and in use, correct. And Paul's example of transformers maybe being, you know, a year later or some months later, and most of the project is done, the work -- there's many work orders under a project. So some part of a project may be completed. Those work orders are placed in service, while once the project is done, the different work orders will be placed in service being used and useful, and you know, being energized.

CHAIRMAN GOLDNER: So you have a warehouse full of transformers, just leave them shortened or something and our project plans changed. And how are those accounted for?

MR. DEVEREAUX: Transformers are a little different animal; those are pre-capitalized. So once they're received they're capitalized at that point, both the labor to install them and the material cost itself. So if a transformer is delivered next week it will be pre-capitalized and pretty much ready to be used. Once a project -- once a work order that has that is used and useful, transformer's installed, the work order is all set, it's used and useful, then that work order will be placed in service.

CHAIRMAN GOLDNER: Is that an industry standard? I'm not used to that pre-capitalization process.

MS. LANDRY: So it -- it is our standard. It was filed and approved at (indiscernible) years ago. So yes, it's pre-capitalized --

CHAIRMAN GOLDNER: Across utilities, its typical?

MS. LANDRY: Yes. We do transformers and meters.

CHAIRMAN GOLDNER: So the only thing that isn't captured in the pre-capitalization would be the labor to put in the asset that would be capitalized? That labor would be capitalized once the asset was installed. Is that how it works, or --

MS. LANDRY: Well, no. So the labor is actually -- the estimated cost to install is capitalized at the time of purchase. So the transformer costs $10 and we say it cost $2 to install, that's capitalized at the time of purchase; we have the $12. And then when the unit is installed, that labor would be expensed.

CHAIRMAN GOLDNER: Okay.

MS. LANDRY: Yep.

CHAIRMAN GOLDNER: And then the depreciation would start once the asset's installed?

MS. LANDRY: Once the asset's purchased.

CHAIRMAN GOLDNER: Purchased.

MS. LANDRY: Yes.

CHAIRMAN GOLDNER: Okay. But wouldn't that encourage the Company -- not that this company would, but wouldn't it encourage utilities in general to have a large supply of equipment because you get to capitalize it upfront?

MS. LANDRY: So interestingly -- so you could have that. But we don't because the -- the operations, the business does not control the actual purchases. The purchases are based on need and supply planning. So our procurement group looks at the usage and what's needed. And that's what dictates the buys. It's not based on any financial piece that you're talking about. It's all controlled based on the -- the need and -- and procurement.

CHAIRMAN GOLDNER: Would you have a rough ballpark of the pre-capitalized assets that are sitting on the books right now, is it $1 million, or $100 million, or $1 billion?

MS. LANDRY: So -- so typically what we purchase, we install in the year. But our pre-cap transformers --

Which is it in? I forgot my laptop.

MR. DEVEREAUX: The pre-cap for this year is right around 30 million. But that's much higher than past years due to the challenges of getting transformers, the price increase of transformers. And also, you know, we've tried to develop new sources because we just, you know, getting transformers was a serious challenge for across the country.

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

COMMISSIONER DELL'ORFANO: If I could follow up on that, Mr. Chair. Realizing that currently you have a surplus of transformers in your warehouse. Could you talk a little bit about how from an accounting standpoint, those transformers are treated? Is it on a FIFO basis and you have a certain cycle time associated with those that they need to be cycled out within a certain amount of time per project?

MR. DEVEREAUX: So if I can answer the easy part of that, we do not have surplus. I don't think many utilities across the country have surplus. And maybe that'll change over the next year or so, but that's been a real challenge. We still have projects that are being held up waiting for transformers.

COMMISSIONER DELL'ORFANO: So to be clear, the transformers that are currently on your books, those are all slated to go someplace? So they're not like early deliveries that are, as the chair had pointed out, maybe you're getting things earlier now, and then waiting to put them out over a number of years? It's instead that you have more projects that need transformers than you actually have, but you're still carrying them currently because they haven't been put into service yet? Is that a fair way to --

MR. DEVEREAUX: Yes. It's one of the challenges of the past year. Paul Renaud talked about waiting for projects or projects waiting for transformers -- is we've had a group of operations and engineers working together on which project get transformers. And we have to keep some -- some ready in cases of storm. So it's been a real challenge that probably didn't exist five years ago of, you know, set up monthly meetings, going over which projects we can release because of transformers there, and which projects have to be withheld. And we've had projects withheld throughout 2024 based upon that. And my guess is that will continue in 2025 to some extent.

COMMISSIONER DELL'ORFANO: Do you have the same issue with reclosers?

MR. DICKIE: No, so -- well, so a couple -- so for transformers, right? We -- we always keep a reserve amount of transformers for storms, right? We always have to have something in stock for that, right? So you can't be short for a storm. So that number, you know, fluctuates a little bit through the year, right? As we get into the spring and we're ready for summer, right? You worry about, you know, whether it'll last through the summer. And then as you get into the fall, you know, the inventory will dwindle down a little bit into the fall. You build up that inventory and you want it for the winter period, right? So there's always some transformers in reserve, right?

Reclosers, what we do with reclosers is we pre-order those about a year in advance, right? So we'll get manufacturing space, you know, for the transformers --

we'll -- for the reclosers we're looking for -- for the following year. And we have so many that come in, you know, over the course of many months through the year -- the following year.

MR. RENAUD: So just -- I think one of your questions, we don't pre-capitalize reclosers in the same way.

MS. LANDRY: No.

MR. RENAUD: But another clarification on transformers. When we pre-capitalize, it's a smaller transformer. It's not power transformers in substations. Those aren't pre-capitalized.

COMMISSIONER DELL'ORFANO: Understood.

MR. RENAUD: The ones that we pre-capitalize, they tend to have higher turnover. We're using those all the time on the distribution system, rather than a station transformer that could be there for, you know, a couple of years while that project is getting built.

MS. LANDRY: Thank you.

COMMISSIONER DELL'ORFANO: One other planning question, and I'll turn it over to --

MS. LANDRY: So can I just answer one other question that you were asking about how the units are req'd out? So we do have our -- I know Craig is here, but -- but we do, you know, they -- they are kind of, I think, the first in first out.

But you want to address that?

MR. DIKEMAN: Sure. Craig Dikeman, I'm vice president of supply chain. So you know, to Paul's point, the majority of distribution transformers that we carry in inventory. Basically, we purchase and order quantities based on historical usage and demand, so it's a combination of two. The issue that we got into during COVID was the fact that lead times went typically from 10 to 12 weeks to 40 to 50 weeks overnight, right?

So when you're carrying three months' worth of inventory, it didn't take long for us to burn through that inventory with nothing coming in the door. So essentially you had, you know, 30 to 40-week gap between what the historically carry versus what's coming in the door. That's what created the supply chain issues back in the 2020 time frame. We worked with engineering very closely. We approved new suppliers from all over the globe. We have suppliers now from South Korea. We have suppliers from Colombia. We placed orders back in 2020, 2021, 2022. Those orders came in the door throughout the year 2023, which is what created somewhat of a -- what I would call a surplus of what we historically carry for inventory levels. That will normalize.

We caught back up now in our planning process where we know what the lead times are. They're historically 44 weeks. So we're planning longer term than we ever have. We've filled that gap, and now we're in a position where we're actually bleeding down the inventory levels to get them back to where we're comfortable. We have more than three secure sources of supply now. Historically, we had one supplier, Howard Industries. You know, they own 35, 40 percent market share in the U.S. They were (indiscernible) for all utilities across the country, including Eversource. And you know, that was a typical procurement strategy: aggregate your spend; you negotiate lower costs because of your volumes. We're one of their top three customers based on both usage and spend.

So we had to get out of that model in order for us to just keep transformers coming in the door. So during storm, during normal usage patterns, during this kind of long-term window that we had where we literally had nothing on the ground, we had to rebuild that inventory. We've caught up to that. I think we're in a position now where we're comfortable with the lead times. We don't like them, but we built them into our planning process. We have two or three additional suppliers that we haven't had in the past. We also have a supplier in New Jersey who historically did both refurbishing of transformers as well as disposal. They're now bringing, refurbishing, putting them back in new condition, and reselling them back into the market. So we're in a good position overall. Our goal is to actually reduce our inventory levels, get back down to where we want to be. But to me, it's a one-time condition that was based on what happened in the market, you know, as a result of COVID.

UNIDENTIFIED SPEAKER: Did you have a question, Commissioner Chattopadhyay?

COMMISSIONER CHATTOPADHYAY: Yeah, just give me a sense of the pre-capitalized inventory that we are talking about here, the small transformers. As far as the needs are concerned, how far into the future are the needs typically being met?

MS. LANDRY: Not sure 100 percent.

MR. DEVEREAUX: You mean customer needs?

COMMISSIONER CHATTOPADHYAY: No. In terms of, like, it's in the inventory, now you need to deploy it. So I'm trying to understand what is a the period?

MR. RENAUD: So with the -- with the exception of large pad-mounted transformers we -- we are meeting the need as requested right now.

MR. DEVEREAUX: Is your question more, like, what's the turnover. How -- how often does that -- like, are we -- turnover in a year?

MR. DIKEMAN: Yeah, I mean historically on the electric side, our terms have been, you know, typically two to three turns a year for, you know, distribution type of equipment. I mean, that is pretty typical in our industry because of the fact that we have to carry elevated levels because we never know the magnitude of the next storm that's going to hit us. And when you have a storm, that's a major storm, with these long lead times, you need to make sure you've got enough inventory to cover that storm. And again, you know, you have to understand, there's different types of transformers. You're going to ask me where I feel, you know, overhead pole-mounted transformers, we have very sufficient inventory of overhead pole-mounted transformers. And those are historically the ones that get used during storms.

COMMISSIONER CHATTOPADHYAY: My question was more about the pre-capitalized small transformers. So --

MR. DIKEMAN: Yeah, that -- that is typically what our distribution class transformers are. So we've got overhead cans. We typically use in (indiscernible) used residential developments in those. So you know, I would say typically you're talking probably two to three turns a year. So you know, it's pretty typical in the industry. And that's pretty typical for us.

COMMISSIONER DELL'ORFANO: So going back to planning and this is also partially an inventory question. When you're putting your five-year plans together and you're updating them annually, could you talk a little bit about how connecting n- and distributing resources to your system, your distribution system in particular, how that changes your planning process, or perhaps abrogates the need in some cases to upgrade or maintain an area at the cost of the rate base because you have developers that'll end up carrying some of that cost? Can you talk a little bit about that?

MR. DEVEREAUX: Yeah, I can -- I can start. So I would say that those don't have a huge impact on our existing plans. They tend to be -- when something comes on, there tends to be an addition to our plan. We do have a --- one of the -- in our long-range planning, you'll see a customer line item, so we do plan for those types of projects. We need to, because we -- we -- even though they're reimbursable, we plan for the spend and then get reimbursement. So we try to understand how much that's going to be.

It's going to -- it is a resource for us, but we're going to have to plan for it. But typically, a lot of those interconnections are -- are above what we're already doing. Because we do have to plan for those times when those aren't operational, but still. So we'll do that. We will factor it in if it does happen to upgrade a line, a feeder, or something that is going to -- to a larger facility. The smaller facilities don't typically have that. We would take that into account, adjust our plans accordingly. You know, the customers may -- may reimburse us for that. There may be some times where we would give them some credit if there's a benefit to the system. But that's typically, it's not impacting our plan in a huge way.

COMMISSIONER DELL'ORFANO: What about inventory levels of equipment? And I'm not just talking about pole-attached transformers. And in terms of having the equipment available to attach or to -- excuse me, to connect folks. Has that ever been an issue?

MR. DEVEREAUX: Yeah. I mean, to me, the one -- the -- the issue that we've had -- because mostly with transformers. We have had times where customers -- we've had to, you know, work with customers, we try to do what we can. I think we've been pretty successful at it, as we say, we meet weekly. But the large pad-mounted transformers for some of the new installations that we're seeing, larger customers, those have been a challenge and we work with customers on timing. We try to get those -- those ordered ahead of time now -- further ahead than we used to because of that. But I think -- I think we've done pretty well. That's -- that's the main impact would be those.

MR. RENAUD: Thank you.

And those are not pre-capitalized items, just so you're aware. The pad-mounted -- the larger pad-mounted transformers are not pre-capitalized items.

MS. LANDRY: Correct.

COMMISSIONER DELL'ORFANO: Thank you.

CHAIRMAN GOLDNER: And maybe just a short follow-up. So I just want to understand the Company's inventory strategy a little bit better. If you're living in a world where you're kind of line-to-line with your lead times and your inventory, then that's a scary place to be because things can go wrong; lead times can extend, all those kinds of things. But I just wondered if the if the executives could talk a little bit about the high-level lead time strategy, how you deal with the fact that lead times can go out. Wall Street hates inventories. So I'm sure at the very top levels, your CFO gets a ton of pressure on inventory. So there's a check and balance there. But maybe talk a little bit about how you deal with your inventory strategy. That would be very helpful to us.

MR. DIKEMAN: Sure. I will take that. So as a typical rule, we try to carry three months of inventory, pretty much all the products that we use. And you know, the high wires. In parallel, we have a very long-standing, extensive, distribution supply contract with a company called

Graybar. Graybar is our distribution partner. They carry an additional three months of inventory to back up and redundant -- it's redundant inventory on top of our three months that we carry. So basically, we've got six months of inventory typically in our pipeline. And that's for the most part, how we manage it overall.

We've identified the areas, candidly, where we have maybe one source of supply historically that we've relied on. And we've done a lot of work in the past two to three years with engineering to approve alternative manufacturers. And that's one of the ways from an inventory strategy point of view to get around constraints in the industry.

To Paul's point, the main areas where we saw choke points when COVID hit, were typically wood poles, okay, distribution transformers. And we saw some uptick in constraints around things like wire and cable. Across the board though, from a component point of view, we didn't really see any issues. And if we did, there's typically four or five manufacturers of these bread and butter items -- that we would work with Graybar and Graybar would switch from vendor A -- you know, from manufacturer A to manufacturer B.

The other thing is, you know, as a both a supply chain team, the procurement, the materials management folks, we did a lot more outreach to our manufacturers to understand their upstream supply constraints. One of the things that we had to do is understand, you know, how many different builds of material make up a finished unit that we buy? In the past, when we need a transformer, we buy a transformer. We don't get involved with where the bayonet fuses come from, where the wire leads come from. We had no choice during COVID, but ultimately, we become experts on our supplier's supply chains. And with that, we would work with engineering and say, hey, there's a constraint on this particular widget. We're going to look at approving an alternative manufacturer, giving the green light to our transformer manufacturer. So that's a lot of what we did.

And overall, you know, I think to answer to your question, you know, we typically carry three to six -- three to six months' inventory of every product we buy. I think if, you know, you compare this to a manufacturing company, they would say that's too much. But again, it's the unpredictability of storms and other things where we have to have that inventory on hand to be able to handle really any level of storm, and especially the worst case scenario storms.

CHAIRMAN GOLDNER: And the Graybar strategy is a very interesting one. How often do you find yourself going to Graybar and what kind of sort of premium do you find yourself having to pay when you need to dip into that allowance?

MR. DIKEMAN: So you know, we have a very integrated supply relationship. It was competitively bid six years ago. You know, essentially -- there at one time when we bid it, there were four main major distribution partners in the industry. There was Graybar, Wesco, Irby, and Anixter. Now, there's been a few consolidations, but you know, the program at Graybar is very mature. We competitively bid it. We pay a very low margin, to be honest with you. And part of that margin is it includes their carrying costs of inventory. They're part of our quarterly SRM program where we sit down, we look at metrics, we look at terms, you know, we look at areas where, you know, certain products aren't turning, and we'll make decisions based on stocking levels that impact both us and them. We don't pay a premium. At the end of the day, that's built into our fixed costs that we have with Graybar. The way the program is set up, they go out, they quarter -- they, I think, semiannually bid at their manufacturers. So we pay cost plus a fixed markup. When we went to bid back six years ago, candidly, they were by far the most cost competitive of any supply distributor in the country.

CHAIRMAN GOLDNER: And is this process where you include Graybar, is this typical large utilities in the United States? Is this typical also of small? Is this -- in other words, is this a process that really everyone uses or is this unique to Eversource?

MR. DIKEMAN: I would say the majority of your large utilities across the country use this same process.

CHAIRMAN GOLDNER: Thank you.

MR. DIKEMAN: The smaller ones probably less. And actually, I think the smaller ones use more of a vendor managed inventory type program. But you know, again, we are -- we are one of the large players in the country and we're one of Graybar's -- if not Graybar's largest customer.

CHAIRMAN GOLDNER: Thank you.

COMMISSIONER DELL'ORFANO: When Eversource goes out on -- and competitively bids these supply contracts, is it Public Service of New Hampshire that does it or is it that Eversource, the family of companies that does it?

MR. DIKEMAN: It's Eversource, the family of companies. And obviously, we leverage our volume.

MS. LANDRY: Okay. So I think we've covered the slide 7 on the project lifecycle and the integration. Is it helpful if we go to the next one and -- and we talk through the -- the monthly review process for the Capital Budget Review Committee?

MR. DEVEREAUX: This committee, which is comprised of the president of PSNH, all of the affected stakeholders, whether it's engineering, operations, or finance. And we meet every month. You can see this is the cover sheet. This is from September of earlier this year. We discuss every project that has had spending during the year. So there's 200 projects that are here. And when we discuss them, it's questions on the year-end spending, the monthly spending, the cash flow going forward. You can see on this that, you know, we're through September so we have actuals. Going forward, we have projections.

Also, in this discussion for project, are there any risks in meeting the -- the in-service date? Is there any risk to the pricing going forward? Where are we in authorization? Are we approaching the authorization level? Is there a chance of a supplement? Really by -- project by project. And it takes about two hours in all. So 25 to 30 folks involved in the call. And it is very comprehensive, particularly on any project with risk, any project with potential overspending, or schedule challenges. And you can see this is -- this is in the project category, the parent category, new customer basic business reliability.

On the next tab you'll see this is the first tab that we go to. This is the project management group. This is some of the larger projects, station projects. But not in this, we also have different categories of project, whether it's electric operations manage projects, stations manage projects, distribution automation projects.

And then we get to the annuals. We have electric operations annuals and station -- excuse me and engineering annuals. And for each of those it's, you know, almost a challenge session of how confident are you in that year-end projection? How confident are you in the schedule? And from that, you know, we can make changes throughout the year. The past several years, some of the station projects have been extended in time. So we've moved other projects in maintaining our, you know, the year-end projection, meeting the budget, and really trying to accommodate, you know, the projects' schedules, changing schedules, and just to make sure that we meet our, you know, our proposed budget target.

CHAIRMAN GOLDNER: Do you keep any statistics on rejected and deferred projects? You know, 12 percent are deferred and 16 percent are rejected, anything like that?

MR. DEVEREAUX: Well, there's not really rejected -- rejected projects and there's some have been pushed off. Paul mentioned that, on -- on some transformer issues that we've had in the past. We keep track of -- of -- we've monitored how our projections are going forward. I think we've gotten much stronger over the past four or five years on that. And it's really just the challenge of -- of -- of the meeting and the focus on it. I forget the other part of the question you just had.

CHAIRMAN GOLDNER: Well, just -- if I go back and think about my experience in manufacturing, the chief executive was usually very critical of the proposals that came in, and there was a lot of discussion about, hey, engineering department, you asked for seven of these and we should be able to use five. And you'd have some very sort of brutal discussions about what the folks wanted from the ground level and what the executives wanted to achieve from a financial level. So we had tons of stuff that was rejected and lots of angry people. And it was -- they were tough meetings, they were not friendly. So I'm just kind of trying to sort out if everything that goes in front of the executives get approved, then what's the point in having a process?

MR. DEVEREAUX: Okay. I think I spoke about the CBRC process, meaning rejected. Leanne spoke about some of the processes before a project gets approved. And that's where that effort would come through of, you know, requests from different groups for, you know, potential parties going forward. There's challenge sessions and some of the things in the flowcharts that were previously mentioned that would wean out any projects or -- or change or whatever. The CBRC is really about projects that are ongoing and what's happening with those projects and --

CHAIRMAN GOLDNER: Execution dates?

MR. DEVEREAUX: Yes, exactly. It's better --

MS. LANDRY: Cost management.

CHAIRMAN GOLDNER: Okay.

MR. DEVEREAUX: Yeah.

UNIDENTIFIED SPEAKER: Jim, I can I can add a little bit there. So we also we're all constantly talking about projects. Jim mentioned the SDC. We have challenge sessions that that come up well before kind of the formal final approval process where the executives, myself, Brian, the president of -- of New Hampshire is involved in all those discussions. We have monthly work plan meetings where we talk about the work that's upcoming and things that we're thinking about. And we -- and so they're -- we're intimately involved in those along the way, so they know things will get rejected long before they ever get to a final -- this kind of final state. But we don't have documentation in that same way that you're thinking about.

CHAIRMAN GOLDNER: Okay. So just to kind of recap, the role of the executives in the Eversource process is really execution focused, and the rejection of projects or the filtering of projects happens before it reaches the executive level?

UNIDENTIFIED SPEAKER: When you're -- when you're saying executives, so if you're saying that a senior executive, if it's a large project that goes to our CEO, for instance, they're not involved in the -- in the discussion before that, that would happen later. But all the other projects, projects up to my level, which is $2 million, the senior vice president level, which is $7 million, I think -- those projects are all -- we're involved in all those projects from the beginning.

CHAIRMAN GOLDNER: Okay.

MR. RENAUD: And I'm involved in most of the approvals that come up through, and if I have a question, I take it back. But as far as the challenge session is concerned, that's where you get some great conversations with -- all the engineering folks will be in a room; we'll, you know, they'll put their projects forward. We'll say, did you think about this? You think about that? You know, do we want to go forward with this one? So there, you know, that happens over probably a two-day period, usually late summer. And you know, then we'll -- through that process, we'll come out in the fall, kind of whittle down the projects to what we think is our good projects to move forward. And then it goes into the CBRC process after that.

CHAIRMAN GOLDNER: Okay. So these challenge sessions, when we look at the initial flowchart that Ms.

Landry showed, I'm just trying to understand when -- where is that in the flowchart? How does that work? I'm looking at the CBRC, NH PAC, EPAC, lots of acronyms. I'm just trying to understand when the crucible of the capital process, where does that happen in the flowchart?

MR. DEVEREAUX: Yeah. You have to go up to slide 3.

MS. LANDRY: Yeah.

MR. DEVEREAUX: And we're looking at the timeline three to five-year. The five-year long range plan in the annual budget process, right? When you get into the -- the flowcharts, those are when projects are approved to move forward and get some funding, initial funding for engineering. The challenge process is before that.

CHAIRMAN GOLDNER: Okay.

MS. LANDRY: Yeah.

CHAIRMAN GOLDNER: It would be good to understand a little bit better, because it sounds like that's -- your -- really your capital process is this challenge process where the folks that want to put forward the projects have to explain that to the executives; and the executives review that to say, hey, why do you need ten of these? You only need three or whatever it is. We decided what -- did you -- you need to relook at the design or whatever it is?

MR. DEVEREAUX: Yeah, I can see (indiscernible).

CHAIRMAN GOLDNER: Yeah. Thank you. Yeah, well, you obviously have a lot of detailed planning process, and it's just important, I think, to understand and have confidence that the projects are being reviewed and that the capital is just and reasonable and these kinds of things, and used and useful from the Commission's point of view.

MS. LANDRY: And just to kind of go to your other point is up front there, as we're going through the -- the long-range planning process, there's a lot of discussion on the -- the financial side. You know, it's -- I always say success is when nobody's happy and it's just a balance because, you know, it's -- you know, you can't do everything. And that's in that process, there's a lot of back and forth of, you know, okay, this is what we need to do, you know, financially, okay, you know, balancing that. And then, you know, there's a challenge there. Maybe it's more of a higher level to sit there and say, you know, based on the need and everything, this is financially what can -- what can be afforded as you're going through that long-range planning process. And that happens right up front in that first half of the -- the year when we do that and then sets that foundation for the -- the annual plan. Yeah.

CHAIRMAN GOLDNER: Because when you read the testimony in the slides, it's clear that the Company has an extensive process. So the question from a Commission perspective is, is it an effective process? So it's clear there's a lot of detail and you have a lot of process steps and that the Company takes it seriously. There's no question about that. But is it effective? And so helping the Commission understand how your process works, this crucible process that you're using, would be helpful for us to sort of gain confidence that, yes, it's complicated; you take it seriously, but it's also effective.

COMMISSIONER CHATTOPADHYAY: I guess slide 7. It's a pretty useful reminder to me that I need to go to ophthalmologist. So I -- do you have a more legible copy anywhere? When I go to the electronic version, and I zoom in, it doesn't help, it makes it worse because we have a lot of pixelation. But I'm just wondering whether you have a more legible one?

MS. LANDRY: We can definitely --

COMMISSIONER CHATTOPADHYAY: So --

MS. LANDRY: I can -- We can put it in PDF form so that it's more legible.

COMMISSIONER CHATTOPADHYAY: Yeah.

COMMISSIONER DELL'ORFANO: If I could just turn our attention for a moment back to slide 8, the budget program summary. I just want to make sure I'm reading this correctly.

Okay. So under new customer, for instance you have budget, projection, actual, variance. Was budget the budget that was put together in the 2019 time frame?

MR. DEVEREAUX: No. This budget -- 2024 budget, it may have been in the five-year plan. So '24 would be in the '19 year 5.

COMMISSIONER DELL'ORFANO: Right.

MR. DEVEREAUX: But the budget was set up just in, you know, the fall of 2023.

COMMISSIONER DELL'ORFANO: Okay. And then projection, because I thought budget might be what was in '19, projection was at the end of the year. You figured out that '19's numbers were wrong and you needed to project something different. Can you maybe reconcile those two for me?

MR. DEVEREAUX: This has nothing to do with 2019.

COMMISSIONER DELL'ORFANO: No, I realize that.

MR. DEVEREAUX: Okay.

COMMISSIONER DELL'ORFANO: You have the budget that the original five-year plan that came out in '19.

MR. DEVEREAUX: Yeah.

COMMISSIONER DELL'ORFANO: I presume that there was some sort of budget associated with it for the customer, basic business, et cetera. And so I guess what I'm trying to understand is, if in '19 you had a budget for year 5, new customer costs, if this number here budget isn't that number, then that number, are you telling us that that number came sometime in 2024?

MR. DEVEREAUX: It did. And using new customers as an example, my guess is in 2019, the budget was around 15 or 16 million. New customer has a loss of over the last four or five years. We're going to exceed 30 million this year and or we're projected to hit 36. I think we're at 37 million this year. Back then it was 16, 17, 18 million.

MS. LANDRY: So this budget here, just to clarify. So the '24 budget was established in 2023. So we do that, we come up with the detail; it gets board approved. I got to mention we have a capital book, if you will, that goes to the board that does that and it gets approved by senior management. That's what this budget is that we report against and the whole, you know, the following calendar year. So we have a monthly budget '24.

COMMISSIONER DELL'ORFANO: Okay. And then how is that different from projection?

MS. LANDRY: So projection -- so we set it -- new customer is a good example. We may set it based on kind of the historical actuals plus anything known. Projection is as we're going through the year, new developments come up or whatever. That's what the projection is sitting there saying is, hey, based on the activity that we're seeing, we're seeing a lot more volume in new customer. We're projecting in this case for it to be higher than -- than what we had thought.

COMMISSIONER DELL'ORFANO: So is it during '24 where you update your projections?

MS. LANDRY: Yes.

COMMISSIONER DELL'ORFANO: Every so --

MS. LANDRY: Every month.

COMMISSIONER DELL'ORFANO: Every month an update.

MR. DEVEREAUX: During this meeting that there's, you know, changes literally to 80 to 90 projects, their projection for year end. And it's really a challenge session that -- that happens, particularly as you get later in the year trying to meet the target and manage the different new customer. We don't have a lot of control, the customers -- so we have to absorb -- if we're at -- at this level that we were in 2024, we may have to make adjustments to other projects to stay in the envelope.

COMMISSIONER DELL'ORFANO: Okay. So if we just go down one section there to basic business. I mean, it's approximately a $29 million difference between the budget in '23 that was set and the variance. Now, I'm not looking for a detailed explanations here, but I'm just trying to, I guess, understand how does something like that happen? How do you end up in a situation where you just kind of got it so off? Because that's a significant variant, I would say.

MR. DEVEREAUX: It is. And we spent a lot of time talking about transformers. Transformers is the number one factor in that variance. The CFI that we talked about that not only has the price of transformers increased, but you know, as we talked about the quantities that we've received and the labor to install them; also labor to install them has increased. It's been, you know, we install them with our internal workforce and also with contractors. Contractor's prices have changed a little bit. So that's not the whole -- if I do my math correctly, that's not the whole $40,000 -- $40 million increase. But that is the number one factor in the increase.

MS. LANDRY: And the other thing that would be in there would be emergent work. So we base that on historically, we -- we have a lot of kind of minor weather activity that could drive it as well.

(Counsel confer)

MS. LANDRY: Yeah.

COMMISSIONER DELL'ORFANO: In terms of emergent work, just kind of on a typical basis, how much of the variance do that generally produce into a budget projection? And I'm not looking for an exact number here, but just basically speaking, you must know on a monthly basis during the middle of major snowstorms, it's not going to be the -- what your budgeted. So just maybe give us a little insight into how you kind of correct for that sort of thing?

MS. LANDRY: That's, I would say, in addition to transformers, emergent -- my perspective, is one of the biggest challenges, right. Because it's -- it's one of those things of it really, as you see, you know, you go through, you know, the first quarter of the year and you could be significantly higher. So in these CBRC meetings, then it's, if we have that indication that that's going to be higher, then the operations engineering team is -- is potentially pulling back other projects to make sure we stay on -- on plan for the year. So we do typically see that higher emergent --

MR. DEVEREAUX: Emerging distribution activity was number two. We, you know, as we end the year, we just completed, you know, year-end reporting and looking at some variances, obviously that sticks out. You can see the difference between the budget and the actuals. But that was number two in the factors.

COMMISSIONER DELL'ORFANO: Just putting myself in the shoes of a ratepayer, right. I mean, if I see that kind of a delta, you start wondering, well, gee whiz, I can't just -- I have an emergent expense. I can't just pass it on to someone else. So I mean, I think as we proceed with the rate case, I think it's important to make sure that there's some testimony and appropriate information on how this has happened, how these variances have been. And that's not to be critical. It's to be able to understand better work goes into this.

MS. LANDRY: No. Absolutely. And that's -- that's why we have these meetings. So that when we do have unanticipated events, you know, we're -- we're managing the -- the overall capital plan to stay in line, because things do happen that, you know, we try to plan the best we can for them. But we, you know, we own it and make sure we're -- we're managing the overall plan.

COMMISSIONER DELL'ORFANO: Understood. Thank you again.

MS. LANDRY: Sure.

COMMISSIONER CHATTOPADHYAY: Very quick question. What is the -- so I see you have a target as well, when you're talking about projections. You sort of distinguish what's going on. Like when is the target set? Because ultimately, the variance, two different concepts of variance, right? I mean, budget versus projections and -- I'm not sure what exactly that --

MR. DEVEREAUX: We added this category. If you saw the 2023 CBRC reports, you wouldn't see that category. And we did it really during the middle of the year. Mr. Dickie sort of was the manager of that. And as -- as you can see, the reliability projects were significantly behind budget. That was the case two years ago, too. Some of these station projects get extended in time to when they're executed. So what he did -- and he did by project by project, it's, like, almost 200 different projects. The annuals are a little different, but he had targets. And when we went through the -- the meetings, he would, you know, talked with each of the project managers and that -- that target is a compilation of this. I think there's seven tabs of this report, and they all add up to this.

But when we go through each tab, this project may have been -- you know, the projected year-end may have been 4 million back in the beginning of the year. And I think it was, you know, three or four months ago when the target was set up. And then it was a back and forth. I mean, we have the budget too but at that point, we knew some of the projects were coming less than -- than planned; new customer was higher than planned; emergent distribution work was higher than planned. So we just tried to hold them accountable to a certain number. And it was much harder for some of the larger projects that had -- whether there's permit issues or other challenges in execution, to hold them to that. But that was a -- that was another element that we added in 2024, just to make sure that we -- we hit our, you know, our budget target overall.

MS. LANDRY: Anything you want to add there?

He's good?

MR. DEVEREAUX: Remember, there was -- Leanne is talking about unhappiness earlier.

CHAIRMAN GOLDNER: Okay. Let's take a break. We'll come back. We have some additional questions beyond the presentation for capital additions, and we'll just pick up on that after the break. And let's come back at 20 of the hour.

Off the record.

(Recess at 10:28 a.m., recommencing at 10:42 a.m.)

CHAIRMAN GOLDNER: Okay. I'll just start with a few questions. So did the Company tighten up its capital process? When I was reading through the testimony, there's the discussion about initial funding and partial funding, which was covered also a few minutes ago, the project authorization forms, oversight improvements, and sign offs, and so forth. Is this a thing in the capital process, or is this the same process that you used in 19-057?

MS. LANDRY: I would say it's a tightened process. So we're always looking for ways to -- to improve. But you know, as if you go back in 2019, you know, we put in place that procedure that I was showing you and -- and then as we we're going through introducing, you know, the initial, and the partial, and the full, we also implemented, you know, as -- as the business process audit looked and had recommendations, we implemented those as well. So I would say that, you know, the foundation is there and the policies are there, but we're always looking to improve it. And I would say it has tightened from 19-057 to today.

CHAIRMAN GOLDNER: Okay. Thank you. And then I noticed that there was -- you moved your threshold in the project authorization policy to $500,000, but I couldn't find what it was before.

MS. LANDRY: Yes. So we did. So before it was 100,000 direct costs. So prior -- the prior policy was based on direct, which was probably the equivalent of 200, you know, 250 in -- in total cost. So -- we -- but it hadn't been changed in years. I couldn't tell you the last, you know -- so it went to 500,000 in total for distribution projects. So corporate shared services and transmission were already at 500,000 total. So that policy change made everybody consistent with that. So -- but it wasn't -- I just wanted to emphasize it wasn't as dramatic as going from 100 to -- to -- to 500. That 100 was direct cost. So I think it simplified the process as well because it was kind of hard to explain direct totals. Yeah.

COMMISSIONER DELL'ORFANO: And just to make sure that we have this for the record, when you say direct costs, you mean direct material, direct labor, in a kind of management accounting kind of --

MS. LANDRY: Yes.

COMMISSIONER DELL'ORFANO: And so now it includes also the fixed and variable overhead as well as the direct?

MS. LANDRY: Yes, absolutely.

CHAIRMAN GOLDNER: And then if I look at page 14 of 32 and the testimony also, Bates 2299, there's discussion of the prioritization of capital projects. And I'm having trouble grasping both in the presentation this morning and reading through the testimony of how the cutline is determined. I'm sort of accustomed to going down a list, and then you cut off at some point and you have some rules around the cutline. Can you just add some discussion in terms of how the Company does its (indiscernible), how it does its prioritization? How does this cutline? I'm not quite able to follow the testimony.

MS. LANDRY: No. Sure. So that prioritization happens in the development of the plan.

Paul, do you want to address how we -- how you prioritize engineering projects and --

MR. RENAUD: Yeah. Paul Renaud again. So prioritization does -- we're doing that kind of continuously, I would say, in looking at what we're spending. So some things of course, are kind of mandatory type work, customer work, emergent work, that we talked about before. Which emergent work includes things that are breaking every day, potentially, or storms, that often include minor storms in that -- in that emergent category. So those are prioritized first. We then we, you know, we have other things. So the three -- you go back to one of the slides, you saw the funnel chart that had reliability, assets, and capacity. And those are the three ways we think about things.

So capacity when -- if something is going to be -- equipment is overloaded, that's a -- that's a priority for us. We think -- we -- we don't want equipment to be overloaded. That risks failure and customers out of service. So that's -- that's ranked higher.

And then when we get down into the asset condition reliability, we look at a number of factors. And it's -- it's really we look at customer, you know, how customer service is, are customers being taken out of service more frequently than others? We look at our industry indices, safety. Those, I think, speaks for the -- for the areas.

You know, we look at kind of the risk of those assets based on what the field intelligence is. Do we -- do we think there's a high risk of failure, even if there hasn't been a history of outages there? So we prioritize based on those. So it depends on the type of work that we're doing -- we're doing.

And then we all, as -- as part of the challenge session, we get together and we say, okay, you know, where is that -- that line, that cutline? What is the risk? And we're doing that, as I would say, a committee of people saying, no, this -- this is a risk we can't live with. And this -- this one is. So we don't have a tool per se that we're saying, you know, I know I've -- I've seen scoring mechanisms, for instance, people do that, but we don't have that. It's more of a committee approach when you get down into those asset and reliability types.

CHAIRMAN GOLDNER: So it sounds like there's a lot of human judgment. You have a committee and the humans look at all the different factors, and there's no formula that determines what the right answer is. Are the finance guys there at the same time saying, hey, man, I know that this looks really great, and you guys want to spend $1 billion, and the system is going to be perfect, but we're sorry, we only have half that much, or something. Is there any sort of control with the finance team?

MR. RENAUD: Yeah, there is. I mean, that's part of the whole process is we -- we in the end, we present those plans -- the long-range plan to -- to the finance folks as part of the presentation of that material. And we -- and there's an iterative process on how we do it and Ms. Landy can talk more about that.

MS. LANDRY: Yeah. No. And so yeah, we're -- we're there the -- the whole way. And you know, one of the -- I'll tell you the, the approach I take is -- is, you know, with the -- the engineering and operations team is what can we effectively execute? Because that's -- that's really probably one of my first best controls and gauge, right? Because, you know, we can say we want to do all this, but can we actually effectively execute this work? So that's always, you know, that -- that planning and scheduling piece is always there. So that's my -- that's one of my financial nets, right, if you will, to -- to control this.

But we're always looking and balancing and -- and doing exactly what you said of is, you know, yes, you want to do the billion dollars. But we, you know, can we effectively execute that? And that -- that also is control that helps bring it down. But as the finance organization, we're always there kind of, you know, keeping it with -- within the -- the financial boundaries. And you know, always looking at, you know, kind of what we had in the one-year plan that came down from the senior executives. And the CFO is -- is very involved in that, you know, in the five-year plan and setting that -- that guidance for the one-year plan. And that's what, you know, that's -- what Jim and I work with as we're sitting there hand in hand with the ops and engineering folks.

CHAIRMAN GOLDNER: Thank you.

Yeah, I think in capital intensive businesses, it's typical for the planning/operations, whatever you call them within your company, to control the spending because they're the ones with the full knowledge of all the different pieces.

MS. LANDRY: Yeah.

CHAIRMAN GOLDNER: So the engineering guys usually aren't too happy with the finance and planning guys, right? Because they're not able to get everything that they want.

MS. LANDRY: Exactly.

CHAIRMAN GOLDNER: You may have explained this earlier and I just didn't pick up on it, but I was looking at the testimony on page 1632. Is there a flowchart for your formal approval process? I just couldn't find it anywhere. And maybe it was in what you just showed and I missed it, but I don't know how that works.

MS. LANDRY: There is one in there in terms of how it goes through the system for the approval. So I could definitely get you one in terms of -- but when it goes in -- in that delegation of authority, based on the dollar amount of the project, there's a level of approvals between manager, director goes up, vice president, president; those are all built into the system. So when it gets routed, you -- I can't skip a level, if you will. But I can -- we could definitely get you a flow chart of, you know, kind of how that approval, what those levels are in there. In the delegation of authority policy, there is those levels that show, okay, you know, manager is 100,000, director 500, vice president 200. We have approval trees, if you will.

CHAIRMAN GOLDNER: That's very helpful. And that's, I think, that would be helpful. I noticed on 18 of 32 you had VP approval for cost increases of a of a million or more?

MS. LANDRY: Yes.

CHAIRMAN GOLDNER: So I was just trying to understand, is there a different approval process for increases versus initial projects? And I just was trying to piece together how that worked.

MS. LANDRY: Um-hum. So everything follows that delegation of authority. If there's a supplement, so the project is now going over and it's going over by more than a million. That vice president, my boss of financial planning and analysis is also in that approval process. So that's an added level of review from the financial organization. Once you have a supplement that's more than $1 million over the authorized amount, so it's not based on a percentage. It's -- if it's a million -- if it's $1 million over that authorized amount, it's also going to him.

CHAIRMAN GOLDNER: Okay. And what's the Company's process or accountability for cost overruns? Sometimes you have frequent fliers. It's the same group or the same people that are in all the time that are missing their forecast and so forth. How does the Company deal with sort of the accountability aspect?

MS. LANDRY: Of it? No, it's a great question. And -- and I would argue that that's -- that's a big part of that CBRC. That in that file we kind of put up, there's a name next to every single one of those projects. From a cost analyst perspective and a project manager that's accountable for it. So in that CBRC, everybody is held accountable to their projects and their projections.

MR. DEVEREAUX: Yes. And so during that meeting and even prior to it reaching that level, there's discussion with the project manager. And you know, remember in that meeting with the president of PSNH, it will be Brian, sort of working with the projected, the year-end. But that that project manager will have to explain, you know, where it is right now, it's five percent under, ten -- ten percent under, or its succeeding, and explain why.

Also, when the supplement is done, supplement has to go through the project -- project approval committee, also in New Hampshire. So there's a lot of back and forth there on the reasons for the supplement and that type of thing. So it's -- it's almost -- you're getting hit twice. And supplements have been a huge focus for us. They have declined over the years, which is, you know, a success story of, you know, really the -- some of the challenges we've had in the past; really working on reducing them and also, you know, exposure to projects that are nearing a supplement. So there's, you know, you know, not talking about them after they've surpassed it, you're talking about them as it's happening.

CHAIRMAN GOLDNER: In the other --- thank you.

On the other side of that is that you also have the learned behavior of sandbagging, right? You don't want to get your fingers chopped off. Then you just double what you think it's going to cost. And then miraculously, you're always on budget. So how does the Company deal with sandbagging and what -- how does that work?

MR. DEVEREAUX: Well, another challenge we have is if that behavior happens, then you're expecting these projects, these 100 projects to add up to your 100 million or so. And if you have sandbagging on a certain percentage of them, you're going to have money left at the end of the -- end of the year that could have been used for other very needed projects. So there is a back and forth in that.

We also look at projects that as the year -- as the projects are completed, where are they? If they're under or over -- part of the Rivers group and the business process audit was taking a look at that very topic of, you know, you can avoid supplements all day long if you want to. But you're going to, you know, cause other issues in your whole capital process, and capital execution, and -- and budgeting. So there is maybe a little bit less of an extreme focus on being under. But there is focus on that, you know, versus just only looking at the supplements.

MS. LANDRY: And there's a lot of accountability because of him right back here. But I'm going to pick on Brian. But there's a lot of accountability that -- that comes from the New Hampshire leadership.

MR. DICKIE: Right. And we're looking through the CBRC process, right? We're looking at, you know, how close are they to target? Are they way under? And if they are, why? And obviously, if they're approaching target and they're going to go over, we need to know why that is, too, right? So there's a lot of pressure put on project managers, right? To make sure they're giving us proper cash flows; they're completing their projects on time and we're not sandbagging, and all the rest of anything, don't get their hand slapped, right? Because we want to be able to pull in other projects if we can. Yeah.

MR. DEVEREAUX: And I also wanted to add in our system -- so when we design work in our system, Maximo work management system, there's -- there's checks that -- that are built into the system where somebody is adding material, or adding tasks, or adding things that really aren't necessary and aren't done in the end, that gets flagged as material variances. And we have to explain those. So the people that did estimates have to go back and look at that and say, what did we do? So that's a kind of a system check that we can see. And we have dashboards that we would look at to see if that's happening a lot.

CHAIRMAN GOLDNER: Okay. Thank you. It sounds like you have a robust process, accountabilities there on the people side. And it sounds like you have controls in place. So that's very helpful.

So the next question is really around kind of the run rate. So linearity, whether it's revenue, or capital, or what have you, is always helpful thing to look at. And if I look at your table 1 in the testimony, the plant additions in 2019 started about $130 million. It actually declined in 2020 and 2021. I think we know why. 2022, it pops back up again. And then 2023, it goes way up. And obviously, that's the test year. So your typical Commissioner is skeptical when they see a bump in the test year. So we'll always have questions about that. But can you just walk us through that general trend of things are pretty flat from 2019 through 2021; you could even argue 2022. And then you have the big bump in 2023. And it looks like it's mostly due to what's classified as basic business?

MR. DEVEREAUX: And one of the categories and basic business that we've talked about quite a bit this morning is transformers; that played a role. Emergent work has played a role. You can see new customer has increased throughout this whole time frame. Those are probably the three main categories of increase.

CHAIRMAN GOLDNER: And it looks like in the chart that Commissioner Dell'Orfano was asking about earlier, it looks like that it was also -- not only did it go up this year, but it was a surprise. So what I'm struggling with is how can it be both? It looks like you had a plan where it looks like things were kind of sort of flat. And then things got bumped up in basic business. Was it a surprise or am I misreading the table? How does it work?

MR. DEVEREAUX: I wouldn't call it a surprise so much. I think for the budget for 2023, I don't believe we're far off. This is plant and service. Plant and service runs different than capital spending. Capital spending can be a certain level. Some projects could be underway and not placed in service. So they're placed in service the next year. So they're not -- they're not identical in any way.

CHAIRMAN GOLDNER: Okay. Thank you.

So if we look at the plant additions, you're saying, I think that the plant additions for 2023 were roughly on plan. The Company had sort of always planned this, you can call it a $25 million or something increase, and then this is just execution to the plan?

MR. DEVEREAUX: For capital spending? Yes. The plant service, we also -- we plan for that, but it's a little bit less of an exact science because then you're looking at the schedule for particularly the larger, like, station-type projects of when they're going to be placed in service. They could be placed in service January the next year, and then the capital spending is up but your plant and service is down. So for spending wise, we were pretty much close to planned throughout plant service. We weren't far off, but it is a little bit less exact than -- than planning for spending.

CHAIRMAN GOLDNER: Is there anywhere in the filing that we can find -- and I'm building on an earlier question, the capital that's needed for distributed resources. So in other words, does the Company have a cut of its capital that's needed to support distributed resources?

MR. DEVEREAUX: That would be under the new customer project category.

CHAIRMAN GOLDNER: And can you know how much it would be?

MR. DEVEREAUX: It's really small. If we look at new -- I'll just pick a year. We'll say 2023, where the plant and service 25.2. I would think it's definitely less than 5 million.

CHAIRMAN GOLDNER: Okay. And does that include capital where -- in the example of large customers where you effectively get reimbursed, or is that 5 million to the Company?

MR. DEVEREAUX: Well, that would be 5 million in net costs.

CHAIRMAN GOLDNER: Net costs. I see. And you have a rough idea of what that would be in the coming -- during this rate plan sequence the next five years?

MR. DEVEREAUX: It hasn't been a huge component of the new customer -- although, talking plant service. But, If I can talk about capital spending, it's, you know, a little closer right now as we ended '24, that the capital spending was 37 million or so in '24. And I would think that the -- that category is 5, 6, 7 million at the most.

CHAIRMAN GOLDNER: Okay. Any estimates on what it would be in 2028 or 2029, that time frame?

MR. DEVEREAUX: Sitting here right now, I don't know.

CHAIRMAN GOLDNER: A question that I think Mr. Horton may have answered before, but if you could refresh my memory, how does the Company define capital versus expense? For example, PCs at companies are -- people go back and forth on whether that's capital or expense and so forth. What are your capital expense rules please?

MR. RENAUD: That I would have to think back on when we follow accounting guidelines and standards in terms of what can be capitalized versus expense. So I know that we have a policy. Not actually under me, but it's something I'm, you know, certainly able to provide.

CHAIRMAN GOLDNER: Okay. That would be helpful. Thank you.

MS. LANDRY: Thank you.

(Counsel confer)

CHAIRMAN GOLDNER: Okay. I'm going to hit quickly the pole replacement topic. And if Mr. Steinkrauss wants to jump in here, I think that's fine.

Does the Company have a summary of the pole replacement capital in, let's say 2019 to 2023, sort of the prior rate case period, with or without the poles from the acquisition? I'm just trying to understand the impact of the acquisition on the pole piece of the equation.

MR. STEINKRAUSS: I believe -- well, I don't know that we have the right people here today. We don't have the right people here today to be able to speak to that in depth.

CHAIRMAN GOLDNER: Okay. Could the Company create a with or without sort of table of capital both history from 2019 -- so the acquisition was last year, right?

MR. STEINKRAUSS: Yes.

CHAIRMAN GOLDNER: So you would have a capital for your poles that would go through mid-last year. Then you would get a hit from the additional poles from the acquisition, and then you would have a forecast moving forward. So just trying to understand what that looks like with and without the pole transfer.

MR. STEINKRAUSS: I'm sure we can provide detail on that.

MS. LANDRY: Yeah.

MR. STEINKRAUSS: Yeah.

CHAIRMAN GOLDNER: Mr. Steinkrauss, did you want to ask any pole questions at this point or defer it till later today?

MR. STEINKRAUSS: I'm happy to ask questions if -- it'll be a little off topic from that. If you're okay with that?

CHAIRMAN GOLDNER: Is it related to capital or is it on a different subsection of today's --

MR. STEINKRAUSS: More on a different subsection.

CHAIRMAN GOLDNER: Okay. We'll have all day today at least. So maybe we can come back in a different subsection.

MR. STEINKRAUSS: Sure. Okay.

CHAIRMAN GOLDNER: Okay. So next topic is that -- so the rate case filing indicates -- we're showing 67.6 million in what's called miscellaneous intangible plant; cross-referenced in the testimony on Bates page 2309. And it says it's as being typically associated with IT investments made at the operating company level rather than at the service company level, which is accounted for differently. And then the testimony also includes approximately $22 million in IT expense attributed to the Eversource service company that sought for recovery in the rate case. So we're just trying to piece together an IT picture here. We're not able to follow the testimony.

MS. BOTELHO: I can address this. It's Ashley Botelho, director revenue requirements for New Hampshire. So there is a difference with IT projects conducted at the service company level versus the operating company level. Where there's a shared benefit of an IT implementation, it's typically done at the enterprise-wide level. So your systems that -- like a -- like a OMS system could be at a service company level if we're implementing that system across -- enterprise-wide, right? And it would happen in phases depending on the jurisdiction.

So there is a difference with how the -- the -- where the assets reside, whether it's -- if it's an enterprise-wide solution conducted at a service company, the assets are on the book of -- books of Eversource service company. And it gets allocated to the operating companies that are receiving the benefit of that system. So not all service company projects get allocated to all opcos. It's driven by an allocation methodology based on which entities are receiving the benefit of that system.

So there are many different IT projects conducted at the service company. They can all have their different allocation methodologies based on the operating companies that are benefiting from that system.

If the system is solely -- or the implementation, the IT project is solely related to the public -- PSNH, it would be on the books of PSNH. So you'll see miscellaneous -- miscellaneous intangible plant, largely IT projects. IT projects conducted at PSNH's level would be in rate base, projects conducted at the service company level get allocated through the service company to PSNH through depreciation expense. And then there's a return component.

CHAIRMAN GOLDNER: Okay. You probably will anticipate the next question, which is that we've had many hearings with Eversource over the years, and there's always a discussion when there's something new to be implemented. It comes back as our system is archaic, and we can't make these simple changes, and it's very -- our system doesn't accommodate that very well. Would you say that these changes, $90 million, something like that, would remedy that problem to a large degree or what is New Hampshire getting for its $90 million?

MS. BOTELHO: I don't know the history of that statement. So I can give you --

CHAIRMAN GOLDNER: Attorney Chiavara can tell you.

MS. BOTELHO: But generally, like, the systems that are being implemented, we're looking at enterprise-wide solutions. So depending on the system you're referencing, and the costs and benefits surrounding a new solution of that system, the Company's continuously -- and I'm not the person responsible for the IT plan. He's not here today. But we are continuously looking at system solutions and prioritizing those system solutions. So I don't know what your comment's in reference to, but generally there's an IT planning process similar to what we were discussing today. There's a five-year plan for systems and replacements of systems being conducted at the enterprise-wide level and also the operating company level. So prioritizing based on system needs, and benefits, and costs.

MS. CHIAVARA: And then I'll jump in for a moment.

MS. BOTELHO: Yes.

MS. CHIAVARA: Yes, so due to the fact that I've -- I think I've written a lot these last few years. So the -- the systems that we're typically referring to in the dockets are our billing systems. There are two of them in New Hampshire, and those are the ones that we usually refer to as antiquated. We have many -- not being an IT person, I know that there are many other systems. I cannot speak to them all that well. But I believe that is -- those are the costs that Ms. Botelho is referring to. The billing systems, I'm not sure how the costs of those would be handled, but that would -- that would probably be a New Hampshire only project, because they are New Hampshire specific systems.

CHAIRMAN GOLDNER: Okay. And is that included in the -- I guess it would be the 22 million in IT expense?

MS. CHIAVARA: No replacement of the billing systems is being proposed.

CHAIRMAN GOLDNER: Okay. So I think what would be helpful for the Commission at least, is to sort of help explain what we're getting for $90 million. So we've got 67.6, it sounds like, at the parent level and 22 million at the PSNH level. And so there's $90 million that's sitting out there. So if the Company can maybe just explain what do we get for our $90 million check? That would be a helpful sort of summary.

MS. BOTELHO: Yeah, I do believe this was raised in our -- our pre-hearing conference that the temporary session. So we have -- we have information that we've put together with that in mind, so we can prepare that and file it.

CHAIRMAN GOLDNER: Thank you. That would be great.

COMMISSIONER DELL'ORFANO: I could just follow up a little bit on that. So in terms of where that would fall into the project planning categories, would an opco upgrade of systems like that, would that fall under basic business, or is that completely outside of the process that we've been discussing this morning?

MS. CHIAVARA: It would be outside of that. So they have -- we do have a -- as -- as Ashley had mentioned, we do have a planning process with IT. But the IT investments would be in a separate line -- separate capital planning process, you know, for IT.

COMMISSIONER DELL'ORFANO: Yeah, I was just trying to make sure that it wasn't being captured there.

MS. CHIAVARA: Yep. Yep. Yeah. It's not captured in there.

COMMISSIONER DELL'ORFANO: Thank you.

CHAIRMAN GOLDNER: And then I think we're nearly done with the capital section. I think just sort of one more line of questioning and then we can move topics to O&M.

I just wanted to give the Company sort of an opportunity to explain what I like to call the elevator speech on the 681 million in capital expenditures since 2018. So some of the confusion, for at least for me, is that there is, for example, 20 million in what's called basic business. There's about 364 million in reliability. And at least I'm not able to sort of follow how much of this is outdated, obsolete, inoperative plan. Does that land in reliability? Is that in basic business? The filing is very thorough, but it's a little bit hard to follow what's in each category and what ratepayers are getting for their 681 million. And so first, the elevator speech. 681 million is the request. Why is that a reasonable request?

And then number two, maybe some helpful discussion on the categories, and what you're doing inside those, and why each of those categories sort of make sense in terms of what you're spending. High level.

MS. CHIAVARA: Mr. Chairman, I just want to say we are happy to give an elevator speech. I think we want to resist at this time telling you why it's reasonable. We don't have any witnesses sworn in, and I don't want to jump the gun. None of the parties are able to -- well, have the opportunity to do cross-examination, but we can certainly elucidate the filing as much as you'd like.

CHAIRMAN GOLDNER: Yeah. We're just trying to understand high-level. It's a lot of capital. And I think the Company believes that it's just and reasonable and in the public interest, otherwise you wouldn't be here. So we're just trying to understand at 10,000 feet the Company's thoughts on the size of the capital request, and then the categories, and why those categories make sense. And then what's sort of inside those categories at a high level.

MS. LANDRY: Sure. Sure. So I love elevators. Sure. So you know, you know, as I look at the 686 million in investments here, they are all for the benefit of New Hampshire ratepayers. And -- and I -- I do believe these are all, you know, good, solid investments that are helping to improve, you know, the overall system reliability and performance here.

So in this 686 of additions, you know, if we go category by category here that basic business is -- is, you know, I always sit there and say that that's the -- the core of the investments. Those are a lot of the annual programs that we were talking about, the emergent. These are, you know, fixing things that that break in the night. They're installing the -- the transformers; they're dealing with under the acts of public authority. And you know, that -- that type of thing. On the new customer side, that's, you know, that is the --

CHAIRMAN GOLDNER: I hate to interrupt you real quick.

MS. LANDRY: Oh, yeah.

CHAIRMAN GOLDNER: I mean, I'm confused about what you're putting in basic business versus reliability. For example, can you just do a high level, explain which ones -- what's in each bucket?

MS. LANDRY: Okay. Sure. So in the -- the basic business there, that is -- there's the emergent in there.

There's the -- the pre-cap transformers are in there. The --

CHAIRMAN GOLDNER: I'm sorry, emergent?

MS. LANDRY: Oh, emergent line. So these are -- the emergent is things that bump, break in the night, right? That we have to -- to go -- and storm.

CHAIRMAN GOLDNER: (Indiscernible).

MS. LANDRY: Yeah, minor storm. You know, there's damage that, you know, somebody could hit a pole, it's in there. But if a piece of equipment fails, you know, we -- it's not a planned project. We go out and -- and we make the immediate replacement of -- of the infrastructure. So --

CHAIRMAN GOLDNER: Where reliability is more proactive, it's analysis, and we need to replace these parts?

MS. LANDRY: Yes. The reliability is, you know, I'm going to call it those are the -- the engineering plans, programs that say, oh, hey, I'm going to put automation on the system to improve the reliability. I'm going to replace reclosers. I'm going to have those programmatic asset replacements lines, you know, line reconductoring structures. That's all in that reliability.

CHAIRMAN GOLDNER: And how is basic business different than storm? Storm has to rise to a certain level before it gets pushed into the storm category, or how does that work?

MS. LANDRY: So in the -- the basic business would be -- so we have a storm, the capital -- if there's assets that are replaced in the storm, the capitalization of those assets is in basic business. So that's -- that's really the -- the -- the component of the storm that would be in basic business.

CHAIRMAN GOLDNER: And then what shows up in storm?

MS. LANDRY: What shows up in storms would be the -- the repairs and the, you know, all the --

CHAIRMAN GOLDNER: Expenses?

MS. LANDRY: -- the expenses. It's all the expense component.

CHAIRMAN GOLDNER: So capital is always basic business in a storm.

MS. LANDRY: In the storm.

CHAIRMAN GOLDNER: And expenses are in the --

MS. LANDRY: In the storm filings.

CHAIRMAN GOLDNER: Okay.

MS. LANDRY: Yes.

COMMISSIONER DELL'ORFANO: But basic business is also fleet purchases, facilities, projects, that type of thing?

MR. RENAUD: Yeah, just a couple others I can add into that. So basic business covers third-party attachments if we have to spend money for third parties, generally reimbursable, but not -- not all of it. Sometimes a third-party -- I think Leanne mentioned the DOT projects, acts of public authority, which is a towns or municipalities, if they need us to do something that we -- that we have to pay for that goes into that. Lighting is in there. And those are kind of the big category -- tools if we have to buy tools, that's in basic business. Removing double poles -- and I think that -- I think we covered all the other -- storms.

CHAIRMAN GOLDNER: Okay. Thank you. And I won't ask about the fleet here today. I'm sure the parties will talk a lot about that. It's just when you look at the 2019 cost versus the cost of time, it doubles or something. So I'm sure the parties will talk more about that in the process. But yeah, it's just the Commission is looking at the deltas from old to new, and if the delta is large, then it begs the question why is the increase going up so much? So I won't belabor the point on the specific topic here, but that's very helpful in terms of the categorization of basic and reliability. So I think -- anything else that would go in the reliability category or did we capture everything?

MR. RENAUD: A couple -- just a couple of things I'll mention. The -- you mentioned obsolete equipment. So those are things that we need to replace. Relays, for instance, that manufacturers aren't supporting anymore. Those types of things that we have a little more discretion on timing for. And then the reliability projects that we, you know, that we talked about before that -- going back to your CCI question, we do have in we -- I found a line item for CCI. We have, in 2025, $6 million impact to capital investment for CCI. That's in the reliability category. And then 3 million for the years after that. We expected it to have more upfront -- based on our inspections, more upfront replacements. So those are the -- that's the impact, going back to your question.

CHAIRMAN GOLDNER: Thank you.

MR. DEVEREAUX: There's one other component is distribution automation is also in reliability.

CHAIRMAN GOLDNER: Thank you.

Okay. And I think you were talking about new customer. Thank you for --

MS. LANDRY: Oh, no.

CHAIRMAN GOLDNER: -- the patience.

MS. LANDRY: Yeah. No, no problem. So the new customer that's, you know, as Jim was saying earlier, that's probably one of the areas that has the most variability, and it's really based on economic, you know, customers coming in, development, and growth. So you can see there we -- we've seen a significant increase. We still continue to see growth there, which is good from an economy perspective.

Peak load capacity. These are -- this is, you know, growth in the system. These could be overloads where we have upgrades. So we need to expand the capacity of the system. So those investments there, they're dependent, and you know, in certain pockets as -- as we go. But that's -- that is a key category and something that we see. And then, you know, the regulatory commitments is small but that's -- that's based on, you know, commission-based regulatory reliability programs. They've typically been in the past.

MR. GRISET: And if I -- oh, sorry.

MS. LANDRY: Go ahead.

MR. GRISET: No, I was just going to add to the peak load capacity. Just Leanne mentioned that, you know, if load is growing, you know, as -- that's -- I think we've had some discussions, we don't see a large increase in load growing, but we do see load -- people moving around. We see loads moving around. Businesses come here, they go from there. So that creates capacity needs in different areas of the system all the time. So that's -- that's a big driver of what we do. And we talked about, I think at the last tech session, we talked about planning criteria and how we're looking at contingencies going forward. That's part of peak load projects for making sure that we're meeting our planning criteria, and so that we can withstand contingencies that happen; lines that go out of service, stations that go out of service.

CHAIRMAN GOLDNER: Thank you, Todd. Touch on too in this new customer category, geographically. There was some discussion I think on the seacoast and south central regions. But the number is very large, 92 million. Just trying to understand geographically what's going on with your new customers or is that all happening?

MR. DEVEREAUX: One clarification for that. The 92 million that you see, 85 million of that is from our annual, which is work orders on customer requests for -- for new service. So it's not -- remember we talked about DER (phonetic) and other type of categories. It's almost all from our annual. Geographic wise, as far as I understand, it's pretty much throughout, seacoast to coast. But the lakes region and others, you know, have had -- new customer has just been everywhere.

CHAIRMAN GOLDNER: And I'm sorry I missed your point on the 85. You said 85 million is?

MR. DEVEREAUX: Is from our annual or new customers.

CHAIRMAN GOLDNER: And just what do you mean by that?

MR. DEVEREAUX: Oh, it's an annual project. It's set up every year.

CHAIRMAN GOLDNER: Okay.

MR. DEVEREAUX: And it involves annual to set up for small work orders that all roll-up into, you know, to that. And that's been -- that's been the driver for new customer and other, you know, increases. But the annual itself is, you know, what's that, 90 percent or so of the total.

CHAIRMAN GOLDNER: So is that like a new apartment complex or new house? Like, what fits in that?

MR. DEVEREAUX: Yeah, it's usually small -- small customer work on new additions and -- and new, you know, housing developments, that type of thing.

COMMISSIONER DELL'ORFANO: And if I could ask a follow-up on that. The pre-filed testimony on page 31, line 12. Question, "please describe the Company's plan to implement new customer category". And beginning at line 13, the response is, "this category includes distribution overhead, duct systems, and direct buried construction, including transformer purchases required to serve new customers or upgrade service to existing customers". So could you maybe discuss this a little bit? Because I would -- in my mind, an existing customer, that's -- should be a different type of work than actually getting somebody online.

Also, there was some discussion a little bit earlier about when you have distributed resources coming online that that would happen under this plant category and it's planned for under this plant category. So I just want to try and understand a little bit better what's there, because as I said, the pre-trial testimony, this seems a little light based on some of the things that we talked about today. So is there anything else we're missing?

MS. LANDRY: Missing? So I don't think we're missing anything. So you know, as Jim was saying, I think what we're seeing here, especially in the new customer category, is a -- is a lot of individual, smaller customer group that just keep, you know, so that keeps it -- it could be overhead and underground. So I think in the testimony, we're probably more general in talking about the over and underground. But I think, you know, as Jim is saying, what we're seeing is, is it's a lot of volume at a smaller, you know, more localized level of new customer growth, if that's fair.

Brian, do you have a --

MR. DICKIE: Yeah. So I mean, we are seeing, you know, pretty significant growth in Portsmouth, Dover, some spots of Rochester. Rochester seems like it's starting to pick up now, you know, and certainly in the Nashua -- excuse me, Nashua and Manchester areas. We're not seeing that growth, you know, up in Coos County; maybe in the lakes region a little bit because, you know, camps are being upgraded and whatnot. But certainly, the growth, you know, from the Manchester, Rochester ,to Nashua corridor, that -- that section we're seeing, you know, quite a bit of new housing, and you know, apartment buildings.

COMMISSIONER DELL'ORFANO: Okay. And if I could just follow up, so around the idea of upgrading service to existing customers, is that more like a manufacturing facility that now decides that they need additional power at the site, or is it something different?

MR. DICKIE: No, it's people are upgrading their service from a 100 amp service to a 200 amp service. They're putting heat pumps in, right? That kind of thing. And there's a lot of -- there's quite a bit. So --

COMMISSIONER DELL'ORFANO: Understood. Thank you very much for the clarification.

COMMISSIONER CHATTOPADHYAY: I have some questions on the PAP (phonetic) PDF. So as I understood it, since 2022, January, the threshold has been changed to $500,000.

MS. LANDRY: Total cost.

COMMISSIONER CHATTOPADHYAY: Yeah. So that is direct plus other costs. And if any project has a cost that is below that amount, that becomes, like, part of the annual program blanket approval?

MS. LANDRY: Yes. So if it's --

COMMISSIONER CHATTOPADHYAY: Okay.

MS. LANDRY: Yeah.

COMMISSIONER CHATTOPADHYAY: So is it possible to place -- like in table 1, it's Bates page 2313. Is it possible to sort of identify what is the total that is now part of the annual program, blanket approval? So anything that is -- projects that are below 500,000. And more importantly for me, if it's possible, perhaps even break up each of these categories into the ones that have above 500,000 and the others that are below 500,000. So particularly I'm interested in the reliability piece, because you actually talk about it in the testimony. That part of the cost is associated with the annual program blanket approval. So is that possible to get some information on that?

MR. DEVEREAUX: Yes. So the challenge is plant in service versus when the authorization was -- we're talking reliability projects, they take a long time. So as we sit here today, there's probably some projects that are still pre-2022 when the authorization was done. They haven't been done yet. So yeah, the authorization, and the execution, and ultimately the plant in service vary over time. But we can certainly provide details, you know, the annuals increase over time from '19 till today.

COMMISSIONER CHATTOPADHYAY: And that would be helpful. I understand it -- if I understood your answer, it's that a rough justice element to it, how you would represent the numbers. That's okay. I mean, there might be projects that you first categorized as being below 500,000, but they then moved to something above 500,000. Would that also complicate matters or would it not?

MR. DEVEREAUX: Yes. That that's a kind of a rare occurrence, though.

COMMISSIONER CHATTOPADHYAY: Okay. A clarifying question. We've been talking about new customers. These are all the dollar amounts are really part of the rate base. Right? But when you have new customers, they also are buying more electricity and they're providing you revenue. So that has been captured in the test year, right?

MS. LANDRY: We would have reflected the test year level of revenue. So if a customer came online in a test year, the assets were in service, we -- we have reflected both the revenues and expenses associated with that new customer.

COMMISSIONER CHATTOPADHYAY: Okay. One more question and we need the information first. This was a response to PUC 303 (indiscernible). There's an attachment, and you don't have to necessarily look at it on this. I'm going to talk through it. There is a -- in that attachment is a line that says, reimbursements. I'm going to assume that's part of the CCI, you know, consolidated. So we go to --

MS. LANDRY: Could you repeat that Board question number? I'm sorry.

COMMISSIONER CHATTOPADHYAY: Okay. So I'm looking at attachment PUC 303 at SBI (phonetic). And let me see if I can -- this was part of a response to a PUC record request.

MS. BOTELHO: I can answer this one.

COMMISSIONER CHATTOPADHYAY: You want -- have it away.

MS. BOTELHO: Yeah.

COMMISSIONER CHATTOPADHYAY: So that first of all, I just want to understand what those reimbursements are. It's the CCI, right?

MS. BOTELHO: CCI would have been included in that line item, but they're not the only --

COMMISSIONER CHATTOPADHYAY: They're not the only --

MS. BOTELHO: -- communications company. I think the other -- the other major company -- is it TDS? So we -- in a situation where there's a joint ownership agreement over a pole, there's a billing arrangement where we would bill for vegetation management expenses based on that agreement.

The -- the communications companies are supposed to reimburse us for vegetation management work. That reimbursement right now offsets our expenses that get reconciled through the RRA. So the reimbursements are factored in to the net expenses that we request from customers.

COMMISSIONER CHATTOPADHYAY: Okay. So if you look at that attachment, you have the second column, meaning 2020. You have these numbers that are -- I'm assuming it was part of the settlement or that's why the numbers are so neat. Like, right?

MS. BOTELHO: We make this filing annually with the RRA. So this is the vegetation management expenses that are requested for recovery. And you can see the reimbursements over time since 2020, they were high because CCI -- we would have attributed the vegetation management expenses for CCI in the reimbursement line so that customers were only paying the net amount, after the acquisition. Now we've acquired our CCI share of those poles. So we're no longer receiving reimbursements.

COMMISSIONER CHATTOPADHYAY: So my question is -- I'm looking at those numbers, for 2020, the actual was more than the budget, but the rest of them it's always -- the actual is less than the budget. And more strikingly, it doesn't seem to matter what the total level is, even for 2023.

The difference is, like, $2 million. Okay? Even though the budget was just $3.4 million. So I'm wondering what's going on. Why are you always under collecting?

MS. BOTELHO: I can -- I can explain 2023. Going into 2023, we would have factored in CCI reimbursements into the budgeted level. The actuals were much lower because now CCI -- no, we settled the amounts owed from CCI resulting from that settlement. So the 1.1 million is solely related to TDS and other smaller companies.

For the prior years, I'd have to go back and check at how we forecast the level of reimbursements for budgeting purposes. I'm thinking they're looking at the work performed in the prior year to inform the next year's budget, but I'm not certain on that. And I don't believe -- we do not have our vegetation management person here today, so I would -- I would need to follow up on that. So how we're forecasting the reimbursements from a budgeting perspective, the actuals would be based on the reimbursements that we actually received in that calendar year.

COMMISSIONER CHATTOPADHYAY: And the spirit of the question is that if you are constantly under collecting, what's going on with them? I just want to understand. Is there some money that you should have received, you haven't collected. And ultimately, the ratepayers are facing it. So that's why I'm asking that question. So it would be helpful if you spend some time on that issue. That's all I have. Thanks.

MS. BOTELHO: Okay.

CHAIRMAN GOLDNER: Okay. And I think the last item on capital before we move to O&M -- and we'll just go on O&M as far as we can, stop at noon, and take an hour for lunch, and then return with the balance of O&M, and the depreciation and redesign this afternoon.

So it's just a cut of the data that we've sort of talked a little bit about. What would be helpful would be to understand kind of the state of the union with respect to capital, meaning that if you have a red category of plant that's dangerous, or inoperative, or something, you have a certain amount of capital that you have in the red category that you're working.

A yellow category which might be material, or capital nearing the end of its useful life, and so forth.

And then a green category that's a new plan to accommodate new development and so forth.

Just to kind of give us a big picture of what the state of the Company like. If you look at across your capital base, how does it look? Can you just help characterize the chunks of capital for the Commission and give us a perspective of your overall of kind of state of the union.

If you looked at the Eversource or PSNH capital 30 years ago, I think there might be a consensus around the fact that there was a lot of capital that needed to be replaced, and maybe the Company was a little bit behind. I think the Company's case now is that it's in pretty good shape. So we're just trying to get an understanding of what your capital profile looks like, how much is in sort of, like, the red, yellow, green categories, if you will. So that'd be something that would be helpful to just share across all the parties and the Commission. Does that make sense? More or less what we're trying to get to?

(Counsel confer)

UNIDENTIFIED SPEAKER: Yeah.

CHAIRMAN GOLDNER: Great. Thank you.

Okay. Any other questions on capital before we move to O&M?

MR. DEXTER: Mr. Chairman, I'd like to interrupt. The Department has about 10 or 15 minutes of questions on capital, and we wondered if we could do that before we move to O&M?

CHAIRMAN GOLDNER: That would be perfect, because that would even take us to lunch.

MR. DEXTER: Mr. Dudley's going to ask the questions.

CHAIRMAN GOLDNER: Okay. Please proceed, Mr. Dudley.

MR. DUDLEY: Thank you, Mr. Chairman. Earlier, Mr. Chairman, you asked Eversource about the effectiveness of the different committees. That's been something that the Department has been interested in not just in this rate case, but in the last rate case. And so what I'd like to ask the witnesses is that what the Department has noticed in its review over the last few years of -- again, is that (indiscernible) and in both rate cases. Is that a big contributing factor to a lot of the cost overruns that we're seeing for some of these capital projects involves indirects and overheads. And my understanding through some discovery on this issue is that those rates are continually adjusting.

But the question is we were wondering how is it that the members of these committees are not more proactive in anticipating these increases? And again, these increases in some cases contribute to doubling the actual budget amount. And we're having a hard time understanding the level of scrutiny that this area gets at the committee level in terms of anticipating those expenditures and the impact of those expenditures. And actually, the accuracy of the actual budgets themselves.

(Counsel confer)

MR. DEVEREAUX: That seemed to be a complicated question. I'll answer one of the easy parts of that is, prior to the change in the EPS01 (phonetic), indirects were not part of whether a supplement was needed or not. So that -- that's -- that's almost a new phenomenon versus, you know, the last couple step adjustments. Which we had supplements and we're trying to reduce them. But the supplements are based on direct costs.

MR. DUDLEY: Yeah. Mr. Devereaux, I don't mean to challenge you, but I have reviewed hundreds of these project authorization forms and supplements. And the biggest contributing factor to cost over increases -- increases and overages, a lot of them, they spell it out. We -- we did not anticipate or we failed to anticipate the increase in indirect costs. And since this is recurring every year, I'm having trouble. The Department is having trouble understanding why the committee members are not aware of this issue and factoring that into their --

MR. DEVEREAUX: From '23 onward, indirects would be listed in the supplement as a cause for the supplement. Prior to 2022, they would not be listed. I will -- I will state though, that total cost of a project versus the optimization, there has been instances prior to 2022 where we may have provided variance explanation saying the indirects increased. That wasn't on a supplement. That may be on questions on a particular project. Maybe it's immaterial of the difference, but I just want to be specific that supplements prior to then were only based on direct costs. We have provided information on projects during that timetable which may have exceeded their budget because of indirect increases, but those were not on supplements.

MS. LANDRY: And the -- yes, I just want to clarify one thing though is -- is there is oversight of the indirect costs. When we had, you know, prior to, as Jim is saying, when we -- based on direct, we still are monitoring what's going into the indirect cost and following the project. As we changed the policy to the total, those indirect really follow the direct. So if you -- if I have an increase or on a direct cost and the indirects would follow because it's a rate on the direct, or if something takes longer, then you're going to have more. For example, AFUDC allowance for funds used during construction. So I think as project managers are looking at their projects, those costs would -- would follow. And with the change in the policy would get picked up as part of that, you know, explanation.

MR. DUDLEY: Well, I guess I don't want to get into an argument with Mr. Devereaux and Ms. Landry, but I can produce your authorization forms from 2019 and supplements which say the cost increase was due largely to increase in indirect costs. I'm really puzzled by the answer here, Mr. Chairman. This -- this is a big factor. It has been a huge concern of the Department's over recent years. We never get a clear answer on this issue. And it seems that you asked earlier. I don't want to get into testimony here, but you asked earlier, Mr. Chairman, how effective is this committee process? That has been a very big question for us ever since the last rate case. And what I'm trying to understand, what the Department is trying to understand is why is it -- why aren't -- why isn't this committee process more proactive in -- in anticipating these costs and controlling them?

MS. BOTELHO: So I would just like to add -- so in 2019, the business process audit went through our capital project authorization policies. We've made improvements resulting from those recommendations with Mr. Dudley's comments in mind. So the policy change that happened was now the project authorizations are reviewed on a total cost basis, both direct and indirect. At these GVRC (phonetic) meetings that have been instituted, project managers have more visibility into total costs in these monthly processes. So the improvements that have been made resulting from the business process audit and the -- the institution of the GVRC meetings, I do think has helped provide -- and we can show metrics on this, but less supplements required where we're explaining variances. So the instances that Mr. Dudley is referencing and the step adjustment period would have been prior to that policy change.

MR. DUDLEY: You mentioned metrics, is that something that you can provide to the Commission and us?

MS. BOTELHO: Yeah. One of the metrics that we were discussing was looking at the trend of supplements required over time. That would be a good measure of the effectiveness of our changes since the business process audit.

COMMISSIONER DELL'ORFANO: So Mr. Dudley, if I'm understanding your question correctly, you're trying to determine why their budgeting is so inaccurate? And what I'm hearing is that their audit has changed that, and now it's supposedly more accurate and they have metrics to show that. Am I reconciling the disconnect there or am I missing something?

MR. DUDLEY: No, Commissioner, I think I think you summarized it correctly. It's -- it remains an ongoing issue for the Department.

COMMISSIONER DELL'ORFANO: Understood. Thank you.

CHAIRMAN GOLDNER: So I think the action from the line of questioning was if the Company could publish its metrics that it's using, I think that would be appreciated to show the progress that the Company is making in this regard. So --

MR. DUDLEY: Yes, that would be helpful. Thank you.

CHAIRMAN GOLDNER: Yeah.

MS. BOTELHO: I just would like to add one more thing. The business process audit recommendations as well suggested changes to how we were showing the information, the terminology we're using. So we have implemented all those changes as it relates to the project documentation. So some of the issues being referenced by Mr. Dudley, I think have been greatly improved in the current documentation. So --

COMMISSIONER CHATTOPADHYAY: Can I can I have a follow-up? I want to make sure, I'm just thinking about a sort of a tangential line, but I'll share this. This metric that you're talking about, wouldn't it also be influenced by the fact that you moved from a threshold of 100,000 to 500,000? Because I'm trying to understand when do you actually apply for a supplemental? It's only when you are above a threshold for those projects, right? And so if you now have fewer projects, sorry, you have -- yeah, fewer projects that are going through the authorization process. And there's going to be a bias in terms of --

MR. DEVEREAUX: In theory, I would agree with you because, yes, the threshold is higher. Of course, indirects take up a percentage of that. But the -- in that capital addition to exhibit that we filed every year, you can see the specific projects on the first half. The quantity of specific projects has remained the same, if not increased since '21, '22, '23, and through this year. So there's more specific projects that are vulnerable to the need for a supplement.

COMMISSIONER CHATTOPADHYAY: So provide that -- both information. So that we can --

MR. DUDLEY: Okay. Thank you, Mr. Chairman. Moving on. Commissioner Dell'Orfano referred earlier to the -- to the page 8 of the presentation, referring to financial controls. And you see the budget program summary for 2024. And again, Commissioner Dell'Orfano rightly questioned the huge increase in new customer -- in the new customer category as compared to the budget. And so one of the questions that the Department has had is we've -- as I stated earlier before, we've reviewed a lot of these supplemental requests. And it doesn't appear that -- getting back to the effectiveness of the committee, it doesn't appear that any of these requests -- requests are ever denied. And I was wondering if maybe one of the witnesses, the Eversource witnesses could walk us through the process of the -- of the monthly CB -- the --

MR. DEVEREAUX: CBRC.

MR. DUDLEY: The CBRC committees, which review these projects on a monthly basis and their progress. I wonder if they could -- just taking this product category, if the witnesses could walk us through what was actually looked at, and considered, and factored into their approval of the $16 million increase for 2024 in this category.

(Counsel confer)

MR. DEVEREAUX: On the new customer category, as has you can see the increase, that -- that's request through the Company. And then when we go to the CBRC, we just had one on December 20th, looking at the end of the year and one of the -- we can control a lot of items on -- on our portfolio, new customers, we don't have a whole bunch of control and maybe not even insight into what's coming. We've tried over the years to get as precise as possible on our year-end projections to stay within the budget itself. I remember on that it does have a target, and if you look at the target -- I may have used the two words interchangeably, but that's certainly not. The target that is on that slide was based upon four or five months ago, each project lining up to the total. And because -- you can see the target I think is 218 or something versus the budget of 210. The reason the target is higher is partly because of new customer increases. So all of the projects that Brian worked with the project managers, at that point in time, it added up to 210. The new customer kept on growing. The transformers kept on growing. So the target looks to be, you know, incorrect because the target should be to 210.

But for the new customer itself, those are requests based upon the Company from customers. There's a lot of work orders underneath that. The way that we do the annuals for authorizations year to year is based on past history. So this is a peak. This is, I think, 5 or 6 million higher than we've ever had for new customers. So we unfortunately, we will have a supplement coming for that project in 2024. But the annuals are set up -- and we've explained this, you know, in past testimony, that the annuals are set up on past spending levels. And you know, we set up the 2024 authorization on past spending levels, but unfortunately we didn't understand, or see, or have foresight to see the increase, the dramatic increase that we saw this year.

COMMISSIONER DELL'ORFANO: I actually really like Mr. Dudley's question, and maybe we can make this a little simpler. On page 9, you list a number of projects. About halfway down the page is the Jackman Transformer replacement project. It's A23C39, and it looks as if it had a budget of 78.6 million, with a projection of 180 million. And then there are some actual numbers on that line. Could you perhaps address Mr. Dudley's question around the process, the planning process and this project? So how would this have gone through the planning process? And why are we looking at such a difference in cost?

Mr. Dudley, is that in line with what you were thinking?

MR. DUDLEY: I'm curious about that as well, Mr. Commissioner.

(Counsel confer)

MR. DEVEREAUX: Okay. So this project was recently initiated. And this looks like a partial funding request that -- you can see the projection and the budget itself. The authorization is -- is I'm almost sure, it is a partial funding request just to stop the project and take a look at the costs before we develop a full scale estimate that will result in a much larger authorization.

COMMISSIONER DELL'ORFANO: Okay. So this is so at this point, you're still studying the problem. Is that fair to say or --

MR. DEVEREAUX: Studying the project.

COMMISSIONER DELL'ORFANO: Studying the project?

MR. DEVEREAUX: Yeah, we probably haven't received bids yet on -- on the contractor who's bidding on the project. This is one of the initiatives that we developed from the business process audit. And what they noticed is from 2016 and '17 and '18, we had many supplements that truly weren't supplements the way we want to define them. They were -- we did an authorization, then we got bids; the bids were higher, so we did a supplement. Then we maybe the permit cost; we did a supplement. The shovel hadn't hit the ground at that point. So from that, we set up these -- these different categories prior to a full funded pre-construction estimate. And this -- this is an example of that. This project --

MS. LANDRY: Was authorized for 110,000 --

MR. DEVEREAUX: Yeah.

MS. LANDRY: -- dollars.

COMMISSIONER DELL'ORFANO: But it looks like it was -- I mean, maybe I'm missing this here, but I mean, looking at the actual numbers, is this true that you spent $180,000 on that already?

MS. LANDRY: No, we had spent 96,000. Is -- am I reading that across.

COMMISSIONER DELL'ORFANO: Oh, okay. I see --

MS. LANDRY: Yep.

COMMISSIONER DELL'ORFANO: -- what you're saying now.

MS. LANDRY: Yep.

COMMISSIONER DELL'ORFANO: Okay. Yeah, 96,000.

MS. LANDRY: But its year -- the YEP is the year-end projection is 180,000.

COMMISSIONER DELL'ORFANO: Okay. So this is year to date through the end of September then?

MS. LANDRY: End of September, yes.

COMMISSIONER DELL'ORFANO: Correct.

MS. LANDRY: Correct.

COMMISSIONER DELL'ORFANO: So you have to bear with me because I'm new at this and I'm trying to make sure that I'm following this correctly. So you've initiated the project, and so far you've spent, based on this, 100 -- or excuse me, 96 -- excuse 96,000. And there was an authorized spend of 110. So could you walk us through this -- how this got on our list here? And how this became a capital improvement project? And maybe you can also tell us what category this fits in? Is it reliability? Is it basic business, et cetera? So I am a little familiar with Jackman Transformer. So that's why I chose this one.

(Counsel confer)

COMMISSIONER DELL'ORFANO: So maybe you could tell me on the 16,000-page PDF what page that projects on because for the life of me, I couldn't find it.

MR. DEVEREAUX: Okay. Well, this is a 2024 report. So --

COMMISSIONER DELL'ORFANO: It wouldn't be on that. Correct.

MR. RENAUD: Jackman is a reliability project.

COMMISSIONER DELL'ORFANO: Okay.

MR. RENAUD: At Jackman we have a 44-1/2 MVA transformer and a 12-1/2. And what happens is, if you have a fault that takes out that 44-1/2 --

MS. LANDRY: Uh-huh.

MR. RENAUD: -- it takes out the 12-1/2 with it too, right? Because of load shedding and a whole load the transformer. So from a reliability perspective, we're looking to upgrade that 12-1/2 to a 44 so it can handle the contingency. And that's why it's a reliability.

MS. LANDRY: And can I say? I probably should have -- in that presentation. Those sheets are as of -- those through September 24th, so a lot of those projects aren't in the final week. We have ones from prior years we could have put in, but -- but to put it all in one.

COMMISSIONER DELL'ORFANO: And so I'm kind of trying to go back to Mr. Dudley's original question. Can you kind of walk us through the process of how this stage of the project got approved? And how they came up with an approved spend of 110 when it looks like it might actually cost as much as 180?

MR. DEVEREAUX: This -- this is the engineering work prior to getting the details of the project itself. I did -- from September 30th till now, there could have been a full funding authorization put in. I don't believe we have anything that is showing needing a supplement right now in New Hampshire. So I believe that has happened. But this is set up for, you know, so they can get materials and other -- other studies, and get materials and do other things prior to moving forward with the project. So this will result in a full funding authorization for -- I couldn't tell you the amount of money, but it's certainly well north of 110 or 180,000.

MS. LANDRY: So to get to this though, just to address your other question. So what would have happened is -- is engineering, operations, project management would have -- this need, as Brian had said, would have been identified, said this is an issue, a reliability issue we need to address. The authorization would have been initiated and rooted in the system, and then it ends up in the -- in the tracking for the -- for the CBRC here. But it would have gone through the initial process of -- with engineering identifying this need, it going -- getting identified that saying okay we need to do preliminary engineering, generated the authorization, gone through the reviews with engineering and operations to get them in this list. Is there anything else I missed out?

MR. DICKIE: Yeah, no, I think I think you covered it. Just to reiterate, I think the project, a project of this size and this magnitude needs a lot of scoping. So we say first there's a need, there's a valid need; we agree on that. We say there's -- we don't want to just take a wild guess at an $8 million project, for example. I don't know that that's what this is, but we wouldn't want to do that and authorize that because that doesn't -- that's not good for anybody. So we say, okay, let's authorize -- we all agree that this is a project that needs scoping, and we're willing to spend money to scope that. We do the initial funding request through the Path process, which would be the 180 or the 110 in this case. When we budget it, we probably said that we thought that was going to be 180. When we actually went through the Path, we said, no, we don't need that, we need a 110 -- I'm surmising here. But that's the way the process works. And then we do preliminary engineering, looking at the scope; we go through the process that we talked about before, the system design committee, those other reviews that we do; and then we do an estimating we go for a full funding lane. That's how the process works that's in the flowchart that you saw earlier.

MR. DEVEREAUX: And this project ended the year with spending of 118,000.

COMMISSIONER DELL'ORFANO: Thank you very much.

And Mr. Dudley, I don't know if I addressed your question. And maybe I picked the wrong project.

But thank you very much for walking through that for me.

CHAIRMAN GOLDNER: Mr. Dudley, I'm sure you have more questions. I noticed it's five after 12, what I'd suggest now is that we take a break, returning at 1:05, and we pick up again with Mr. Dudley's questions. So returning at 1:05. Thank you.

(Recess at 12:05 p.m., recommencing at 1:06 p.m.)

CHAIRMAN GOLDNER: Okay. Please be seated.

(Counsel confer)

CHAIRMAN GOLDNER: Mr. Dudley?

UNIDENTIFIED SPEAKER: Yes, I'll do it, Mr. Chairman. I'm not sure where Mr. Dudley is. We're at 1:06, so I would suggest that we move on to other matters.

MR. KREIS: Mr. Chairman, I could ask a question about capital issues in order to kill some time while we're waiting for Mr. Dudley.

CHAIR GOLDNER: That would be fine.

MR. KREIS: Thank you.

I think this is a pretty quick question, and it kind of goes back to the conversation at the beginning, I think of the discussion of -- of both issues, and it has to do with the -- for me, the elephant in the living room when it comes to Eversource and capital plan, has to do with the fact that there are different regulatory jurisdictions that oversee various aspects of Eversource, and the regulatory climate in those jurisdictions differs. And there are different allowed returns on equity for the investments in the different jurisdictions. And I noticed that late last year, Eversource announced that it was planning to cut its investment in one of the neighboring states by $500 million over the next five years because it was unhappy with the regulatory climate over in that state which we won't mention, but it was Connecticut.

And so I guess my question for the Eversource folks is, like, how do those considerations really bear on the process reflected in the capital process and approval overview, which almost made it seem like it was really sort of a process of strictly evaluating projects on their merit as -- as engineering phenomenon. And I apologize if that sounds like a snarky question, but I'm genuinely curious, because if I were Eversource and I knew that my transmission investments were going to earn me 11 percent and my distribution investments in New Hampshire were only going to earn me 7-1/2 percent, I'd be spending as much money on transmission as I could, and as little money as I could on distribution assets in New Hampshire. That just would be rational from my perspective.

MR. HORTON: Doug Horton, vice president of distribution rates at Eversource. And I can try to start and then my colleagues, please chime in. So I don't -- the process that we've described in terms of how we identify projects and go through that, that process holds and does not get affected by anything happening in other jurisdictions. It's certainly not a purely financial approach. We talked at length about, while there is a financial element, obviously, that financial element is not, you know, undertaken in the way that -- that Mr. Kreis, you described at the end in terms of just looking at pure ROEs. But in Connecticut, and not to belabor on Connecticut, but I am heavily and actively involved in all of that. In Connecticut, really, the issue is that it's less about ROEs, it's more about what the regulator is telling us to do, and they're telling us to spend less money there. And so that is having the effect of cutting the investments in the State of Connecticut. And they're saying that both with their words and with the actions or the outcome of those decisions.

But the process that we have and the needs that we have on the system in all other jurisdictions, and even in Connecticut, are greater than what we're able to -- to pay for today through, you know, available resources. And so all that means is, as we're making cuts in Connecticut, the Eversource entity as a whole has more resources available to it. But that doesn't drive investment in New Hampshire or in Massachusetts or (indiscernible) in ways that wouldn't be necessary or necessarily undertaken. It just means that Eversource, as a corporation, is able to allocate its resources differently, because we're not able to allocate the resources in Connecticut to the level that we had originally started off, you know, or at the same as last year.

COMMISSIONER DELL'ORFANO: So I guess what I'm really trying to figure out then is where in the capital approval process did those considerations come to bear?

MS. LANDRY: So I would say, I think, but I don't have to introduce myself again do I? Okay.

CHAIRMAN GOLDNER: It's helpful.

MS. LANDRY: Okay. I'm sorry. Leanne Landry, director of investment planning. So in terms of in that -- sorry, in terms of that process, where it would come in is in the prioritization of the -- the project. So as you look, you know, especially in Connecticut, you know, we have to do the -- when we're talking about the categories of spending before, I have my basic business that I have to do, I have my new customer. So what ends up, you know, the prioritization and the reductions end up coming more in the reliability category. So that's where it is in the -- in the overall process. But as Mr. Horton said, everybody is following the same process. It's just difficult environment to address right now.

COMMISSIONER DELL'ORFANO: Thank you.

CHAIRMAN GOLDNER: And Attorney Kreis, will turn now to Mr. Dudley.

MR. DUDLEY: Thank you, Mr. Chairman. Just to follow up on the question I had earlier regarding indirects. Are the committees, in particular -- in particular, the CBRC committee, are they kept abreast of the drivers that are causing what we've seen over the years, this large increases in indirect costs?

MS. LANDRY: So -- so yes. But I want to address something here. So because we are in between kind of two policies. So as you're referring to, as we talked about earlier, prior to 1/1/22, we were measuring projects and authorizations based on direct costs. Projects that originated after 1/1/22 were on the total cost. So right now, we are still in a period of hybrid, the old policy and the new policy, depending on when projects originated. Throughout both of those time frames, though, I don't want anybody to think there wasn't any oversight of indirect; there were.

Prior to 1/1/22, let's say that we would be monitoring them more corporately. Every month we meet, go through what's in there, and you know, looking at the rate. 1/1/22, you know, that's when they -- they were part of the authorization measurement of total costs. So yes, they, you know, as the CBRC -- and I know Jim can address this too, is they're always looking at total cost, the authorizations that originated after 1/1/22 though, you know, the -- the measuring of -- if you needed a supplement was based on total cost, and they were aware of those costs and it was part of the CBRC discussions.

You know, it's -- it is a concept, though I would never say it's a simple concept for, you know, as a project manager to understand is, okay, my indirect costs are based -- or they fallow my direct costs. So if there's fluctuations or your project ends up going longer, it, you know, it can have basis on your indirect costs; if the interest rates go up, whatever. So -- but they do have visibility to them; they know them and they're -- they're part of those discussions.

So Jim, did I miss anything?

MR. DEVEREAUX: Yeah. Just to add on that during the '23 and '24, kind of winding down now, one of the challenges with CBRC is for those older projects that were -- that have the authorization approved prior to 12/1/22, they -- when we're talking about supplements, you have to talk about direct costs. Direct costs you don't see them on the CBRC report, but the project managers know it. So you discuss it there. On the -- on the topic that -- that Jay mentioned more. During the CBRCs, and this goes back prior to this change, it's all total costs.

So it was total cost, looking at the end of the year, beating our budget but trying to be precise as possible. And there were many discussions with the project manager groups, engineers, and others on why are the indirects going higher? And what can I do? And spent some time explaining, you know, some processes or changes with the indirects, but the indirects have always been an issue in the CBRC reports because we're talking total cost; directs are an issue, indirects another topic -- talking points, I should say, you know, in -- in the CBRC because it's all about total costs. I'm sorry, Jim Devereaux, manager of budgets.

MR. DUDLEY: So Mr. Devereaux and Ms. Landry, of course, you fully understand the answer, but are you saying that the executive members of this committee have a clear understanding of what the cost drivers are behind the increases in indirect costs?

MR. DEVEREAUX: I would say they have a firm understanding of the cost drivers for particular projects. For the indirects, I certainly explain them how they are calculated, what they're based upon. I can't speak for their knowledge of how intimate they are with the details of these allocations.

MR. DUDLEY: Okay. Mr. Chairman, if I may, I think I'd like to take one project that's in the record as an example and just quickly walk through that, if we may.

CHAIRMAN GOLDNER: Please do.

MR. DUDLEY: Okay. Thank you.

And the project I'm looking at is in the attachment to the Landry, Devereaux, Dickie testimony. It's the big attachment, the 17,000-page attachment. And this is attachment ES additions, 3F, and you can find it at Bates page 13223. And when you get to it, it'll be the Millyard substation distribution line work project. Once again, that's Bates page 13223. And what you see here is -- sorry, I'm not sure the Eversource folks have located that document yet.

MR. DEVEREAUX: Would you have the project number, please?

MR. DUDLEY: Yes, it's project number A20S02.

CHAIRMAN GOLDNER: So Mr. Dudley, at least I'm having trouble finding the Bates page on my version here.

MR. DUDLEY: It's not easy to find. It's at the very bottom. It's easy to miss.

CHAIRMAN GOLDNER: Do you have the page number, like page blank of 5902?

MR. DUDLEY: It's 10,906.

CHAIRMAN GOLDNER: At the top.

MR. DUDLEY: The -- the top page number is page 317.

CHAIRMAN GOLDNER: 317 --

MR. DUDLEY: -- of the attachment.

CHAIRMAN GOLDNER: Okay. Thank you.

MR. DUDLEY: Yeah.

CHAIRMAN GOLDNER: Thank you, Mr. Dudley.

MR. DUDLEY: Yeah. You're welcome.

CHAIRMAN GOLDNER: Is Eversource ready?

(Counsel confer)

MR. DEVEREAUX: I'm almost there. Sorry.

MS. LANDRY: Here you go.

CHAIRMAN GOLDNER: Is Eversource ready to proceed?

MR. DEVEREAUX: Is that Bates page for the authorization itself or the supplement?

MR. DUDLEY: That is the Bates page for the supplement.

MR. DEVEREAUX: I'm looking up the supplement in a different manner.

CHAIRMAN GOLDNER: Okay.

COMMISSIONER DELL'ORFANO: The PDF that was filed with the Commission, it's a 16,558 page PDF. You want to be on page number 10,906.

MR. DEVEREAUX: Yeah, it's available on our website.

(Counsel confer)

MR. BOTELHO: We're just making sure everyone's there.

MR. DEVEREAUX: Thank you.

MR. DUDLEY: So what you see here is it's a typical supplement request form that we've been talking about this morning. And again, it's for the Millyard substation distribution line work project. And if you look, there's a table at the top giving all the basic information on the project. And on the lower left-hand corner, we have the budget amount, the current authorized amount of 3. -- rounded 3.6 million. The supplement request is 639,000, leading to a total capital request of roughly 4.2 million. So if we turn to page -- the second page of the request. And what you see is the supplement justification detail. And if you look at number -- item number 13, you'll see that indirects overhead contributed to $336,000 of the increase, which is about half -- a little over half of the requested increase. And you'll notice that they note that higher than originally estimated due to increase in construction and materials.

So my question to Eversource is did that increase, which was largely due to the indirects, elicit any particular concerns or discussion at the meeting when this supplement was discussed?

MR. DEVEREAUX: Absolutely. It absolutely did. And one point to notice is this particular project, it was -- the original authorization was March 25th, 2022. So this is under the new policy, which is why indirects are a factor in the supplement. And yes, this would have been discussed when the supplement was processed through the Project Authorization Committee, and also would have been discussed throughout the CBRCs each month that it came up. So the supplement was certainly not a surprise.

MR. DUDLEY: When was the cost overrun first noticed?

MR. DEVEREAUX: It may take me a while to go into the CBRC and see month to month of how the spending went through after March 22nd, 2022.

MR. DUDLEY: That's fine. I don't need a specific answer. I was just -- my question comes from the date of the supplement request. The date was November 9th of 2023. And my understanding that the -- that that money had already been spent; is that correct?

MR. DEVEREAUX: I can't answer that right now. The timeline between when the initial authorization was done and the supplement, to me seems pretty quick for a $4 million project. So -- but I don't have that answer right now.

MR. DUDLEY: Okay. So -- so you don't know whether or not the additional 639,000 was spent between November and year-end December 31st, 2023? Or was it spent prior to that?

MR. DEVEREAUX: I'd have to get back to you on that.

MR. DUDLEY: The only reason I'm asking is because the under the APS (phonetic) that you're -- you're referring to, the supplement has to be submitted to the committee prior to expenditures. And that was the reason for my question. But --

MS. LANDRY: So just to clarify, you're correct. You know, the way the policy works is, as soon as we're aware -- oops, sorry. As soon as we are aware of the overrun, that's when -- or the potential to overrun, that's when we generate the, you know, the supplement. So that's -- that's the way the policy works. So things can happen and then we're reacting to them in some cases.

MR. DUDLEY: Am I correct, though, in my understanding, Ms. Landry, that no -- no additional funds can be extended until the supplement is submitted and approved, correct?

MS. LANDRY: No, that's not correct. That's what I was trying to say, is that, you know, there's things that can happen, and you know, that may not be aware of at the time, and the cost can be incurred. Under the policy is as soon as we're aware of it, then that's when we make sure we take the appropriate action and have the documentation. In every case, we try to make sure we do it in a -- in advance. But there are circumstances where because of whatever the situation or the circumstances that drive the cost overrun, that we are more reactive than proactive.

MR. DUDLEY: So if I understand your answer correctly, the committee approves the cost overrun after the fact?

MS. LANDRY: Not in all cases, but there could be circumstances where the piece of equipment fails or there's -- that we could be reviewing things that have already been incurred. That's not all case -- that's, you know, there's -- there's many circumstances. So that's --

MR. DUDLEY: What happens in a situation where a committee member has serious concerns about the cost escalation in certain areas, but Eversource has already spent the money? What happens then?

MS. LANDRY: If somebody -- it would be part of that discussion. So it may be a lesson learned. But if there was a serious concern about something that that happened, then the committee members, the executive leadership would, you know, look into it if it was something that needed to be addressed or rectified going forward. But I'm not aware of anything. But I would ask --

Are you aware of anything, Brian --

MR. DICKIE: No.

MS. LANDRY: -- of cases.

MR. DICKIE: Other than the -- other than the (indiscernible).

MS. LANDRY: Yeah.

MR. DICKIE: So on the Path right there, it looks like the material cost overrun was -- the initial estimate was out of Maximo. And then when they went to go charge it out, the Maximo estimate increased. The material cost increased more than the original estimate, even though it was estimated, it looked like, out of Maximo. And with that the indirects fall, causing, you know, a double overrun for the cost.

MR. DUDLEY: So if I'm understanding this process correctly, let's say the cost overrun was 2 million and the committee were asked to approve it after the fact. And one of the committee members said, no, it's -- I have -- I have real issue with some of those costs. It just gets documented as a lesson learned? That's a pretty expensive lesson learned.

MR. DEVEREAUX: I don't -- I don't -- I don't --

MS. LANDRY: That's not what I said.

MR. DEVEREAUX: I don't think it was a $2 million --

you're talking --

MR. DUDLEY: I'm just using a hypothetical.

MR. DEVEREAUX: Yeah. I mean, that's completely different situation, right? So this was material cost on (indiscernible), right? Which, you know, is a standard product that we have. And it looks like it increased in cost, you know, during the -- during the construction of the project.

MR. DUDLEY: So what -- at what number does it become a cost for -- does it become a concern? At 300,000? 500,000? A million? When does it become a concern?

MR. DEVEREAUX: I say anything over the authorized amount becomes a concern.

MR. DUDLEY: Moving on, Mr. Chairman. I'm seeking clarification on an answer Mr. Devereaux provided earlier about the DER projects. And I think the question came from you, Mr. Chairman, regarding how capital is budgeted for DER projects. And I believe, Mr. Devereaux can correct me, but I believe he said that they're included under new customer. And I just want to make sure I understand that correctly, because what we've seen is we've seen individual projects, PV projects in Loudon, Nashua, and others that were not under the new customer category. And I'm just wondering what the cutoff was in terms of project -- is it project amount, type of project.

Mr. Devereaux, you seemed to indicate that all of these projects were under the new customer category, but that's not what we're seeing in the documentation.

MR. DEVEREAUX: Loudon is under new customer. Which other ones did you mentioned?

MR. DUDLEY: Yes, that was one of them. Yeah.

MR. DEVEREAUX: Yeah. That's under new customer.

MR. DUDLEY: So -- so that's a broad overall category?

MR. DEVEREAUX: Because that's the parent.

MR. DUDLEY: Yeah.

MR. DEVEREAUX: Is new customer.

MR. DUDLEY: Okay. Because you do have a new -- a new customer blanket objectives category as well, correct?

MR. DEVEREAUX: We have the annual (indiscernible).

MR. DUDLEY: Yeah.

MR. DEVEREAUX: Spoke about earlier --

MR. DUDLEY: Yeah.

MR. DUDLEY: -- making up 85 out of the 92 million over the five-year period.

MR. DUDLEY: Yeah. Okay. Thank you.

My last question is -- again, has to do with forecasting. And how does the -- this goes back to the budget forecast, what role does the load forecast play in the increases that we're seeing in this budget? And in particular, the increases that Commissioner Goldner was -- Chairman Goldner was referring to earlier?

MS. BOTELHO: Could you restate your question?

MR. DUDLEY: Yeah. What role do your -- does your load forecasting play in the budget increases that we -- that we're seeing every year?

MR. DEVEREAUX: One way I would answer it, and I'm not sure if this gets directly to your question, but I think I mentioned before, load forecasting, it plays into where projects are done. So if projects -- there's new customers coming in certain locations, or you know, a new manufacturer, a new shopping mall, that comes through our load forecasting process. That's not necessarily to say that it's an increase in the overall load to the PSNH, necessarily. I can't answer that part of it. But a lot of our work comes from new customers popping up in different locations, which falls out of load forecasting; how we look at those where loads are showing up.

MR. DUDLEY: And those -- are those load forecasts, didn't anticipate the -- the large growth in the new customer category that you experienced?

MR. DEVEREAUX: It's very difficult in a long-range load forecast to show -- to know where customers and the distribution system are showing up, and it's a much shorter time frame.

MR. DUDLEY: Yeah. Okay. Thank you.

That's all I have, Mr. Chairman. Thank you.

CHAIRMAN GOLDNER: Thank you.

Just a follow-up question, Mr. Devereaux. We would -- just to follow up on Mr. Dudley's question, regardless of where the DERs are classified, it sounds like it's mostly in your new customer category. But regardless of where they're classified, we would be very interested in the current spend. That is, until 2024. And then your forecast moving into 2028, 2029. If it wasn't captured earlier, I just wanted to make sure that the DERs, regardless of category, were captured so that everyone could see what was happening in that particular portion of the market. Thank you.

COMMISSIONER DELL'ORFANO: Ms. Landry, during Mr. Dudley's questioning, one issue seemed to be left open. I'm looking at the -- I'm looking at page 2 of the supplemental, item number 13, and it reads, "indirect costs/overhead, 336K higher than originally estimated due to increase in construction and materials". But just above in items 6 and 7, there are also increases for materials and construction. Does this 336 represent actual costs or is this based off of a percentage of the increase in the construction and materials costs?

MS. LANDRY: So it's based on -- was based on a percentage. So here's -- the way the indirects work, we have a percentage that gets applied to the different cost elements. And as those -- you know, in this case as the material and the construction went up, that rate would get applied to a bigger number. And that's -- that's the reason why you're seeing those indirects higher. So --

COMMISSIONER DELL'ORFANO: That's what I thought.

MS. LANDRY: Yeah.

COMMISSIONER DELL'ORFANO: I just wanted to make sure I understood it. And then I want to follow up on the Consumer Advocate's question concerning what happens in situations where you have an enterprise-wide IT upgrade and you need to apportion out costs associated with the different sub op companies. And what happens in a situation where you have a state like Connecticut that won't pay for part of a IT upgrade? Does that then put the cost onto your other subsidiaries?

MS. LANDRY: So no, if -- if that IT investment was benefited, you know, Connecticut, then they would get their respective share of the costs. It wouldn't get redistributed across the other states; if it was benefiting Connecticut then under the reallocation, Connecticut would get the cost.

COMMISSIONER DELL'ORFANO: Thank you.

MS. LANDRY: Yeah, sure.

CHAIRMAN GOLDNER: Okay. I think the folks aren't planning to go anywhere, so I think we can move to O&M. But if there are additional capital questions, it sounds like the Company will be available later in the day as well.

So okay, so I think we can move to O&M now. And I can just start off and then other folks can jump in as we go. So the first place I'd like to go is that it looks like from the Company's filing that the Company has engaged in successful cost controls on the O&M side, with an increase of only $10 million in distribution O&M in nominal terms, from 130 million in 2018 to 140 million 2023, which is $15 million lower when adjusted for inflation. Now, this excludes storm costs, vegetation management, and enterprise IT expense. So -- but nevertheless, in those remaining categories, it looks like the Company has done a good job managing the expenses. So can the Company maybe walk through what appears to be a successful story here? And how did the Company achieve this result?

MS. BOTELHO: So I think I'm going to rely on Ms. Landry as far as our cost control processes, because the rigor that is applied to the capital projects is also a function -- the -- the annual planning process and the five-year planning process, O&M gets reviewed at those levels as well.

So I don't know if you want to speak to the specific controls around O&M as it relates to the discussion?

MS. LANDRY: Nope. Sure. So -- so similar to capital, as part of the -- the annual planning process. We do have a very rigorous budget process; really does come from the bottoms up. And there's a big focus on making sure that, you know, we're always looking for cost containment efforts. So as we get targets to -- to build our budgets, it's always -- the expectation is we get the work done. But we're -- we're doing it for -- for less. So what ends up happening is we have these targets and then there's significant discussions across all of the business areas of how we're going to go about doing this. You know, and it is -- it's not the -- the one big multi, you know, $10 million item. It really is a whole host of -- of smaller items that are looked at. So you know, we've had different ideas that come up of looking at how we buy tools, right? So small tools that may not be capital, that are expensed is, you know, looking at standardizing the tools or how we buy them and -- and aggregating them, you know, across the states to -- to lower the -- the individual cost.

We've looked at, you know, what can we do to reduce overtime? We put in place, you know, a very robust planning and scheduling organization to help plan and schedule the work to help lower those costs. So there's, you know, it's been a grassroots effort every year. Kind of to look in and see what we can do and how we can be more efficient in in doing that. And that's been something that as a company, we've been, you know, doing every year. It's, you know, it's always a challenge. You know, but everybody is, you know, it's always in the forefront of everybody's minds of how we're going to go about addressing that. So that's what we've been --

CHAIRMAN GOLDNER: It is what -- and I know this wasn't a question that you anticipated, but I recommend here, you know, a transition analysis because you have a success story. You pretty successfully manage the overhead over a long time horizon. And the finance world, it's typical, I know, to do, like, a transition analysis. Here's what the expenses were back in 2018, the last rate case. Here's what they are now. Here's the delta, here's the reason for the delta.

And I think it would help the parties and the Commission understand because usually we focus on the negative in here, but this is a chance to focus on the positive and what you've done. And maybe there's some lessons learned that could be fanned out. I just want to check a couple of factoids, though. Is any part of this improvement reallocation -- is New Hampshire benefiting from reallocating costs from another state? That's question number one.

Question number two is, is any of this related to headcount reduction, or is the headcount largely flat or even increasing at this time period?

MS. LANDRY: So there's -- you don't get credit if you move it across. So no, there's none of that in there.

CHAIRMAN GOLDNER: Okay.

MS. LANDRY: Everybody has their respective cost. Terms of -- of headcount, it's -- that's been relatively flat to increasing. So it's -- that's -- it really is, I would say, you know, cost savings and -- and being more efficient, you know, looking at things that are outsourced versus insourced. It's part of that as well.

CHAIRMAN GOLDNER: Great. No, that's good. I recommend telling that story and that additional analysis so folks can see what you've done there. Okay. Great.

So bad debt expense. Mr. Horton and I, I think have had this discussion before, but I'm -- question number one is, is bad debt expense handled as a ratepayer expense as opposed to shareholder expense in all of your jurisdictions?

MR. HORTON: That expense is reflected in rates in all jurisdictions. Yes.

CHAIRMAN GOLDNER: Okay. Are you aware in the utility space of any exceptions to that treatment? In other words, is it handled as a shareholder expense anywhere in the United States that you're aware of?

MR. HORTON: No.

CHAIRMAN GOLDNER: Okay. Is that is that FERC accounting, or what's the basis for the assumption?

MR. HORTON: Well, bad debt expense, like any expense, is a cost of doing business, the cost of service. So at least to my knowledge, and as far as I know, it's not treated differently elsewhere for that reason. It's a cost of service that's reflected in rates, because there's no other way to reflect those costs.

CHAIRMAN GOLDNER: In any jurisdiction, do other states -- or even New Hampshire, have any limits on the bad debt expense? In other words, the Company can collect up to two percent, but over that it becomes a shareholder expense?

MR. HORTON: I mean, I'm not aware of anything like that, and I wouldn't -- I'm struggling to understand why or when that would make sense. You know, just like every expense, representative level is set in rates and then the Company is subject to fluctuations up or down between rate -- rate cases. So I guess in a way it becomes a shareholder expense if the actual accounted-for bad debt expense is greater than what's in rates, it's a shareholder expense until we reset rates.

CHAIRMAN GOLDNER: That makes sense. What's the assumption in this rate case? And what was the last rate case?

MS. BOTELHO: So -- so for this -- so for this rate case the way we reflected a representative level in our rate year, we look at the average net write offs that have actually occurred for the past three years. So 2021, 2022, and 2023, and that's what we reflect in rates. A portion of that gets allocated to energy service. So the only -- in this proceeding we're talking about the net write-offs as it relates to distribution.

CHAIRMAN GOLDNER: What is that number?

MS. BOTELHO: It is -- just let me make sure I'm citing the right -- the -- the test year -- the actual test year value was 5.9 million. We made a rate year adjustment downward to 4.1 million based on that average write-off analysis.

CHAIRMAN GOLDNER: And what's that in percentage?

MS. BOTELHO: Are you looking for a comparison between 2019 and today? I don't have the 2019 numbers on hand, but I could get that.

CHAIRMAN GOLDNER: Ultimately, that would be helpful.

MS. BOTELHO: Okay.

CHAIRMAN GOLDNER: Bad debt expense is usually expressed in percentage as two percent or something. And I just don't understand what the bad debt expense is looking like. Is it getting better? Is it getting worse? There was COVID, there was all these things. So just trying to understand what that looks like.

MS. BOTELHO: On a percentage basis, so -- and this is a percentage as of -- percentage as it relates to the retail revenue. So net write-offs over average retail revenues for the same period. It's .65 percent for our rate year analysis.

CHAIRMAN GOLDNER: Okay. And you'd have to look to see --

MS. BOTELHO: I'd have --

CHAIRMAN GOLDNER: -- to see if it was up or down for prior --

MS. BOTELHO: I'd have to look at the 2019. It didn't show up as a significant driver in the deficiency. But I will get the actual number.

CHAIRMAN GOLDNER: That's helpful, because when you're running it through your average, it goes into the COVID period where you probably had more bad debt expense. And so just trying to understand if that's a reasonable assumption, because when you're using an average over a period that was anomalous then one could argue that average is anomalous. So okay. Thank you.

Okay. I noted that -- this is a question I had before in this hearing, but we didn't have the right folks here. We do now because it's in testimony, that your health care is self-insured at Eversource, or you're self-insured. So you have somebody who administrates the policy, but you said you self-insure in terms of all of the payments. So that was interesting. And then I looked on page 36 and there was insurance for injury damages, property liability, and there were insurance costs around that. And I was wondering why that's not self-insured?

MS. BOTELHO: That's a good question. I -- just give me one minute, I just --

CHAIRMAN GOLDNER: Take your time.

MS. BOTELHO: I'd have to take a follow-up on the reasoning for self-insurance. I know when it comes to workers' comp, you cited property insurance, like the corporate insurance policies; that's separate and distinct from, like, health care and the standards around the self-insurance and our strategy around self-insurance. So I'd have to go back to our insurance and benefits team to just confirm, like what our company strategy is on self-insurance, when we self-insure versus when we don't -- when we don't.

CHAIRMAN GOLDNER: That would be extremely helpful I think. The policy is even more important, and I appreciate your offering that, because it's even more important than the actual practical issue of this particular item. I'm just reflecting on something that Charlie Munger liked to say, if I have a billion in the bank, why would I insure my $200,000 house, right? I mean, so there's -- the policy there would be very important.

MS. BOTELHO: And just to be clear, I don't know if it's an actual policy document or a strategy the Company has employed. So we can provide a discussion on that.

CHAIRMAN GOLDNER: Either way, yeah, that'd be great. And then just to highlight where you're not self-insured and then and then maybe as long as it fits the description, great. If there's an exception with the description then just help us understand what's going on there. Because self-insurance is in most circumstances cheaper, because the insurance company has to make money, so.

MS. BOTELHO: Right.

CHAIRMAN GOLDNER: Okay. Great. Thank you for that.

On wage increases, in your filing, you talk about the latest increases for both union and nonunion personnel at three percent.

MS. BOTELHO: That's right.

CHAIRMAN GOLDNER: Right.

MS. BOTELHO: And that's per -- that's per the union contract. So we -- those are negotiated agreements. And those percentages come directly out of those agreements.

CHAIRMAN GOLDNER: Okay. Great.

And if you look back at the last, say, three years, is that roughly on average for the last three years?

MS. BOTELHO: It has -- it has been consistently around three percent in the union agreements, and that's even across our jurisdictions.

CHAIRMAN GOLDNER: Okay. I know inflation was running at nine percent there for a while and this kind of thing. So okay. That's helpful.

And then in the forecast, what are you using for your assumptions for both union and nonunion?

MS. BOTELHO: So for union, our forecast is based on the planned and negotiated increases that are in that contract. The nonunion increases are also based around three percent. And that's consistent with what the history of increases has been around the nonunion increases.

So our -- what we do for establishing a representative level of rate year expense as it relates to payroll, we look at the -- the employees as of the end of the test year. So December 31st, 2023 in this instance. And we look at -- we make an adjustment based on that end of the test year, what the known wage increases or merit increases will be over the time frame through the midpoint of the rate year. So at each year we would be adjusting -- and adjusting for that gap between the end of the test year and the midpoint of the rate year.

CHAIRMAN GOLDNER: I saw that. That was excellent in the filing. Thank you. It's helpful to clarify that.

On the variable compensation, I didn't see anything in the filing that talked about its increase or decrease on a yearly basis. Is that the same as wages or is that different? What is the Company seeing in terms of variable wage growth in the last three years? What is it in the test year and then what is it forecasting for variable?

MS. BOTELHO: So variable compensation in our initial filing, we reflected the test year actuals. So what happens in the test year is the Company accrues a level of expense that it's expecting to pay for that 2023 performance year period. And we committed in our initial filing an update to the variable compensation to reflect the actual variable compensation that was paid in the normal cycle. So it would be in April of 2024.

CHAIRMAN GOLDNER: What's that versus prior year? Was that up, down, sideways?

MS. BOTELHO: The change from the test year to what we've updated the cost of service to be, that was a decrease from the end of the test year. I'd have to look at year over year changes in variable comp. I don't have that handy, but --

CHAIRMAN GOLDNER: It would be good to know because that's usually where the wage compensation and wage inflation happens is in the variable comp. So yeah, looking at what was it the year before the test year, the test year itself, what you have in the forecast, that would be helpful to understand.

Do I have it right? I just I pulled this out in the filing. I think I have it right, that the O&M payroll increase was 18 million?

MS. BOTELHO: Yes, it's pretty substantial. Hold on, let me -- I'll pull up the schedules. We'll get you that.

CHAIRMAN GOLDNER: Is that fixed plus the variable or is it just wages?

MS. BOTELHO: That would be -- oh, what do you mean by fixed versus variable?

CHAIRMAN GOLDNER: Would that be wages plus variable or --

MS. BOTELHO: It's just -- just wages. So just the salary component or if they're hourly, it'll be the hourly wage increases based on the three percent per year since our last rate case.

CHAIRMAN GOLDNER: Okay. Thank you.

And does the Company -- the Company has -- I know from the filing it looks like there's a bonus structure for some employees, a cash bonus. I couldn't tell, are there stock options and stock grants as well in the plan?

MS. BOTELHO: There are. And they are -- we do itemize them in our variable comp schedule. I could cite those amounts if it's helpful.

CHAIRMAN GOLDNER: Just do it quickly. That would be great.

MS. BOTELHO: And same. I would have to go back and look at the prior periods. I only have the test year information available, but --

CHAIRMAN GOLDNER: It would be helpful to have those transitions and just sort of know what the cash, stock options, stock grant values are. Do you use like a Black-Scholes model or something to value them? Do you know?

MS. BOTELHO: I do not know. And I don't have the compensation person today on how we determine -- but the -- there's -- let me just add up what it is here. For the rate year, it's about 1.5 million related to stock incentives allocated to PSNH.

CHAIRMAN GOLDNER: Okay. (Indiscernible) grants?

MS. BOTELHO: That's right. And that's based on test your actuals; we didn't make any adjustments to that.

CHAIRMAN GOLDNER: 1.5 million, that's very low.

MS. BOTELHO: That's the PSNH's share of --

CHAIRMAN GOLDNER: Okay.

MS. BOTELHO: So it's not -- it wouldn't be the total awards Eversource-wide. It's as allocated to PSNH.

CHAIRMAN GOLDNER: Okay, okay. Thank you. Okay.

Just kind of moving on to the -- I think this is on page 45 of 116. On the CCI pole expense, you're putting that, I think, now in the rate base. But I thought that part of the CCI pole expense was kind of catch up, trying to sort out how the Company was handling the pole expense catch up piece versus what would have been rate base. And I couldn't quite sort that out from the filing.

MS. BOTELHO: Not sure what you mean by catch up, but I can take you through how the CCI amounts are reflected or not in the cost of service. So there's one answer I'm thinking of in particular that would be helpful. But I'll walk through it off of memory.

So we have the transaction for CCI occurred on May 1, 2023. So as of the end of the test year, a 50-percent share of the poles that we acquired, the value of the poles that we acquired in that transaction, would be in rate base as of 12/31/23. So there was no adjustment or cost of service adjustment that was required for the assets that we did acquire. They were already in --

CHAIRMAN GOLDNER: I'm referring to vegetation management.

MS. BOTELHO: Oh, okay.

CHAIRMAN GOLDNER: I'm sorry.

MS. BOTELHO: Oh, it's okay. Okay. So that's helpful. So I'll go -- now I understand.

So for vegetation management, part of the agreement with CCI settled all historical -- it settled on a level of vegetation management expense that CCI -- let me just restart.

The agreement with CCI as it relates to vegetation management expense, we had quantified. I think it was around 10 million as a result of the settlement for historical amounts of vegetation management expenses that CCI had not -- had not paid over time. That's why we entered into the agreement to purchase the assets. We had -- had issues, but that's a while ago. So that -- the settlement set out terms for us acquiring the poles and the associated -- and once that happened, we also became responsible for the vegetation management expenses going forward after that transaction date.

Part of that agreement -- and this all is outside -- the vegetation management expenses historically that we incurred as it -- as they relate to CCI prior to May 1st, 2023, would be recovered through -- and this was approved by the Commission -- would be recovered through the pole purchase adjustment mechanism, so the PPAM. So those costs for vegetation management expenses prior to the acquisition are outside of this case. So that's step one.

But when we're -- when we're looking at what the right level vegetation management expenses going forward, we recognize that we didn't have in 2023 -- because it -- part of the year, CCI owned a portion and the responsibility for vegetation management expenses and part of the year Eversource had that responsibility for vegetation management expenses. We realized the test year wasn't representative of what will -- what we will incur for vegetation management expenses going forward. So we had to normalize it.

So let me just pull up the schedule so I can walk through the numbers on how we normalized it. So when we look at -- we looked at the total vegetation management costs, both base distribution work and then what we would have attributed to CCI for the full 2023 calendar year. The base vegetation management work in the test year as charged was 33.1 million. The vegetation management expense that we attributed to CCI related -- related activities was 9.1 million. We made an adjustment downward, so we reduced CCI's -- the test year actuals as attributed to CCI, we've tracked them separately. We've reduced that by 900,000 so that our adjusted test year reflects 8.2 million.

And how we arrived at that 8.2 million is we looked at the billings, the monthly billings to CCI since 2017. And we were able to come up with an average level of expenses as it relates to vegetation management, trimming around the facilities that were previously CCI owned.

So it resulted in a decrease from our test year level. The -- resulting from the transaction. So now CCI is not -- is not reimbursing the Company for vegetation management expenses, but they would -- as part of the agreement, they are expected to pay a joint ownership. They have a joint owner -- not a joint ownership agreement, sorry, a pole attacher fee which accounts for maintenance and around -- around the pole and the facility. So they're no longer an owner. They don't have responsibility over the vegetation management expenses, but they -- they pay as part of the agreement a fee consistent with other pole attachers.

CHAIRMAN GOLDNER: Thank you.

Mr. Steinkrauss, would now be a good time for your questions or would you like to wait for a different portion?

MR. STEINKRAUSS: Well, maybe I have a couple of questions.

CHAIRMAN GOLDNER: Sure.

MR. STEINKRAUSS: Along those lines, with respect to -- thank you for those responses to the Company's discovery request, but with respect to NECTA 1-015 related to the (indiscernible) persons, would it be possible to clarify the types of expenses and the items that are covered under -- identified under account 583, which are distribution options, and how those items relate to the make ready payments for attachers versus those identified in account 593 which is distribution maintenance, vegetation where the distribution being that account 593 is an expense account included in the pole attachment rate formula, so its connection to pole attachments is transparent. Whereas account 583 expenses are expressly excluded from the pole attachment rate.

The second part would just be that you can really state that Eversource has responded subsequently to the parts C and D of NECTA 1-015 and whether or not Eversource would be able to clarify in response either now or at a later date?

MS. BOTELHO: Can you just give me a moment and then --

UNIDENTIFIED SPEAKER: (Indiscernible).

MS. BOTELHO: And it was NECTA 1-005?

MR. STEINKRAUSS: Yes.

MS. BOTELHO: I'm -- I'm not -- I'm not quite sure how your question on O&M expenses relates to the question that was asked here. So just if you could, is it the right --

(Counsel confer)

UNIDENTIFIED SPEAKER: Was it NECTA 015 or 005?

MS. BOTELHO: Oh.

MR. STEINKRAUSS: 0 -- sorry. 015.

MS. BOTELHO: Oh, sorry about that. That's why. 1 -- sorry, bear with me.

So is your question how the accounts -- the maintenance accounts 593 and 583 are reflected in the poll attacher B analysis? Is that the basis of your question?

MR. STEINKRAUSS: Right. Actually, really how the sort of make ready adjustments were reflected. It's not really clear to us from a -- seek clarification as to how those were treated, what -- what costs were covered with 583 expenses?

MS. BOTELHO: I'd have to -- I'd have to take that back. The -- the cost charged to 593 I'm familiar with. Vegetation management expenses would pass through that account. So it would make sense that those costs and maintenance costs would be part of the pole attacher fee calculation.

583, similar, just a different maintenance account. We can explain the costs included in that account and how it's factored into the pole attacher fee calculation.

Lastly, I'm not -- I would need to go back on the accounting treatment of the make ready reimbursements received from third-party attachers. I don't -- I don't know that offhand. So we'd have to follow up on that.

MR. STEINKRAUSS: All right. Thank you. That's all I have on this point. Thank you.

CHAIRMAN GOLDNER: Thank you.

If we go to page 58 of 116. And I know we'll talk about depreciation here in a moment, but it's in both testimonies. So on page 58, it says that the test year depreciation calculation was 84.5 million. Then it was increased by 14.5 million to match the pro forma depreciation expense. At a high level, can someone please explain what is going on here and how did the depreciation go from 84.5 to 99 between the test calculation and the pro forma?

MS. BOTELHO: So in our initial filing we reflected -- and this was an estimated pro forma adjustment for capital investment plans to be placed in service as of the end of December 31st, 2024. So one year after test year.

CHAIRMAN GOLDNER: So this is a new year edition?

MS. BOTELHO: Correct. So as of our test year-end, depreciation wouldn't be representative of the new plant that we added over that time frame. So when we make post-test-year adjustments for our plant, we update all components of plant, depreciation, ABIT (phonetic). And it would have an impact on the return on rate base that's calculated as well.

CHAIRMAN GOLDNER: Okay. This does get into a question I have later, but I can ask it now. So I think the settlement, if filed, would come mid-February as I remember. And then the discussion here around 2024 was there was going to be a filing with all the updates April 15th. But I just wanted to understand how the Company thought that that would work. Between the timing of any settlement agreement and two-month delay between when all the 2024 data shows up?

MS. BOTELHO: Yes. And Mr. Horton can weigh in on the PBR proposal, but I believe in our PBR proposal we presented an alternative if the 2024 investments were not reflected, we could address it as part of our PBR proposal.

But there is -- we committed in the procedural schedule to provide documentation in in phases. I just don't recall what the dates were, but essentially -- or providing documentation through the third quarter of 2024. The plan -- the plan is to provide that by the end of January, and then we'd follow up with the remaining documentation from the year end close --

MS. LANDRY: March 7th.

MS. BOTELHO: March 7th.

Thank you.

MS. LANDRY: Yeah.

CHAIRMAN GOLDNER: Thank you.

Mr. Horton, any comments on that? We're just trying to sort out in my mind the settlement procedural schedule, I think it's mid-February and these dates that come in later, I'm not quite able to quite synthesize yet how it all works.

MR. HORTON: No, I agree it's going to be a tight schedule, and I think we're going to have to just do our best as we go, because we haven't had any of those discussions with the parties to understand really how that could all come together.

CHAIRMAN GOLDNER: Okay. Okay. Fair enough. Thank you.

Is there a place where I could find a summary of the pro forma and normalization costs? If you go through the O&M, there's a lot of discussion on pro formas, and normalizations and so forth. And it gets a bit scrambled as you're trying to sort through the thing. And is there just a summary somewhere where one can see it started off here and it ended up here, just at a high level? Is there any place we could see that?

MS. BOTELHO: I -- I -- it's not at a high level.

There's an account by account analysis that we provide that shows what our total test year expenses per book are versus -- and then it walks through adjustments. We back out adjustments for costs included in reconciling mechanisms. It gets to an adjusted test year and there's normalizing adjustments. So we could put together a more concise summary of each normalizing adjustment. The testimony walks through almost every normalizing adjustment. So we could provide a summary of the normalizing adjustments and the pro forma adjustments and our approach.

CHAIRMAN GOLDNER: Thank you.

And any testimony is just nice to have some tables that take the words and turn them into numbers. And so thank you. I appreciate that.

MS. BOTELHO: We can do that.

CHAIRMAN GOLDNER: Thank you.

Okay. Just a few more here. On page 77 of 116, there's more discussion on variable compensation. And it sounds -- it might just be the write-up didn't quite make the point it intended, but it makes it sound like the variable compensation is just now an entitlement. It's 100 percent of the population received an award, so it's kind of not variable. So I wanted to give the Company an opportunity to comment on what looks like a variable compensation scheme that's turned into an entitlement.

MS. BOTELHO: I wouldn't say -- so I'm not a compensation person, but I did sponsor this testimony. So if we need to have a discussion on compensation, we can, but I don't -- I don't view it as an entitlement. Each year a funding pool is established based on actual performance met for the Company. It's evaluated each year. We are all held to our goals that we have each year. As -- as I have my own set of goals, Doug has, mine roll-up to Doug's and it even goes beyond that. So it's evaluated each year. The funding pool and whether the funding pool is funded is a decision that happens each year -- and I think the February/March time frame, if I have that right. And it actually would be before that because the payout is in March or April.

So our variable pay levels are also scaled based on your job levels. So based on that, your job scope and expectations, you're awarded -- there's a range of what you can attain in that job role, but doesn't necessarily mean it's awarded, right? So we have performance -- annual performance review cycles, everyone is evaluated. Myself, I evaluate my entire team. Not everyone gets the same percentage or even the rating. And we go through those different ratings that you provide your employees. So it is a pay for performance model. It gets evaluated every year. I just want to make sure I'm not missing any other points.

CHAIRMAN GOLDNER: You just may want to think about from a credibility perspective when -- and I appreciate the candor. You know, it says in 2020, a median of 100 percent of total employees that were eligible to receive a pay award, the same for the median, of the utility energy sector. So it sounds like it's maybe an industry practice. But to build credibility, it might be helpful to talk about the target was 100 and the average payout was 63. Something that gives folks a little bit more of a better understanding of what's actually happening at the Company. Because just reading it, it looks like, hey, if you show up to work every day, you definitely get that variable compensation deal. And I don't think that's what you meant. So just maybe it could be helpful for clarification moving forward.

Okay. Just a few questions on health care benefits. Page 83, there's discussion of health care benefits due to retirees that are Medicare eligible. I've never heard of that before, but maybe it's because I'm not Medicare eligible. So yeah. So is this an industry standard or -- it seemed like -- I've never heard of that before. I was hoping somebody could maybe fill in the Commission on what was happening there, because you're already getting Medicare. So why would there be anything supplemental on top of Medicare?

MS. BOTELHO: That's a good question. I'm -- I'm not sure as it compares to the justification of what's offered in the market. I know when we develop our compensation and our benefits plans, we rely -- it's a Ben-Val study. It's an industry study on the offerings that are out there for employees and retirees, right? So --

CHAIRMAN GOLDNER: The interesting thing so it said retirees in the filing as opposed to employees. I understand employees that are 65 and over, no problem. But retirees, Medicare eligible? I've never even seen that before.

MS. BOTELHO: Yeah.

CHAIRMAN GOLDNER: So the question made me think back, and I know you're not the job person.

So but there was also some discussion on a health reimbursement plan and HRA for -- a subsidy for those who move to your benefits program. So it begs the question, how many folks are on the program and stuff? Because if it's kind of an industry standard, that that could make sense. If Eversource is doing more than the industry standard, then that begs questions of is it reasonable for ratepayers to pick up the tab for something like that?

Do you have any idea what the retiree cost is per former employee? Does the Company keep those statistics?

MS. BOTELHO: No, but I do think we could get it.

Because there are studies. I know in the Ben-Val study I referenced, I think we do an analysis as well. It's just not on the record. But --

CHAIRMAN GOLDNER: It's just helpful if you have kind of, well, here's the -- because I know you do competitive analysis, that's clear from the testimony. So what do other utilities do? What's Eversource doing? If that lines up then that's one thing. If it's you're paying ten times more, then that would maybe beg some questions.

There was some discussion in here about the Company's transition, which many companies have in the United States, away from a pension plan. And I understood the filing to say that now all new employees are on 401(k) equivalent as opposed to a pension plan. When was the last year a new employee was offered a pension? I couldn't figure out when the plan ended?

MS. BOTELHO: I don't want to -- it ended, it was shortly after I was hired. So I'm luckily in the pension plan, but I thought it was in the 2014 time frame.

CHAIRMAN GOLDNER: Okay.

MS. BOTELHO: I know that we continuously evaluate the benefit offerings. And specifically, if the 401(k) offering versus a pension offering and what's -- what's a competitive offering in the marketplace to attract talent and retain talent. So I know that that's continually evaluated, but the legacy plans I think were expired as of 2014.

CHAIRMAN GOLDNER: That's where I'm going. So the legacy plans are whatever was committed to employees in that time frame, totally understand that. If it sounds like new employees beginning in 2014 are on a 401(k) plan, they're not on the old pension plan. That's what the Company is moving forward with. And so then the only thing that it would be interesting to at least the Commission, if not the parties, is just your analysis of are your benefit plans are competitive. You've done the analysis. I know your HR department's done a lot of work. It's clear from the testimony that the work has been done. It's just not clear what the results were of the work. It says, hey, we did a lot of work here, but it doesn't say that -- it doesn't validate that the analysis shows that the benefits plan is competitive.

All right. A couple more here, and we'll go to my fellow commissioners to see if there's anything else. Anyone know what the storm costs were in 2024? I know that the (Indiscernible). Was it more than 2023? Less than 2023? Was it small? Was it large? Does anyone have any idea storm costs?

MR. STEINKRAUSS: For 2024?

CHAIRMAN GOLDNER: 2024.

MS. BOTELHO: 2024.

CHAIRMAN GOLDNER: You've only had seven days to amass the data. But --

MS. LANDRY: Yes.

MR. DEVEREAUX: Confusing that is storm filings would cover more than a year. And the storm cost -- deferred cost per year. So if you're talking storm filings, it's going to be a different number because it goes over a certain months.

CHAIRMAN GOLDNER: Okay. I think, as I remember, I'm not looking at the numbers right now, but I think the 2023 storm costs were enormous. I think -- and then there was no 2024, obviously, because a quarter of the year just ended. But I'm just trying to understand -- the Company makes the case in the filing that, hey, we've had a lot of bad storms in the last few years. That's what the data shows. And then the Company's making assumptions moving forward. So what I'm really checking is does the assumption you made for 2024 match the reality of 2024? And what's your forecast for the future years? That's all I'm trying to figure out.

MR. DEVEREAUX: So in the same ballpark -- I can give you the exact number if you'd like it. But remember, it's by calendar year versus our storm filings are, you know, another -- 12 months, but not by calendar year.

CHAIRMAN GOLDNER: I understand, I understand, but you would say that the storm costs in 2024 were less than 2023, correct?

MS. BOTELHO: Yeah.

MR. HORTON: This is Doug Horton.

MS. LANDRY: I don't think so.

MR. HORTON: I'm looking at through November. I'm just trying to add it up. Through November, if I have to just do some math, I don't want to screw up. So one second, I'll be right back.

(Counsel confer)

MS. BOTELHO: We're just sorting out calendar year versus -- we want to make sure we give you the incremental numbers so far.

MR. DEVEREAUX: We didn't have much for this month.

MS. LANDRY: So it's just --

MR. DEVEREAUX: I can give you all --

MS. BOTELHO: We did have -- we did have -- I recall this, but we did have a significant event in April of 2024 that was over 100 -- it was over 100 million. So -- the -- I don't -- you're not -- I don't think you're going to see the drop off from 2023 to 2024. But we did have a significant event in 2024. I'm looking -- we're looking at the cost through 20- -- November of 2024. So we had filed in the 2024 docket that's currently under review. I think we have filed in the initial filing, 240 million. And then we have around 200 million yet to be filed for activity since that filing.

MR. DEVEREAUX: That's right. 231 was filed and 210 is currently outstanding.

MS. BOTELHO: Okay. Thanks, Jim.

CHAIRMAN GOLDNER: And just to check my understanding, what was your forecast coming into 2024 and then where did it land? Just better or worse than your forecast?

MR. HORTON: Forecast for storm --

CHAIRMAN GOLDNER: Yes.

MR. HORTON: -- expense?

CHAIRMAN GOLDNER: Yes.

MR. DEVEREAUX: We don't forecast.

CHAIRMAN GOLDNER: You don't forecast it?

MS. LANDRY: We forecast the -- the -- the nondeferred storm expense. That's --

CHAIRMAN GOLDNER: Okay.

MS. LANDRY: And that came in less.

CHAIRMAN GOLDNER: You don't forecast the storm expense. Okay.

MS. LANDRY: No.

CHAIRMAN GOLDNER: Don't even try?

MS. LANDRY: If I could, I'd be a billionaire. I'd be a billionaire.

CHAIRMAN GOLDNER: Las Vegas.

MS. LANDRY: Uh-huh.

CHAIRMAN GOLDNER: Okay. That's good to know. Thank you.

Just a question on your carrying cost. Is the Eversource proposal on this rate case still the prime rate; is that correct? Or did you propose a different carrying cost?

MS. BOTELHO: We have reflected in the amortization schedule our proposed weighted average cost of capital.

CHAIRMAN GOLDNER: Okay. And that would replace -- the current rate's prime rate. It would move to an weighted average cost of capital?

MS. BOTELHO: That's right.

CHAIRMAN GOLDNER: Thank you. Okay. All right.

And then the final question, I got tired by page 116, so I didn't quite capture on the RRA. Is there anything left in the RRA or has it all been moved out?

MS. BOTELHO: Let me just go through. Because there's a lot of components in the RRA. I have a nice summary schedule. I'm going to pull it up.

MR. HORTON: Chairman, just while Ms. Botelho is pulling that up, you had asked the question about the uncollectibles expense from the prior rate case, and we were able to find that, and I don't remember the percentage exactly, but it was very close to my recollection. And in that rate case, it was 0.6571 percent. And that's looking at -- I can provide the reference, but it's the docket 19-057, a particular schedule in the permanent rate application.

CHAIRMAN GOLDNER: I think it's the same number that Ms. Botelho said for this rate case, it was almost the same. I think she said .65. So it's pretty close. Okay. Thank you.

MS. BOTELHO: So for the RRA, I'll go through -- I can go through each component. There's different -- resulting from the 2019 settlement, the RRA was established, and there are different components. When we use that mechanism to reconcile different components resulting from that settlement.

The first component is regulatory assessments. We've -- we've proposed to eliminate the annual reconciliation of the over and under recovery through the RRA on an annual basis. Instead, we've requested an amount in base rates based on the latest assessments provided.

CHAIRMAN GOLDNER: Sorry to interrupt, but it looked like everything from the RRA was moving to base rates and there was nothing left. But I just wanted to validate that --

MS. BOTELHO: There is, and with -- that is correct.

As of August 1st, 2024, the rate effective date of temporary rates in this proceeding, we're proposing, so costs through that point would get -- would continue to finish out the reconciliations through the RRA, because those are on a lag. But after that point, we wouldn't be requesting the reconciliations through the RRA any longer for those components.

I just wanted to flag two exceptions. So for reg assessments and consulting costs, we're proposing that it would be amounts for the expenses reflected for regulatory and consulting expenses between rate cases get reconciled at the time of the next rate case. So that's -- that was one deviation.

And then it's the -- the same proposal would happen on rate case expenses. So rate case expenses for this case would be reviewed after the fact and could be reconciled at the time of the Company's next rate case.

CHAIRMAN GOLDNER: Okay. Thank you.

And I do have a follow-up question on the RRA based on Mr. Davis' testimony, I saw he has arrived. So I can wait till Mr. Davis is up a little bit. So thank you for that. Okay.

Mr. Dell'Orfano?

COMMISSIONER DELL'ORFANO: Thank you, Mr. Chair.

I have just one quick, brief question. When I was going through some of the filings, I was really interested in finding information about employee training. And the only place I could find it was in the residual O&M inflation adjustment factors that were in one of the attachments. Could you tell us a little bit about how the Company is investing in New Hampshire's workforce? There are a lot of gray hairs that are in it. I consider myself one of those little gray hairs in the utility business. And so I know that finding folks to work in utility jobs, which are traditionally very good paying jobs with lots of benefits. But still, it's hard to find people who have the skills. Could you maybe tell us a little bit about how this ratepayer money is being used to invest in New Hampshire's workforce?

MS. BOTELHO: So I'm the numbers person. I'm going to bring it over to Brian.

MR. DICKIE: Brian, Brian Dickie, vice president of system ops. So you know, we started a program probably about I want to say, four or five years ago with the Manchester Community College. And we have apprentice line workers that go through there. And we've been backfilling as people have been retiring. We do about two classes a year, about 14 to 9 individuals per year that come through and that we hire. So that's one way.

Another way is we have, you know, leadership development within the Company. We've been doing this for about three years now. We take a subgroup of people and bring them through the paces, learning about the Company, learning about how regulatory works, all that, so we can backfill the bench. We recently worked with the Manchester Community College on substation techs. So this is a different kind of program, it's an associate's degree program. There's some curriculum around it where some specific classes would be associated with the degree that we could direct hire after that.

So there's a -- there's a bunch of stuff going on in this arena, not only here but in the other states as well.

Utilities in general are having a, you know, a lot of gray hairs are retiring. And you know, we're trying to backfill that, with those people.

COMMISSIONER DELL'ORFANO: If I could just follow up on that. There's always the traditional training for utilities, which are very much the line work, et cetera, kinds of things. But how are you preparing your workforce for some of the clean energy transitions that are happening as well as electric vehicles, those kinds of things? How are you getting your workforce ready to handle some of those challenges, if at all?

MR. DICKIE: Yeah. So you know, we have in the control rooms, which is going to be significantly impacted with, you know, distributed generation and new technologies coming on the system, markets from 2222. You know, we've been training the operators. We got a distribution system and we've been training them on, you know, things that are coming into the future, right? So the DMS program that we call the DMS platform that we put in, very sophisticated, high tech, and you know, that's the foundational component of gridmark. And you know, with that training, you know, they're going to be preparing for the future, right?

We also have a gridmark group, right, in engineering. And they're looking at all the technology platforms that are needed to, you know, interconnect everything we do have in our engineering department and distributed generation group that is looking at various technologies and ways to interconnect generation. Not only can we do the traditional interconnection so that we can maybe use their inverters for voltage support, right? So those are some of the things we're working towards, and then I'll pass over the ball here.

MR. RENAUD: Yeah. Just to add a little bit on kind of the engineering and the technical side, a couple other things to add. We work very closely with many manufacturers.

They're willing to offer courses to us free of charge, that most of the time, you know, it's -- it's these days they don't want to make it a sales pitch. They of course, you know, it might be a little bit, but they're very good for engineers. We have worked with universities on programs that we -- we sponsor people to take the programs for advanced engineering courses at Worcester Polytech and UConn. They can do that remotely. I don't know if anybody's taken advantage of that, but we have say in their curriculums; we -- we meet regularly with them; so we do that.

We do participate, you know, routinely -- I won't say heavily because we want to be prudent about it. In -- industry, you know, IEEE -- those types of -- of settings, AEIC; so we participate with the other industry, and we make sure that we're interacting with other -- other companies through those forums.

COMMISSIONER DELL'ORFANO: Thank you.

CHAIRMAN GOLDNER: Commissioner Chattopadhyay?

COMMISSIONER CHATTOPADHYAY: There was discussion about gray hairs. Hypothetically speaking, I may have a lot more.

I have just a couple of quick points, really. Chairman Goldner was talking about the need for, for example, variable compensation or we were talking about earlier (indiscernible) or compensation in general being competitive. My suggestion would be that there should be some sort of benchmarking analysis to give us a better sense of where Eversource or PSNH stands compared to typically what other utilities do. That was a comment.

And the question is -- and this is purely out of curiosity. Are there data centers anywhere within Eversource's jurisdiction like with a lot of new data centers coming up? So I'm curious whether that's happening in New England?

MR. HORTON: Yeah, we have actually some smaller ones that have been around for quite a while, but now we're seeing very large ones across the country. We have had that interest in New Hampshire for that, I don't want to say a big one has been built at this point. But there are -- there has been interest in all the states. And I know New Hampshire, we've talked to several.

MR. DICKIE: Yeah, just for New Hampshire, we've got several that were studying, but nothing that's really --

COMMISSIONER CHATTOPADHYAY: How about Connecticut?

MR. HORTON: It's the same in Connecticut. There's been interest in everywhere. People are looking. Similar to how generation grew up, they -- generation plants look for places where transmission lines were. I mean, these are --

these are large, very large loads. Typically, they'll be connected to transmission voltages these days, they're beyond distribution voltages; these big super data centers. So they're looking for where transmission lines are, where their infrastructure fits best. So they're looking for land like that.

COMMISSIONER CHATTOPADHYAY: When that happens, do you think it's going to matter for distribution as well, right?

MR. HORTON: It will. It's more of an impact on transmission typically. And we're talking to a lot of places that have -- have had impacts. Atlanta is -- is a big area where these have popped up and they have been more impact on the transmission system typically. I mean, we serve -- there are -- they do have services on the distribution, but their typical services for distribution; most of the load comes from the transmission system.

COMMISSIONER CHATTOPADHYAY: Thank you.

CHAIRMAN GOLDNER: Okay. I think we're at a natural breaking spot. We can come back at a quarter of, may have Mr. Spanos and Mr. Davis left. I think we've got 10 or 12 questions from the Commission for each one. Depending on what the other participants have, that we'll be able to figure out if we are coming back tomorrow or whether we can finish up today.

Mr. Dexter, do you have --

MR. DEXTER: Yeah. The Department had one or two follow-up questions on the question -- on the issue of capital and O&M before we leave that topic.

CHAIRMAN GOLDNER: What do you think?

MR. DEXTER: It will take only five minutes.

CHAIRMAN GOLDNER: Okay.

Mr. dexter: We were -- we wanted to ask the Company if they could tell us in the test year, the percentage of labor charges that were charged to capital versus O&M? And if they could provide that same percentage for the most recent two years before the test year?

MS. BOTELHO: Yes, we can do that. We provided the test year, capital and expense split as part of a supporting schedule to the payroll adjustment. But you wouldn't have received the -- the two years' prior information. So we can do that. We can put it on a schedule.

MR. DEXTER: Okay. Thank you. That's -- that's all I had.

CHAIRMAN GOLDNER: Okay. Any other questions on this topic before we take a break?

Okay. Let's come back at a quarter till and see if we can finish up the day or if we need anything in the morning.

(Recess at 2:36 p.m., recommencing at 2:47 p.m.)

CHAIR GOLDNER: Okay. Did we have anything left on O&M before we move to depreciation and redesign?

Okay. So we can move to Mr. Spanos and depreciation next. And I'll just start with Mr. Spanos. It looks like you have a lot of experience doing this job when reading your resume. Have you ever done anything for Eversource before -- Eversource New Hampshire or is this the first time around for Eversource New Hampshire?

MR. SPANOS: No. I -- John Spanos, Gannett Fleming, evaluation rate consultants. I did work in the prior case of New Hampshire and on other projects in New Hampshire, but for Eversource properties I was involved in as well.

CHAIRMAN GOLDNER: 19-057 and (audio interference).

On line 15 -- we're still pulling up our computers here -- page 4, there was a discussion of a relationship between depreciation and insurance that I just wasn't able to follow. So I was hoping you could explain what you meant there.

MR. SPANOS: So --

CHAIRMAN GOLDNER: Just a second to catch up. I'm sorry. The computers just logging in. Okay. Go ahead.

MR. SPANOS: So the -- on page 4, lines 11 through

18 is just a question defining what depreciation is. And in this particular -- the part of that discussion is you get recovery on your investment as discussed there. And if there's something that's insurance, that's an offset to those costs. So that's really the only part of the definition of depreciation as to what gets recovered through rate bases. The insurance is an offset to that.

CHAIRMAN GOLDNER: Okay. Okay. I just want to make sure I understand. So on the sentences, "depreciation refers to the loss of service value not restored by current maintenance incurred in connection with the consumption or prospective retirement of utility plant in the course of service for causes which are known to be in current operation and against which the Company is not protected by insurance". So that was what you're referring to?

MR. SPANOS: That's correct.

CHAIRMAN GOLDNER: Okay. Thank you. That's quite a sentence.

MR. SPANOS: Yeah. Yeah.

CHAIRMAN GOLDNER: Okay. Thank you. So -- and this is why I asked about the last rate case. So you talk here about the remaining life technique that's used in the vast majority of U.S. regulatory jurisdictions. And then the Company using whole life until this rate case. So I wanted to get an understanding of why, if you did the last rate case, that the remaining life was not used?

MR. SPANOS: Well, in the last rate case, we agreed -- let me -- let me start over. I put together a depreciation study in the last case related to remaining life as well. And it was agreed upon in that case to -- to continue using whole life as the methodology to recover the investment as part of, you know, the overall discussion. So remaining life is a continuation of what I proposed last time and what I presented in this case, based on the exact reasons that you just described.

CHAIRMAN GOLDNER: Thank you. And I just wanted to check my understanding, is the impact of converting from whole life to remaining life in this case, in the past year, an impact of $4.1 million? Is that how to read the analysis?

MR. SPANOS: I -- that's how we're able to present it in this calculation. But it is not necessarily all the transition from whole life to remaining life. When you have life characteristics within depreciation, the whole life method does not compare the relationship of the actual recovered investment to the plant in service, where the remaining life does do that. So when you combine your -- when you transition from that whole life method to remaining life method, if your recovery is behind where it should be, the remaining life method then recovers that over the remaining life of the asset, which is the reasoning of the naming of the method. So a straight transition is the best way to present it with a 4.1. But it's not only because you're going from whole life to remaining life, it's the changes in life characteristics, the net salvage factors, the plant in service, all those things embedded in the transition causes an overall change to 4.1 million. But it's not all method related.

CHAIRMAN GOLDNER: Is there any way of quantifying just the change from whole to remaining?

MR. SPANOS: There isn't, because of the fact that you are -- the methodology calculates two different ways. And when you -- the whole life -- as I mentioned, the whole life method does not look at the relationship of the actual reserve that's been built into your rates and to where you theoretically should be. So you can't manipulate that within the calculation. So that's why it's -- it's not a clear way to do that.

CHAIRMAN GOLDNER: So you talked in your testimony about the assumptions and what you call the informed judgment that you had to make as an expert to come to the conclusions that you came to, were these sort of assumptions and informed judgment summarized anywhere in terms of exactly what was assumed and so forth? And was it reviewed by the Company?

MR. SPANOS: Maybe it'd be easier to kind of go through the process of the study, and that maybe help me answer your question.

So as part of conducting a depreciation study, I take all the accounting records, additions, retirements, transfers by account, statistically determine how long those assets have stayed in service. Then, as part of the authoritative test explanation of conducting the study, I then go look at facilities. I -- to understand what -- how substations are constructed, what types of poles are out there, what types of conductor are being utilized, things of that nature. Then I start asking questions of the Company related to all of their assets while I'm doing the field work, as well as subsequent to that time period to understand anomalies in the data, information that will allow me to understand that data. That's all part of informed judgment.

I also obviously do this across the country and in Canada. So I -- and I've been doing it unfortunately for a long time, which I have the gray hair, too. But that gives me a lot of experience and historical information understanding what's going on in the industry. That's part of my informed judgment. When I then present my results to the Company in where I think that there's a critical point to discuss a certain informed judgment. I think in this particular case, we had a lot of discussion around meters, for example, and how we would handle meters. So I would explain to them that in substations, we've gone from electromechanical relay equipment to microprocessor oriented relay equipment, and my understanding is that functionality is much improved. But the life characteristics of the microprocessor equipment is going to be shorter. So that needs to be embedded in the recovery, and service life, and survivor curve of those assets. Are you in agreement with that? So I asked the Company and then obviously they are comfortable with my -- my presentation and that's how we move forward.

So I wouldn't say that I go through every single informed judgment that I make, but the ones that I think to be key and make sure that they are comfortable. And so when I present a report that's reflecting my results from their data, they feel comfortable with that presentation.

CHAIRMAN GOLDNER: Thank you. And then just kind of going back to the remaining life question in the last rate case, what was the -- so you proposed, I think you said remaining life last time and the decision was made to continue with whole life. What was the reason for that or why didn't the Company and the parties and the settlement -- what was the reasoning behind not using remaining life last time?

MR. SPANOS: Well, I think historically the predominant methodology in New Hampshire has been whole life. It's a little bit easier to understand. And I think that was one of the reasons. You know, if you look at our $4 million impact in this particular case, over 80 or 90 million, that may not be in the short-term, a -- one that constitutes making the change. So I think that had a little bit of the reasoning. I don't know all the parties' reasons. But I'm giving you my assumptions. And I think sometimes there's concern about change, and doing a different methodology, if it's not completely understood, sometimes, you know, that's a reason not to go that direction.

I think that the one thing that kind of becomes evident in the -- in the analysis is you -- you aren't going to have an actual book reserve that's identical to the theoretical reserve. That just does not happen because you change cases from time to time, you change life characteristics and net salvage, and you want to make sure that you are properly reflecting those changes in a reasonable fashion that's fair to all involved. And I think that's the thing that wants to be expressed as part of remaining life model.

CHAIRMAN GOLDNER: And I realize you already mentioned it's tangled with other assumptions, but would you have said in the 2019 rate case and in this rate case, that the transition from whole remaining life would be favorable to the Company with some millions of dollars? Or how would you characterize whether it was favorable to the rate payers or favorable to the Company?

MR. SPANOS: I think there's a lot of different factors to take into consideration what's considered favorable for both ratepayers and -- and the Company in itself. And I'll explain. Lower depreciation today, regardless of what method, is -- is great news for a ratepayer right this minute. But in the long run, you have higher rate base because you have lower depreciation expense. So there's going to be more to recover.

In the short-term, remaining life in this particular case has higher expense. But overall, we'll have rate base will be lower because of that. So you'll go forward and have a recovery pattern that produces less to the ratepayers. So I think it all depends on what you're looking at. Are you looking at today? Are you looking at the long-range plan? And that's not just a reflection of remaining life. But that's the case that's going on right now for -- for Eversource Energy, PSNH is remaining life versus a, you know, a $4 million higher impact based on the best way to compare it.

CHAIRMAN GOLDNER: Okay. And just to make sure I don't have my sign wrong. I think that remaining life is a lower depreciation in the short-term than whole life, average? All other things being equal.

MR. SPANOS: In this case or in the long -- in the -- in the --

CHAIRMAN GOLDNER: In the Eversource case.

MR. SPANOS: As -- as I'm looking at it as of the study date that I did, which was December 31, '23, I have remaining life as being higher depreciation expense than whole life.

CHAIRMAN GOLDNER: Remaining life is higher than the whole life in the short-term?

MR. SPANOS: Yes.

CHAIRMAN GOLDNER: Thank you. Very good. Thank you.

So when, looking at your analysis and one of the things that I was looking at was the record request that you answered previously too. It looks like the Company has gone from about 2.2 billion in assets in 2019 to a projected 4 billion in assets in 2028. And I just wanted to get your sort of outside view of where did you see the largest asset growth and therefore depreciation growth in your analysis?

MR. SPANOS: Well, let me -- let me first, again, make sure we put it in perspective. The -- one of the questions I was asked was to try to quantify where expense would be and how that would affect the assets from 2023 to 2028. And it's very difficult to do that without having the methodology based on some of the things that we've talked about to develop that. So there's quite a bit of -- so it's hard to truly quantify all of those things that you're asking, but I would say that I've seen a lot of growth in substations, poles, conductor, which are the primary counts. You also have quite a bit of change with new leaders. I think those are some areas that those particular accounts grew. Some of those accounts based on the new assets going in and the existing assets, I see a longer overall average service life, and some a shorter average service life. And again, just to be -- make sure we're clear, longer average service lives allows you to recover the investment over a longer period of time, which would lower expense for all things considered, equal. And then the other impact would if you shorten -- shorten lives than obviously you have to recover things a little bit quicker, more expense.

But I think the other factor that comes into play as far as the development of depreciation rate that we haven't really talked about, is what's called the net salvage component, or the cost to remove or retire the asset that's replaced. And industry wide, that level of effort is increasing. And I think that's a driver for the overall recovery. So when you read the definition of depreciation, it said, recovery and loss of service value. Well, the full service value includes that component, which is an end of life component. And we've seen a lot of that happen in recent years because of a lot of the work that's being done. You talked about the capital additions. Well, that includes retirements. And so there's a lot of expected replacement. The cost to do that on 50, 60-year-old assets is pretty high. And that causes some of these increases, which again is why you can't fine-tune the difference between whole life and remaining life. So that's another factor that changes based on that component.

CHAIRMAN GOLDNER: I did -- I picked up on some discussion you had on negatives net salvage value, and I think what you were explaining, but I wasn't sure, was that the negative salvage value applies to whole life only; is that true?

MR. SPANOS: No. Sorry. That was the -- it applies to the full recovery of the investment.

CHAIRMAN GOLDNER: You can still get a negative value in remaining life?

MR. SPANOS: Well, let me -- I think a couple of concepts are a little confusing. So the negative net salvage component means if cost of removal exceeds the scrap value, which for distribution plant and many other plants, that means you -- you'll get a negative net salvage component, which means you have to recover more than 100 percent of the plant value in order to get your full service value recovery. So that's the net salvage component.

The -- the other concept is if you get a -- a reserve that is negative, accumulated depreciation is negative for cap, whole life will not recognize that but remaining life will, in order to recover the full investment. So there's two different pieces there that I think you might have been talking about both. So I kind of gave you an explanation of each -- each piece.

CHAIRMAN GOLDNER: Thank you. That's helpful. Okay. That makes sense now.

Question on just the process. Has the Company received feedback from the parties, specifically the Department, on the methodologies it's using? Is there any feedback on that or has everyone accepted this remaining life question -- salvage value question?

MR. SPANOS: I did ---

MS. BOTELHO: So intervenor testimony is due January 24th. I imagine we will hear things around that time.

CHAIRMAN GOLDNER: Okay. Okay. Very good. Okay.

A request for us to sort of help us understand the big picture. I'm going to describe what we're trying to get to and then if it's not clear, we can maybe talk about it a little bit. So there is a lot of data here with respect to depreciation, understandably so. And so we were kind of trying to get a handle on it with a single view with sort of a graphical view with the cost of the major replacements sort of for the large projects, over 500,000, and the remaining useful life on the replacement plan. So we're -- it's just as we're trying to synthesize. And I know we saw your response and it had some tables and stuff, which was a little bit helpful, but we're just trying to as a scattergram or something that can kind of help us piece this together. Is there anything you can do or you've done in the past in your experience, to help Commission sort of understand what's going on in a graphical representation?

MR. SPANOS: It was a challenging question in order to try to get a graphical presentation of what you were asking for. And the reason why we struggle to be able to do it, to give you perspective, is development of a rate and how it's applied to the plant investment at each time period is -- is dependent on the month that it's added, and the associated retirement of those assets. Because a retirement not only affects the plant value which you apply that rate to, but it also affects accumulated depreciation. And as I talked about earlier, accumulated depreciation is handled completely differently if you're doing remaining life versus whole life, because whole life you don't look at.

So to be able to bring a forecast to data beyond '23 with only having capital additions, you can't graphically present how that would affect the overall impact on expense for each of those two methodologies. So that's why it would take a lot of calculations and why I -- and assumptions that I felt would get us too far away from reality to be able to properly answer the question. So I struggle to be able to give you some type of graphical presentation. And I thought the table in itself was the best way to do it, without being fine-tuned on the procedure and all the details of additions, retirements, and development of the reserve with -- by methodology. Because you get a very different answer doing remaining life as you would whole life, as you may have seen in the first four months -- first four years, excuse me, and the last five years.

CHAIRMAN GOLDNER: All right, I think that was all I have at the moment.

Do my fellow commissioners have any questions for Mr. Spanos?

COMMISSIONER DELL'ORFANO: Could you describe the difference between the depreciation models that you use here and those that would result under MACRS for tax purposes?

MR. SPANOS: So generally speaking, it's in the -- the -- the lifespan of the -- of the actual property at issue. So I would like to try and understand a little bit better why we're using different property lives versus what the IRS specifies under the MACR system. And I believe most of this equipment will fall on the GDS and not AES, yeah.

For regulatory ratemaking purposes, you follow both depreciation, which requires you to look at things on an asset basis and recover it based on its life cycle and how long those assets are utilized. MACRS is more based on the, you know, tax basis. It has set life characteristics which are shorter than the book lives. So the recovery patterns are different. So it's really just a -- a requirement of developing both depreciation based on regulatory ratemaking purposes. So that's the way I can answer that one.

COMMISSIONER DELL'ORFANO: Thank you.

MR. HORTON: This is Doug Horton. I just was going to add to say that that difference between the book depreciation and then the tax depreciation under the modified accelerated cost recovery schedule is what gives rise to the accumulated deferred income tax balance, which is an offset to rate base.

COMMISSIONER CHATTOPADHYAY: So you have previously worked on depreciation in other jurisdictions?

MR. SPANOS: Yes. All 50 states and in Canada.

COMMISSIONER CHATTOPADHYAY: And so you have recommended whole life or remaining life in different places, right? I'm assuming you did choose one approach everywhere?

MR. SPANOS: No, I -- 48 of the states I recommend remaining life, which I also recommended here. There are two states that I have primarily used whole life based on their most comfort level, not necessarily, you know, an ability to recover all of the rate base. So yes, I look at the analysis, I look what's going on in each jurisdiction, I try to make sure that I'm meeting the definition of depreciation for utility companies in my proposals.

COMMISSIONER CHATTOPADHYAY: So if you were left on your own, you would have chosen a remaining life, even in the other two states?

MR. SPANOS: Yes. I think that's the -- the method I would have chosen if -- if asked, and left alone, as you referred --

COMMISSIONER CHATTOPADHYAY: Thank you.

CHAIRMAN GOLDNER: I just want to come back to the graphical presentation because I think I have an idea it's at least three dimensional, which is why it's a problem. So let me just try this out and see if we can get there from here. So if on the X axis you had time, you could do it by month or by year or whatever made the most sense. On the Y axis, you had useful life. And then in the graph, you could have the cost, and you could have the size of the circle as being the cost. I think that's what we're trying to get to; is that something you've tried before or can envision how to do that? Would that solve the problem we're trying to solve?

MR. SPANOS: Not completely for me. So -- and again, I'm just trying to make sure that I'm giving you a proper -- is your objective from this to understand what depreciation expense would be each year under -- well, what method? I mean, is it the remaining life method that I proposed here? Do you want me to show it with a whole life method? I'm assuming you'd want me to reject retirements either way.

CHAIRMAN GOLDNER: Yeah. So this is a complicated one. So maybe what we can do is we can take it back and discuss and maybe come back with a written request that maybe describes what we're looking for. It's difficult to understand the picture, and it is multi-dimensional. So I understand your -- where you're coming from. And let us go back and try to refine our question a little bit and then come back with maybe a couple of requests for illustration. It is a multi-dimensional problem. So I appreciate that. So thank you.

Do other folks have any questions for Mr. Spanos?

MR. DEXTER: The Department of Energy has one or two questions. And Mr. Ekberg would like to ask those.

CHAIRMAN GOLDNER: Okay.

MR. CROUSE: For the OCA.

CHAIRMAN GOLDNER: Okay. Very good.

MR. CROUSE: So we're not going to rely on Mr. Eckberg.

CHAIRMAN GOLDNER: Okay. That's very good.

MR. ECKBERG: I would hope not. Thank you.

Thank you, Mr. Spanos, for your excellent and clear explanations thus far to the Commission's questions about the depreciation appreciation and the difference between a whole life and remaining life. And I just have one or two questions about that to perhaps shed a little bit more light. And I believe I heard in response to a question from Chairman Goldner, he asked you if remaining life -- if under remaining life the annual depreciation amount would be higher or lower than under whole life in the short-term, in the current case. And I believe you said you -- your answer was that under remaining life, the annual depreciation amount would be higher. Did I hear that correctly?

MR. SPANOS: That is the way I answered the question. I'm just looking back again to see if I have specifics to make sure that I accurately responded to that question. I thought that was the case, but let me just --

MR. ECKBERG: I think -- I think you're -- I think -- I think your answer is correct based upon the information that had been provided to us. Yes.

MR. SPANOS: And most of what I just saw, that is an accurate statement. The one thing that I think is not part of that statement is if you have a full life methodology, you don't have any recovery of over or under, or what I call reserve variance between theoretical reserve and the actual reserve. And that would change some of the impacts. I still believe you'd end up at a number that's in that same direction, but you're not making the recovery time. That's why I said it the way I did.

MR. ECKBERG: Yes, that's -- I think you're -- I think you're correct in your -- you're heading to the direction that I just wanted to make sure was clear to everyone with all these corrections, is that the remaining life method, which you have proposed and have used in your depreciation study here, that remaining life method takes into account the reserve imbalance automatically, so to speak, and it builds in the recovery of any imbalance over the remaining life of the various assets.

Whereas when we use whole life, there's still a separate discussion, you might have to say, to -- to figure out what to do about any reserve imbalance. Is that generally a correct understanding?

MR. SPANOS: There could be a discussion. And there's not one presented at the moment, but there could be a discussion on -- on how to handle that and how to make it fair to everybody.

MR. ECKBERG: Right. So I guess what I was just trying to point out was that when you -- when you said that the remaining life method or the remaining life technique that you have proposed here, would result in a higher annual depreciation amount, it's in part because that remaining life method is, in fact, taking into account that reserve imbalance and dealing with it over time.

Whereas the whole life number doesn't deal with that inherently?

MR. SPANOS: Yes. And that's why, when asked by Mr. Chairman, as to why you can't compare the full impact of the 4.1 million that I mentioned, is because of some of the things like that.

MR. ECKBERG: Yeah. That's good. Thank you very much. I just wanted to -- that's very helpful and helps to clarify the difference I think a little bit. So thank you very much.

That's all I have, Mr. Chairman.

CHAIRMAN GOLDNER: Thank you.

Attorney Kreis?

MR. KREIS: Thank you. I, too, wanted to say thank you to Mr. Spanos. Am I pronouncing your name correctly?

MR. SPANOS: Yes.

MR. KREIS: We're quite obsessed with depreciation at the OCA and so I'm glad the Commission is too, and I'm glad the Department is as well. But you came all the way to Concord because it is really -- you're one of our nation's foremost experts on this subject. In any event, I want to turn the mic over to Mr. Vatter, who is our depreciation expert. And I know that he has a question or two for Mr. Spanos.

MR. VATTER: I tried to limit my involvement to what I do here. So yeah, I'm Mark Vatter with the OCA. I'd like to look at the table on -- that goes from page 271 to 272 of the study. And I'm looking at page 272. Give everyone a moment to catch up if you want to follow along.

MR. SPANOS: Sorry. Could you say that again, please?

MR. VATTER: Yeah. Page 272 of the study, which is attachment ES-JJS-2.

MR. SPANOS: I mean, I don't have 271 pages of the study, but you're looking at a schedule that is comparison of the existing estimates to proposed?

MR. VATTER: So it's -- it's a -- it's a table where you aggregate up the different categories. I'm sure you have it. Oh, I'm sorry. Page 40 -- page 50.

MR. SPANOS: Okay.

MR. VATTER: It was it was page 49 of 271. Again, I'll give everyone just a moment. I'll follow along. Page 50 of the study.

MR. SPANOS: I did find it. I'll let others get there, but just letting you know I'm there.

MR. VATTER: So I am -- I'm looking at the line for total depreciable plant. I just want to focus on this. And you don't, in that line, report net salvage for total depreciable plant. In the individual categories you report a net salvage percent. But I think I'm able to calculate net salvage for total depreciable plant. And I want to check that I've done so correctly. So I calculate it as original cost minus book depreciation reserve minus future accruals; is that correct?

MR. SPANOS: Yeah. I think maybe I'll -- I'll walk through the -- the schedule to make sure it's clear and that it's consistent with what you're saying. The original cost column is total plant service by account. The book depreciation reserve is accumulated depreciation.

MR. VATTER: Uh-huh.

MR. SPANOS: So if you have zero net salvage, then original cost minus book depreciation equals how much you have left to recover --

MR. VATTER: Uh-huh.

MR. SPANOS: -- for future accruals.

MR. VATTER: Right.

MR. SPANOS: If you have a net salvage component, let's say ten percent negative net salvage, then it would be original cost times one minus the negative net salvage minus the book reserve to get you what your future goals are. So because that allows you to recover the full service value, which includes that negative net salvage piece that we were talking about earlier.

MR. VATTER: Let me try that. So original cost times one minus --

MR. SPANOS: Whatever the net salvage percent is in a -- in a particular account.

MR. VATTER: Yeah. One minus the net salvage percent though?

MR. SPANOS: Right.

MR. VATTER: Okay. And then what?

MR. SPANOS: Then you subtract the book reserve.

MR. VATTER: Okay.

MR. SPANOS: And that gives you future accruals, which is what is still to be recovered through expense.

MR. VATTER: Yeah, that's what I get. Okay.

May I ask one more, please?

So we're looking out to 2057 for total depreciable plant, right? The composite service life is 33.9 years using column 9 equals column 6 divided by column 7?

MR. SPANOS: Are you doing that for account by account basis or just a composite --

MR. VATTER: For composite.

MR. SPANOS: That is the -- I wouldn't say we're necessarily looking out that far, but that is the -- the period of time on a composite basis that the future accruals will be recovered based on the life parameters that we have in place.

MR. VATTER: Right? Right. I mean, this total depreciable plant line is just a sum over the depreciable categories, right?

MR. SPANOS: It is. Each account -- it's a -- it's a total. It -- it does not present the detailed vintage of each account, which is a fact that that's all in part 9 of the report, but that is a total presentation. Yes.

MR. VATTER: Okay. So on a composite basis, we're looking out three, four years or so. On a composite basis.

MR. SPANOS: (Indiscernible). Okay?

MR. VATTER: Not everybody is looking at his facial expression.

But -- and -- and so you have the two components of net salvage, gross salvage and cost of removal. And they're going to sort of change over time and you've got a net salvage percent. Is -- in your methodology, is the net salvage percent sensitive to the remaining service life? Is there some kind of regularity in that relationship, which on a weighted average basis looks ahead three or four years?

MR. SPANOS: Well, let me first say that one of the reasons why you do depreciation studies on a more regular basis than every 33-1/2 years is so that you understand the inherent variability of the assets and the parameters, like the net salvage that will occur over time. Obviously, we know types of assets will change. So I have incorporated in my net salvage percent not only what we know historically has happened, but also at what ages those components happen and whether that's a reflective percentage going forward.

So in my mind, I have taken into consideration what

I think the most appropriate net salvage percent would be by account as far in the future as I feel comfortable looking at. And how much I can cost renewable as a relationship for the retirements -- retired would be. And the practices that are in place today, not only for this company but within the industry. And then also what types of scrap values will be out there. And I think one thing you have to take into consideration is, let's just talk about poles for example. The scrap value for poles today, primarily wood poles, is not that great. If you go to steel poles, will it be higher going forward? And then you have to say, well, yes, it might be. So that might affect the -- the scrap value. However, the cost to remove a steel pole is going to be more expensive and more laborious than a wood pole. So that means cost of removal is going to go up. So you try to weigh all of those factors.

And at the point in time, taking into consideration what I know today in the industry, what I envision going forward, I wouldn't say that I go out 33.9 years and say, is this the best thing that's going to happen that far out? I try to take that into consideration, but I'm more focused on what I think is going to happen in the more close horizon of five to ten years.

MR. VATTER: So as a time horizon goes up, you wouldn't care to generalize about whether a net salvage percentage would go up or down?

MR. SPANOS: I will say that I feel very comfortable saying this piece of that particular question, and then I think the net salvage percents are going to go up, more negative. And the reason why I say that is because there's requirements to remove assets that are much higher than they were before; the crews you need, the effort you're going to have to do, the restoration costs. And on top of that, the statistical component is if I'm averaging 50 years right now, say, for poles, and I look at what has been retired to date, the average age is 25. So for me even the reach 50 years, that means the future poles are going to have to be retired a lot older. And so you're going to have a much larger impact of when an asset was put into service and when it's taken out of service. Which means the labor costs are going to get even higher. So I think many of these net salvage percents are probably conservative.

Now, you also take into consideration that you think methodologies will change, and improve, and how things are done. Maybe bigger projects are handled. You get economies of scale in that way. You don't have as many one-off poles getting hit that get replaced. And you have to do things in, you know, in sets. So those are things that you kind of build into the analysis and -- and why I think going forward it's very likely to be more negative. And if you look at what was estimated five or ten years ago, that's a reflection of just the last ten years, what's going to happen ten years from now, I think similarly.

MR. VATTER: Thank you.

CHAIRMAN GOLDNER: Just one last question for Mr. Spanos. The multi-dimensional problem is going to come back to it quickly and maybe get your advice in terms of how this could be represented or how that how the Commission could get a better understanding of how this works. So let's say that you have an asset that was installed in 1975. It's got a 50-year life and you're replacing it now. So one dimension is if we have -- so first question would be if we have plant B installed in 2008 with the useful life of 30 years, but it was replaced in 2025. That's something I think everyone would be interested in understanding.

The second dimension that Dr. Vatter was touching on would be if those assets, if that 50-year asset was being replaced by a 25-year asset, well, that is a new dimension in the problem as well. Can you think of any way that you could help the Commission get a better handle on those two aspects with what you've presented before and your experience in this space?

MR. SPANOS: Well, to be honest, I haven't been asked to do this type of calculation or process before. But I think things to understand is we're dealing with group depreciation in all these. So if we set up an account that has an average of 50, I'm expecting some assets to retire at age 1, 2, 3, 4, up to 50. And some that are going to go to 60, 70, 80 years.

CHAIRMAN GOLDNER: Average is 50. Yeah.

MR. SPANOS: Correct. And the average comes out to 50, you know. So you almost have to be able to wait over the next, in this case, five years as to whether more would get retired to the right of 50 or older, or more would get retired to the left of 50 and younger. And that we -- to do that, I'd have to get a comfort level from the Company as to what their expectations would be to be able to do that type of calculation.

CHAIRMAN GOLDNER: And if you wouldn't mind taking that one back with the Company, I think everybody in the room would be very interested in this kind of analysis. We're always happy to be the innovator here in New Hampshire. So you're welcome. And that would be -- that would be very helpful. So the Company and you want us to take that back, those two problems. It's important, I think they have a handle on these things. It sounds like there's a lot of interesting application in the room. And it's just hard to tell from any utilities filing what is happening in those two aspects. So thank you for taking that back. Okay. Very good.

Any other questions for Mr. Spanos today?

MR. STEINKRAUSS: Excuse me, Mr. Chairman.

CHAIRMAN GOLDNER: Mr. Steinkrauss, for sure.

MR. STEINKRAUSS: Thank you.

Good afternoon, Mr. Spanos. My name is Jim Steinkrauss representing NECTA. We had a couple questions related to accumulated depreciation reserves after the pole assets, both that are for account 364. Is that -- you're familiar with, can you put a response --

MR. SPANOS: I'm familiar with the accumulated depreciation for account 364. So -- and the pole accounts. So --

MR. STEINKRAUSS: Thank you.

Especially -- specifically with response to -- the Company's responses to NECTA 1-015 and its follow-ups on the 2-006. You know, the accounting of the make ready payments to Eversource receives from attachers for incremental work performed in connection with their attachments to utility poles, looking at the accumulated provisions, cost of removal, and the tabular attachment NECTA 1-015, could you please clarify how the amounts are determined and the effect the amounts shown in brackets, the negative amounts have on the accumulated accretion reserve balance. Do they apply as a credit entries increasing the reserve balance or are they debit entries decreasing reserve balances for the associated fixed asset account? There's attachment NECTA 1-015.

MR. SPANOS: You said, 005?

MR. STEINKRAUSS: 015.

MR. SPANOS: 015.

MR. STEINKRAUSS: The line in the Excel version would be 2006.

(Counsel confer)

MR. SPANOS: So can you -- actually now I have a follow-up and I can (indiscernible).

MR. STEINKRAUSS: So could you better clarify the entries identified as accumulated provisions, cost removal, tax rate, 01015 or 2006. I think that's pivoted (indiscernible), specifically how the amounts that are determined and the effects of the amounts shown in bracket negative amounts have on the accumulated depreciation reserve balance. If to the -- do they apply as credit entries, increasing the reserve balance or debit entries, decreasing the reserve balance for the associated fixed assets?

MR. SPANOS: So the accumulated provision cost of --

cost of removal is the accrual component of cost removal. So that's how much is being recovered. So that component would increase expense.

The incurred cost of removal is -- would reduce accumulated depreciation. So it looks like from what I'm seeing here, the amounts are accumulated provision of cost removal. So that would be increase in the expense, which is what -- why all of the numbers are negative. So the accumulation is going to increase that amount.

MR. STEINKRAUSS: Right. And just as a follow-up, can you clarify the impacts -- these impacts that enter into the calculation of pole attachment rate?

MR. SPANOS: Sorry. Could you say that again?

MR. STEINKRAUSS: So in other words, would these accumulated expenses impact the condition for pole tax rate?

MR. SPANOS: Referring to account 583?

MR. DAVIS: Yes.

MR. SPANOS: Yes. So --

CHAIRMAN GOLDNER: Mr. Davis, I'm sorry, I know you got here in the afternoon, but for the stenographer, if you could identify --

MR. DAVIS: I just talked for the first time.

Ed Davis, director of rates for Eversource Energy.

So to the extent these entries affect the balance of account 583 or the accumulated depreciation associated with that, in the unified pole attachment rate formula, they would affect the rate.

MR. STEINKRAUSS: (Indiscernible). Moving forward, the pole replacements, can you explain the typical or likely impact of accumulated depreciation as far as what poles have been placed? First, how does the cost of removal of the poles being placed (indiscernible) depreciation reserve balance for poles? And secondly, can you clarify those impacts on the (indiscernible) that you answer that slide? So the first one was with respect to pole replacements and referencing NECTA 1-025, can you explain the typical or likely impact on accumulated depreciation reserve poles when the poles are replaced?

MR. SPANOS: So a 108 account related to 364, when a pole is replaced, you'll have a retirement which reduces accumulated depreciation and reduces plant. You also will have the incurred cost of removal when that is booked. It may not be that exact moment. That will reduce accumulated depreciation. And then as part of either studies or the current depreciation rate, you have built in the cost to remove an accrual component, which will increase the expense. All of those things together are what allows you to become whole on the service value of every asset by the time you're all said and done.

MR. STEINKRAUSS: Thank you. Thank you, sir. One last question. Generally, in reference to your response then -- the Company's response to NECTA 121 -- 1-025, more generally, to how the new pole additions are booked to deferred to account 364 when poles are placed? The Eversource response stated, "when the poles were placed, the work order is placed in service. New pole is recorded in account 364 and a pole is retired". How does this described reporting process mesh with the unitization process referenced in response NECTA 1-021, which suggests a significant amount of work or capital amounts are not immediately booked into specific subaccount retirement units, but initially categorized as (indiscernible) type investments?

MR. SPANOS: The -- I want to answer this question as a more standardized question. I don't remember exactly Eversource's position on this, but they're all basically the same.

MR. STEINKRAUSS: Sure.

MR. SPANOS: So -- and that is that, first of all, the cost of removal component is not always perfectly time synchronized with the retirement. So those may not happen at the same time. And there are many projects that occur that affect numerous plant accounts; poles, conductor that's on those poles, et cetera, and you will make those -- a lot of it's either done by contractors or in-house, and you have an assessed amount that -- of the work that's being done and then fixed assets or through the process between operations engineering, fixed assets. You then identify these things, which is the time period that it gets unitized. So through that process, through those out in the field, and once it gets to property accounting, you get those items unitized and recorded properly in the -- in each plant account, and accumulated depreciation, and all those associated costs occur not simultaneously but relatively close to that time period.

MR. STEINKRAUSS: And I think you may have answered this, but let me just ask the question, just to be sure I have it. So are there -- and maybe the Company can answer more specifically, are work orders related to pole replacement subject to the same -- similar unitization process as new pole additions? Or is there a different accounting process for these poles contemporaneously retired, so there's no accounting?

MR. SPANOS: I don't think I'm the best person to answer that.

(Counsel confer)

MS. LANDRY: I'm sorry, we don't have the staff, but we -- here today. But we have scheduled a technical session with NECTA for the following Monday the 13th.

MR. STEINKRAUSS: Thank you. We'll hold that until that call. That's all I have. Thank you.

CHAIRMAN GOLDNER: Thank you, Attorney Steinkrauss.

Okay. I think that's all, Mr. Spanos. Thank you for your time today. And it was very helpful.

Mr. Davis, this is the speed round. So we'll try to wrap up today by 4:30, depending on the questions that everyone has. I think I've got a handful of questions for Mr. Davis and I think the other Commissioners have a question or two as well.

So I'll just start with an easy one. So in your testimony on 16, page 16 and 21, you have the just a nice table that has residential impact, bill impact. They have 16.8 percent for residential ratepayers. And in table 2, you've got a table with the different rate classes. These percentages are based on Eversource's -- the total bill impact for ratepayers, not just the distribution piece, correct?

MR. DAVIS: That's correct.

CHAIRMAN GOLDNER: And what would the residential increase be just based on the distribution portion of the bill? How much? Because obviously we're talking about a rate increase for the distribution utility and sort of the denominator being the distribution piece of the bill. I get

47 percent, but I just wanted to check my math.

MR. DAVIS: Yeah, I do have an exhibit that should give us that information.

CHAIRMAN GOLDNER: Thank you.

MR. DAVIS: 46.95 percent.

CHAIRMAN GOLDNER: 46. -- I was close.

MR. DAVIS: Very close. And that's -- that's all residential. So I think what you have here is a subset which is still largely the same for rate R. So your number represents rate R. And if I include rate R, which has the heaviest weight, with all the other residential rates for water heater, et cetera, my number is reflective of your number and a blending of the others on that order of magnitude.

CHAIRMAN GOLDNER: Okay. Thank you.

And so I just want to go back to this Connecticut perspective again. Can you tell what did Eversource request in Connecticut and what did it receive in Connecticut from a rate perspective? I just want -- did you also request something like 40 to 50 percent Connecticut, it was cut back to 10 percent -- or what happened in Connecticut?

MR. DAVIS: In our -- in our last distribution rate proceeding?

CHAIRMAN GOLDNER: I think --

MR. HORTON: Sorry to jump in. Doug Horton. I think are you asking -- the Connecticut perspective, are you asking just general discussion about the Connecticut regulatory environment? Is that --

MR. DAVIS: Yeah.

CHAIRMAN GOLDNER: It might be behind the times. But I thought that Eversource had come in for a Connecticut rate case, and the Company had requested some kind of increase. The Commission had ruled on the rate case and that the rates were cut by Connecticut to some amount. And that's the discussion we've been having in part in the room today relative to where did those costs go? But I only was checking part one of that.

MR. HORTON: And just to be clear, there's -- you're going to have to be careful of getting me going. But the -- the -- there was a rate case filed by Aquarion Water Company that followed the trajectory that you said, where the case was filed, the rates were reduced. But there is quite a lot of other activity. CLMP, which is our Connecticut-based electric operations, hasn't filed a rate case. Our last rate case was in 2018. It was resolved as a result of a settlement agreement. So we had a subsequent settlement agreement that extended the time period between a rate case in Connecticut. So CLMP hasn't filed a rate case for some time. But there's been a series of other decisions that has, you know, tainted the regulatory environment as it's been talked about today.

CHAIRMAN GOLDNER: Okay. Okay. That's helpful. I thought that the electric Connecticut piece was in motion, and sounds like that's not true. So I appreciate the clarification.

Okay. So just an opportunity, Mr. Davis, to answer kind of the high-level question, which is at a high level puzzling. But I know that there's reasons and I just would like to give you the opportunity to feed the reasons. So if you look at the load growth over the last ten years at Eversource, it's pretty flat. Even if you look at the forecasts, at least from -- I think I saw it was pretty flat. And then we've got sort of these significant capital purchases that more than offset depreciation. So it's obviously, costs are going up for ratepayers. So it's just at a high level, I just wanted to give the Company a chance to remark on that conundrum.

MR. DAVIS: I probably will only be able to sort of give a flavor, but -- and I wasn't part of any earlier discussions. So I don't have the benefit of what content was covered. But my understanding is particularly going back to our last rate case, there been a significant number of costs incurred, largely upgrades, and other capital, and other expenses that have flowed its way through our revenue requirements.

The extent there's moderate or minimal load growth per se, it's the system, and the upgrades, and the investments that we've had to make. And I know there's been extensive testimony on that. It's clearly -- I know it was covered extensively in our last rate case. So really we're reflecting, you know, getting that level of reliability up, upgrades, replacements, things of that nature. I'll beg off because I have an army of people behind me who are experts in that area.

But low growth is one part of it and certainly finds its way into the great design part and what customers pay. But it's really on the costs that are flowing into our revenue requirements.

Also, we're talking about distribution rates here, but certainly costs have changed and have been various mechanisms that are reflected in our rates, systems benefits. We've had mechanisms like loss-based revenue. So that's more of a sort of rate mechanism for cost recovery.

But then we've had, you know, the RRA which reflected some of those capital costs, the PPAM and some other new rate mechanisms. So it's not just distribution rates. Obviously supply rates, we had a huge spike 2023 time frame.

And New Hampshire had experienced relatively lower energy supply costs up until that point compared to -- just comparing in my -- from my experience in the other states. But we then experienced that here in New Hampshire. Now there was a bubble that has come back down, but that certainly is another very important dynamic. So again, we're talking distribution rates here.

But whether it's through base rates or mechanisms such as the RRA, you have sort of distribution related costs, and transmission costs, energy supply costs, they all come into play and they form a big dynamic. And obviously, we still have to design the rates based on the billing determinants. And if the load hasn't grown much, you see the same denominator. So the numerator is going up or varying through time -- it's certainly going up -- with relatively slow changes in your denominator, the billing determinants. And of course, it further varies by rate class. So it's not just the overall average rate, but it's, what are the costs for each class to serve customers? And then the billing determinants in that numerator -- I'm sorry, denominator that show its way up not only in the rates but then the bill impacts. Yeah. So there's a lot -- it's complicated, but it kind of boils down to blocking out those -- those pieces, and how they're moving, and seeing what drives that.

CHAIRMAN GOLDNER: Yeah. It just seems like in 19-057, which none of the Commissioners here sat on, there was the adjustment to the revenue requirement. And there were, I think, three steps.

MR. DAVIS: Oh, yes, there's three steps. That's correct.

CHAIRMAN GOLDNER: Three steps.

And then on top of that is the 47 percent increase. So it's just hard to grasp what's transpiring here. And so my question about Connecticut or any other state that the Company has experience with is just to help us give us some perspective on what we're seeing here and why that number is so large and how does that compare to other states that you're aware of?

MR. DAVIS: The three states that we operate in are very different. I believe a lot of what folks are probably sensing for Connecticut had -- its nondistribution rates are really the big drivers of -- of all the changes and the impacts. We have different -- we're at different places in terms of distribution rates and distribution costs. We have different programs in Massachusetts driving lots of investment.

CHAIRMAN GOLDNER: Is it more than here? Is it more than 47 percent? Is that what you're saying?

MR. DAVIS: No. Well, it's hard to compare, really. I would say on a base distribution level, we haven't seen distribution rate changes since -- as Mr. Horton said, in a number of years in Connecticut. And in Massachusetts, we a year-plus ago just completed a rate case. I don't recall offhand the percent change in rates overall.

CHAIRMAN GOLDNER: Mr. Horton does.

MR. DAVIS: Okay. I can certainly get that. I just -- it's not top of mind at the moment.

CHAIRMAN GOLDNER: What do -- go ahead.

MR. HORTON: I'm trying to be mindful, you said we get out of here by 4:30?

CHAIRMAN GOLDNER: No, no, we have all day.

MR. HORTON: If we end up going, that's going to be challenging. But well, I was only going to chime in. And this goes back to, I think one of our earlier tech sessions that in Massachusetts, the framework is different. In Massachusetts we have a PBR framework in place, and that's informing our proposal here to try to have a similar framework in place for all the reasons that we talked about at the prior tech session. Because I would say although each service area is different, there are different, you know, public policy objectives in each state that adds layers and differences between Mass., Connecticut, and New Hampshire.

I would say as the numbers person, not the engineer or the operations, but from a system perspective with age and asset condition, with, you know, increasing, although varied levels of distributed generation, electric vehicle adoption, those sorts of things that are impacting our system, the needs for investment are similar. While the load growth that has historically sustained and provided incremental revenues between rate cases isn't there as it has been in the past in each of our three states, which is what brings us to wanting to propose something like performance-based ratemaking. Because in our view, the costs can't be avoided. But what can be avoided is the rate impact. And again, that's what -- while the increase from the last rate case in the electric -- or electric operations in Massachusetts, that rate case increase was much smaller because we had revenues to support those investments along the way. It allowed for the rate case impacts to be much more manageable.

CHAIRMAN GOLDNER: What's the distribution rate right now in Massachusetts and Connecticut versus New Hampshire? I think your proposal here takes you to something like $60 a megawatt hour for distribution. How does that compare to Massachusetts and Connecticut?

MR. HORTON: I think we can get it -- it's much lower in New Hampshire than in Massachusetts and in

Connecticut, but exactly, I don't have it offhand, unless Ed --

MR. DAVIS: We can certainly get that. I don't know offhand, but it is lower.

CHAIRMAN GOLDNER: Okay. That would be good to know --

MR. DAVIS: Sure.

CHAIRMAN GOLDNER: -- in terms of how things are working in other states and for distribution rates.

Okay. So moving to page 4, Mr. Davis, of your testimony, just to orient everyone. There's some discussion on the cost to service studies. And I just wanted to ask you, relatively -- this is not in your testimony, but just a factoid that I'll insert here. Is that NHEC, their fixed costs are pretty well aligned with the Eversource cost of service studies. I think NHEC has a fixed cost of $35, something like that. And then just noting that NHEC is owned by the ratepayers, and the ratepayers have sort of accepted this higher fixed cost, like right now at Eversource it's 13; you're proposing 19, something like that. How do you think about that versus with what NHEC is doing?

MR. DAVIS: So that's a -- it's a longstanding -- it's a long story, right? Because it reaches back to every time we run one of these cost studies, this would be, I presume, let's say either they allocated -- or the marginal cost study, the unit cost for customer related costs, if you use the new cost causation, is much higher than what we charge. So in many ways it's a -- it's a policy objective, right? What should the fixed charge be for rate design? But we always look at what the cost of service study informs us. The cost of service is typically more of a guide. And then we have how far would we be moving costs compared to today? So I think directionally, we have -- I have proposed and I've taken the brunt of, you know, much higher increases to achieve a customer charge closer to cost of service. Pardon me. So really, we're trying to strike a balance.

So if you're a purist and you want to try to align to pure cost of service, not that you would ever get there, but clearly, directionally, that makes sense.

If you're looking at things like the more you push -- I actually have a deja vu to the last tech session, we were talking about efficient pricing, right? So if you're not recovering all of your costs through that fixed cost, and you're pushing it to the volumetric rate, that might work in an older regime. But now we have things like, let's say, net metering, or any anywhere where customers might reduce their volumetric rate. And if the response is -- and the impact is to reduce the recovery of that fixed cost, that the cost study says, let's say it's $35 and I'm only charging 15, so that difference doesn't get recovered. It's a reduction. So to me -- the -- the important thing is to -- to let the cost study tell us and guide us to try to get costs as aligned, cost causation-wise as possible. And try to strike that balance.

And also, you know, look at the spectrum of customers. A low-use customer sees a higher fixed cost. Or a customer who has lower use during a certain time of the year, will see proportionately higher fixed costs, the customer charge. But it is a cost to provide service. And you want a fairly, you know, have customers pay an equitable, you know, set of rates. So it's a balance. I think we should continue, as we have proposed here, to move in that direction if that's what the cost study informs us.

And cost studies are still class average, you know, so you kind of recognize there's a whole blend of costs that are reflected there. But to me, it's appropriate to properly increase, and propose to increase, and hopefully achieve approval to increase the customer cost in a direction of what the cost study is telling us. That just provides more efficient ratemaking in the economic sense.

CHAIRMAN GOLDNER: And how does -- just to build on that, how does Eversource think of the sort of unique, I think, unique environment here in New Hampshire versus other states where there's a high percentage of vacation homes where people are only here for part of the year? How does the Company think about that in a fixed charge? How do you process that information?

MR. DAVIS: Yeah. That's a great question. It is -- there's a substantial -- I think we had on the order of 6,000 customers who are seasonal in that respect. And --

CHAIRMAN GOLDNER: More than that.

MR. DAVIS: Yeah, I'm just thinking.

CHAIRMAN GOLDNER: That's the one month --

MR. DAVIS: You know, I'm thinking those customers who participate -- and actually turn their service off and then reconnect.

CHAIRMAN GOLDNER: Oh, I see.

MR. DAVIS: So they go a number of months and there's a charge for that. But I do think -- I do think, personal opinion, that it needs to be -- could be looked at. And you know, whether we do something here or have a plan to do something over time, I think it's fair to consider. So it really, really means we should look closer at what their cost of service is. So if it's $35 for a customer service related cost each month and we're not fully recovering that. Obviously a customer who is 12 months will get the lower customer charge, but they'll have the volumetric rate. We're not picking that up necessarily from those customers who do participate. So I think that's -- it merits some further investigation, just to be fair.

CHAIRMAN GOLDNER: Okay. Thank you. That's helpful.

And I read the cost of service study, which we did talk a little bit about at the last technical session, but I understood it to have a fairly significant cost shift between residential and nonresidential classes. Can you just touch on your perspective of how that's working, and why that's fair, and so forth?

MR. DAVIS: That -- you mean the intrinsic or the current state, if you will?

CHAIRMAN GOLDNER: Uh-huh.

MR. DAVIS: It sort of gets to that point about balance, right, and trying to get some kind of a equality among classes. But traditionally, we have seen a lag in being able to increase our rates for residential customers. When we do run the cost study, we see residential customers paying a much lower share. If you think of it on a rate of return basis, you know, their share -- and of course, their costs are different, their costs -- they have more costs on top of, like, a primary served industrial customer compared to a customer at secondary service, which is all residential, small -- small, CNI streetlighting; they use more of the system.

So I do think we -- just like with the customer charge, or at least analogously, are also seeking to move and pick up more revenue responsibility and compensation from customers for the service we provide.

So again, gradualism, continuity; you can't move too much, but I think we need to keep moving in that direction. And that's certainly reflected in our proposal here. And obviously, because the numbers are large they look like even larger increases. But that's the bigger picture with total cost and then what's fair among the classes. We do need to move total revenue requirements further for residential, recognizing the unique -- uniqueness of each class. So you get some kind of a balance among the classes.

CHAIRMAN GOLDNER: Okay. Thank you.

Last series of questions from me. And then I'll go to the other Commissioners and then we'll go to the room as well. It is, however, a long question.

So the Company's proposal, as I understand it, with respect to loss-based revenue and decoupling --

MR. DAVIS: Yes.

CHAIRMAN GOLDNER: -- if replaced with performance-based rate making. So let's just assume that for this discussion. And I don't understand the relationship with any lingering loss-based revenue and decoupling. And I'll explain what I mean. In your testimony, it talks about prospectively loss-based revenue associated with displaced sales due to new energy efficiency measures would be determined and recovered in the SBC.

Which sounds like you are recovering loss-based revenue in the new model, and it's not taken care of by performance-based rate making. Do I misunderstand?

MR. DAVIS: So I believe we're not looking -- we're looking to discontinue the LBR.

CHAIRMAN GOLDNER: That's what I thought.

MR. DAVIS: Right.

CHAIRMAN GOLDNER: There's talk about in future implementations, it looks like, could you go back to it? It looks like. That's what --

MR. DAVIS: I'd have to --

CHAIRMAN GOLDNER: Yeah.

MR. DAVIS: I'd have to double check what your reference is to see what was behind --

CHAIRMAN GOLDNER: Page 19 of 21.

MR. DAVIS: Okay.

MS. BOTELHO: This is Ashley Botelho. I can confirm our proposal. I was looking for references in the testimony. So we propose, as part of PBR, to discontinue LBR, both from energy efficiency installations and net metering as of August 1st, 2024. So we would be -- there would be, like, similar to the other cost components that we're eliminating after that date, there will be reconciliations after that point or albeit a recognition of LBR through that point. But after -- after August 1st, 2024, which was the rate effective date of temporary rates in this proceeding, if PBR is approved, we'd be proposing to eliminate the -- the LBR components out of those -- our installation (indiscernible).

MR. HORTON: And the only -- Doug Horton.

The only prospective application we had proposed that if the net metering or energy efficiency programs expand significantly to result in an exogenous adjustment, then we would seek application of loss-based revenues. And perhaps that was through the SBC. I'm not sure what that reference on page 19 of 21 is speaking to.

CHAIRMAN GOLDNER: And there's discussion about the RRA, and loss-based revenue, and net metering. And it was very confusing, because I thought the Company's position was clear that if performance-based ratemaking was approved, that all loss-based revenue and all decoupling would go away, whether it was for old or for new, and it would be completely replaced with PBR. So did I summarize that correctly?

MR. HORTON: You did, except for some of the elements --

CHAIRMAN GOLDNER: (Indiscernible).

MR. HORTON: Well, putting aside the exogenous because we don't expect that to happen, but it's just exogenous. But there is -- there is a lag in recovery such that, you know -- so loss-based revenues --

CHAIRMAN GOLDNER: (Indiscernible) --

MR. HORTON: Right. Accrued prior to August 1 '24 may be recovered in rates after that. But our proposal is that August 1 '24 and forward, loss-based revenues would go away.

CHAIRMAN GOLDNER: Thank you.

MR. DAVIS: So just to help and let -- just to help clarify. So there's a lot of discussion in my testimony about the RRA and there's a -- there's some very specific language in our proposed -- it would be -- it's reflected in the tariff exhibits, but there's a whole bunch of provisions in there. With regard to LBR, there might be residual for LBR that was experienced up until August 1st of 2025. And that would play through one -- through the mechanism itself. But then when we get to page 19, the focus then becomes a lot on the LBR within the RRA, which is only the net metering related LBR. And there's a line at the very end that says similarly, we do the same -- the quote is, "similar treatment would be applied to LBR reflected in the SBC". So the same thing. I think it's totally consistent with -- hopefully -- I apologize it was confusing, but the point was there was a lot of discussion about the RRA and the LBR inside of it. And then we said, and the same would apply to SBC.

CHAIRMAN GOLDNER: Okay.

MR. DAVIS: But it's a one-line sort of summary. But aside from exogenous, the intent is that with PBR we would eliminate the LBR but for any residual recoveries that might have to occur.

MS. BOTELHO: And just to clarify where things are recovered -- so net metering related loss-based revenues are recovered through the RRA. Energy efficiency related loss-based revenues were recovered -- are recovered through the SBC.

CHAIRMAN GOLDNER: Thank you.

And so last question is to verify this residual calculation. I'm having trouble picturing what would be a residual that would roll over. I sort of intuitively understand there must be something there. But can you maybe just give some color to what would roll over?

MR. DAVIS: Well, as we speak, right, we're still under current rates and we're experiencing displaced sales as we -- as we speak that would be -- would flow their way into the LBR.

CHAIRMAN GOLDNER: I see.

So you're really cleaning up the time period until the effective date of the rates?

MR. DAVIS: That's correct. But also in our proposal, both temporary and permanent, we have a set of billing determinants that are now reflective of -- of new sales. You know, that were affected by energy efficiency measures and affected by installation of net metering. And so there's a dynamic during this lag year while we're litigating the case, where you have continued displaced sales, but they're relative to a new set of billing determinants that have already been reduced by the implementation of those two things.

So this is where the intricacy -- intricacy and complexities -- so the residuals looking to reconcile against the new billing determinants and any ongoing new LBR that will then be no longer sought to be recovered prospectively. So we'll have a residual, you know, from the time -- up until the time we implement new -- new rates, eliminate the LBR. Now we have new base rates and new mechanisms in place. And so the details, we can obviously prove that and show that. And presumably I -- the way I see the case, typically we would get to the end and we would have a whole set of reconciling adjustments and you would just correct everything back to when we filed and implemented temporary rates, August of 2024. So you have this one period and we just reconcile all of that.

CHAIRMAN GOLDNER: Is it possible to estimate that now? I know that you only have half the data, but could you estimate? I'm just thinking about any potential settlement that could come in.

MR. DAVIS: Sure.

CHAIRMAN GOLDNER: That everyone would know what this -- I'll call it a rollover, this reconciliation, whatever you want to call it, would be -- if it's $200,000, or $200 million, or something in between?

MR. DAVIS: Yeah. I mean, yeah, we certainly could estimate it. And you know, we do make assumptions and model it in a way that says that this is -- and it's a set of assumptions. Obviously, the details will be any actual records of actual sales, et cetera. And you know, that's no -- no less detail than we would do in a typical SCRC or SBC filing where we do them month by month by month. So we can estimate at this time. It is a lot of work, but I think we can box it in and come up with something ballpark at least a little bit.

CHAIRMAN GOLDNER: Ballpark would be fine.

MR. DAVIS: Sure.

CHAIRMAN GOLDNER: Just bigger than a breadbox kind of thing. If it's 2, or 2-1/2 million, or it's 60, or 70 million would matter. So --

MR. DAVIS: Absolutely.

CHAIRMAN GOLDNER: Thank you.

MR. DAVIS: Yeah.

CHAIRMAN GOLDNER: Okay.

Commissioner Chattopadhyay, Commissioner Dell'Orfano, any questions?

COMMISSIONER CHATTOPADHYAY: I don't have any questions.

COMMISSIONER DELL'ORFANO: I don't have any questions.

CHAIRMAN GOLDNER: Okay. Very good.

Mr. Dexter, anyone else have any questions for Mr. Davis?

MR. DEXTER: Nothing from the Department.

UNIDENTIFIED SPEAKER: I just have a quick question for Mr. Davis.

Mr. Davis, you were talking a couple of minutes ago about the electric co-op and its very high fixed monthly customer charge in relation to the one that you're proposing, which is lower, even though higher than your current charge. And my question for you is, if I told you that the electric co-op were significantly more reliant on seasonal customers than Eversource is, and therefore that its management, and board, and members were particularly keen on making sure that every customer pays a fair share of the cost of having the utility every month, even during months when they're using no electricity, to what extent would that, in your mind, account for the discrepancy between their fixed customer charge and yours?

MR. DAVIS: I actually, first of all, I was taking the assumption of the $35 metric as a benchmark. Okay. Just -- just -- just to be clear. I'm not intimately familiar with the co-op's rates, but to your question -- and the reason I actually bring that last point up is we have a mechanism for seasonal customers that allows customers to disconnect and reconnect, for a fee. But the premise of the question -- and the reliance on at least the slice of our segment of our customers that are seasonal. I think that the discourse with the chairman really is more where we're focused on trying to understand -- we do charge these customers, and many of those seasonal customers do pay rates throughout the year. They don't necessarily disconnect. That mechanism that allows disconnection, whether or not it's offered by the co-op is intended to compensate the Company for those fixed costs.

So it's twofold. One would be maybe we need to revisit that. Maybe there's a different type of charge. Maybe we don't do it anymore at all.

But at the same time, we're looking at a much lower customer charge compared to our cost of service. And that's the other half of the equation. And we're really -- I think that's the main position and approach where we believe that increasing the customer charge in a direction of what the cost of service study tells us. In general, whether or not it's seasonal, that fixed cost, that doesn't vary by usage throughout the year. The more we can bring that closer to cost of service, the more equitable I think the rates are for those customers.

UNIDENTIFIED SPEAKER: Thank you.

CHAIRMAN GOLDNER: And I see the large customer consortium online. I think you had some questions relative to rates?

MR. GRISET: Yes. Thank you, Mr. Chair.

CHAIRMAN GOLDNER: Thank you. Please proceed.

MR. GRISET: Mr. Davis, my name is Todd Griset, representing the large customer consortium. And I'm joined by Eben Perkins, a consultant for the consortium. Thanks for coming today.

MR. DAVIS: Good afternoon.

MR. GRISET: I had just a few questions for you about rate design. And first, I wanted to make sure that we're talking about the same thing. When we talk about the rates that end users in New Hampshire pay PSNH for service, do those rates include charges for transmission service?

MR. DAVIS: I'm sorry. Yes, they do.

MR. GRISET: Thank you. And does PSNH render a single bill for all the wires, charges, distribution, transmission as applicable?

MR. DAVIS: For each customer, we render a bill for each customer's charges associated with those services. Yes.

MR. GRISET: Including services relating to transmission?

MR. DAVIS: That's correct.

MR. GRISET: Thanks. And does this Commission have jurisdiction over the rates that PSNH charges these customers for retail service?

MR. DAVIS: The -- the rates through our tariffs. Yes. Yes, the -- that's my understanding.

MR. GRISET: Thanks. Including with respect to these aspects of transmission rate design?

MR. DAVIS: Which aspects are you referring to?

MR. GRISET: The design of retail rates for PSA to recover costs associated with transmission service?

MR. DAVIS: Yes.

MR. GRISET: Thanks. Does PSNH have a view as to the proper type of proceeding before the Commission for transmission rate design?

MR. DAVIS: It's a proper type of proceeding.

MS. BOTELHO: I would say that's probably more directed at the attorneys. I don't -- I don't know that that's -- I guess if we wanted -- if they wanted to file a motion to, to discuss that, we -- we could. I don't know, this doesn't seem like a legal-type proceeding. I mean, we could confer and answer the question if -- if that's --

CHAIRMAN GOLDNER: Confer and see what you can do today, and then if we need to file something, we can do that.

MS. BOTELHO: Sure. Okay.

MR. GRISET: If it would help. I can ground you in responses to large customer consortium 1-011, 1-019, 1-020, where PSNA stated that "this docket is a request for change in distribution rates. As such, Eversource's current transmission rate design is not in scope in this proceeding", and that's the assertion in your data responses that I'm hoping to examine.

MR. DAVIS: Okay.

(Pause)

MS. LANDRY: All right. I'm going to do my best here. So we did say that the transmission rate was not in scope, because the Company hasn't proposed any transmission rates in this docket. So it is outside of the scope of what we have proposed in this docket. I imagine if the LG consortium has their own transmission rate to propose, they could bring that in scope by filing it in testimony. I mean, I -- right now, I'm kind of hypothesizing, but it's -- to the extent that questions about transmission rates in discovery -- were served in discovery, they aren't necessarily germane to what we have proposed in this docket.

MR. GRISET: Yeah, I appreciate that. I'll -- I'll try a different line of questioning.

Mr. Davis, do you know whether 1992 was the year in which the current transmission rate design for rates LG and B was established?

MR. DAVIS: Are you asking the rate structure or the rates themselves?

MR. GRISET: The structure.

MR. DAVIS: 1992. We had bundled rates at that time. We established separate transmission rates in a separate transmission rate mechanism called, TCAM, which has since been the mechanism and also the basis of an annual proceeding where we not only have established but then proposed changes to transmission rates.

MR. GRISET: Thank you. And the TCAM methodology was established in 1992 and remains the same methodology today?

MR. DAVIS: I don't know if the TCAM itself is at that point. I'd have to --

COMMISSIONER CHATTOPADHYAY: I mean, I know because I was witnessing, so. That happened after 2002 for sure. The TCAM.

MR. DAVIS: Thank you.

MR. GRISET: Thank you, Commissioner.

Mr. Davis, are you aware of any instances where an electric utility has adopted a coincident peak transmission rate option for large customers?

MR. DAVIS: Yes.

MR. GRISET: Could you please give me an example of an instance where that occurred?

MR. DAVIS: We have such a rate in our in our Massachusetts jurisdiction, NSTAR Electric.

MR. GRISET: And was that adopted in docket number 22-22, do you know?

MR. DAVIS: I believe yes.

MR. LANDRY: I'm sorry. I -- just a moment here. This is more like a cross-examination. I thought the technical session was to be to discuss what we proposed in the docket. And so I don't want to shut down questioning altogether. But for the purposes of this particular venue, I thought we would be discussing questions about what we've proposed.

CHAIRMAN GOLDNER: Yeah, I'll just jump in and say quickly that this is not -- that's not testimony. So if there's something that you would like to understand or that the folks here today, because we do have a large group assembled of many experts, the purpose is to improve one's understanding, but just for situational awareness, there's no witnesses and no one's under oath.

MR. GRISET: Thank you, Mr. Chair. I appreciate that guidance.

Mr. Davis, is it correct that PSNH recently adopted an on-peak period for residential customers for its time of use that's from 1 p.m. to 7 .m.?

MR. DAVIS: That's correct. We did.

MR. GRISET: And do you know whether that on-peak period is used to implement time of use electric transmission charges for those customers?

MR. DAVIS: Yes. In fact, what it is -- is -- is just an update to a time of day rate for residential that we had in place and was changed as a result of the last rate case, 19-057 -- DE 19-057.

MR. GRISET: That change to the peak hours, that was limited to residential TOU customers on a particular rate?

MR. DAVIS: It actually revised the existing time of use rate or time of day rate for residential customers.

MR. GRISET: Thanks. And I'm almost done with my questioning for you. I was hoping next to turn to the rate LG charge structure and how PSNH currently charges customers under that tariff for transmission service. Could you please explain the way that the maximum demand is determined under the tariff?

MR. DAVIS: Well, we use a billing demand, which applies to any -- anywhere there's a demand charge. So that demand is determined on the basis of three areas. We look at the current month's on-peak period, the current month off-peak period, and through a special mechanism -- a look back to the prior 11 months. And the maximum of -- maximum demand of any of those periods is what is -- what becomes the basis for that current month's billing demand. That applies to both distribution and transmission.

MR. GRISET: And thanks. Do you know whether that approach with the three components that take the greater of, was that first established in 1992?

MR. DAVIS: I don't recall offhand, but it is a longstanding rate -- rate design.

MR. GRISET: Do know whether it's been changed or updated recently?

MR. DAVIS: Well, the pricing has.

MR. GRISET: But the formula for maximum demand calculation with the greater of one of these three components?

MR. DAVIS: That's been in place certainly since the last rate case, DE 19-057.

MR. GRISET: And do you have a view as to whether that meets the rate design principle of simplicity?

MR. DAVIS: Well, what it meets is a need to look at -- in this case, it's fixed costs and fixed cost recovery. And effectively, it's a sort of a form of a ratchet mechanism, particularly applicable to our rate LG customers. So it's class-specific in that regard.

MR. GRISET: Thank you. That's very helpful.

And my last question or set of questioning, in response to one of our data requests, LCC-012, PSNH referenced active demand response programs offered through its energy efficiency portfolio. Could you please explain how payments to customers who participate in those programs are funded? Where does that money come from?

MR. DAVIS: I could find out. I don't know offhand, the funding mechanism. Not -- not intimately familiar with that.

MR. GRISET: Okay. Do you know if it's the system benefit charge?

MR. DAVIS: I don't believe so.

MS. BOTELHO: I just -- what I'm not sure of is if we receive outside funding for it. So --

MR. DAVIS: Yeah. We can find out.

MS. BOTELHO: Yeah, we can confirm.

MR. GRISET: Thank you, I appreciate that. And that concludes my questioning, Mr. Davis.

And thank you to the Commission.

CHAIRMAN GOLDNER: Thank you. Any other questions for Eversource before we wrap up?

UNIDENTIFIED SPEAKER: Excuse me, Chair, I do have a couple. I'll try to keep it brief and save some questions for our individual session. This is related more to the pole attachment. The 2012 attachment rate settlement and DT-12 post 84 (phonetic) established a unified pole rate formula that PSNH uses for pole attachments, and includes a rebuttable presumption for pole heights of 37-1/2 feet, and also utilizes an assumed attachment number of 2.7. With respect to PSNH's response to NECTA 2-002, it showed the average height is different than the presumed height of 37-1/2. We're wondering if PSNH could explain why they don't use the actual pole height in the uniform -- unified pole rate formula when calculating its attachments?

MS. BOTELHO: We didn't -- we don't have the right staff here for that -- that question today, but we can address it on Monday at the tech session that we have scheduled.

UNIDENTIFIED SPEAKER: And then I guess the follow-up we have is what -- what we can set up (indiscernible).

CHAIRMAN GOLDNER: You'd like to let them know then they can have a tech session --

UNIDENTIFIED SPEAKER: Yeah. Like follow-ups and whether PSNH would consider using the average height going forward beginning with 2025 rates. With respect to the settlement formula which established the 2.7 expected attachments, PSNH still uses that number referencing 20-016B (phonetic). Could the Company confirm whether the account of 364,649, the third-party attachments is generally not yet counting the consolidated or incumbent local exchange carriers as third parties?

And then finally, understanding we'll reserve and we'll follow up on Monday, PSNH has conducting two surveys to ascertain the actual number of attachments on poles. And after the surveys are complete, does PSNH plan to -- or will PSNH commit to using its actual average number of attachments per pole in its calculation of attachments?

Thank you.

CHAIRMAN GOLDNER: Okay. So I'll thank everyone for participation in this technical conference. The Commission will issue a procedural order canceling tomorrow's technical conference. I think we've covered everything that we planned to cover today. Is there anything else that we need to cover before we adjourn?

Okay. Seeing none. Thank you. This technical conference is adjourned.

(Proceedings concluded at 4:32 p.m.)

CERTIFICATE

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