

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 19-057

**PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE
D/B/A EVERSOURCE ENERGY**

Petition for Permanent Rates

Order Following Hearing on 2020 Step Adjustment

ORDER NO. 26,504

July 30, 2021

In this order, the Commission authorizes Eversource to recover the annual revenue requirement associated with \$123,141,062 of plant additions placed in service in calendar year 2020. Recovery will be made through distribution rates on a service rendered basis beginning August 1, 2021. Eversource recovers distribution rates from all delivery service customers.

I. PROCEDURAL HISTORY

Public Service Company of New Hampshire d/b/a Eversource Energy (Eversource) filed its notice of intent to file rate schedules on March 22, 2019, and on April 26, 2019 filed notice of its intent to file schedules for permanent rates. On October 9, 2020, all parties filed a settlement agreement on permanent rates (Settlement Agreement), which was approved by the Commission through Order No. 26,443 (December 16, 2020). The Settlement Agreement established permanent rates based on a 2018 test year. Among its provisions, the Settlement Agreement provided for three annual step increases to account for plant placed in service in calendar years 2019, 2020, and 2021.

On May 3, 2021, Eversource filed a petition requesting recovery of \$11,126,440 in revenue requirement associated with \$124,215,062 of plant additions placed in service during

calendar year 2020, the second step increase established by the Settlement Agreement.

Eversource filed supporting pre-filed testimony and related attachments associated with this capital investment. The Commission issued a supplemental order of notice on June 3, 2021, scheduling a hearing which was held on July 19, 2021.

The initial filing, testimony, exhibits and other docket filings, other than any information for which confidential treatment has been requested of or granted by the Commission, are posted at: <https://www.puc.nh.gov/Regulatory/Docketbk/2019/19-057.html>.

II. POSITIONS OF THE PARTIES

A. Eversource

Eversource testified in support of its proposed step increase associated with \$124,215,062 of plant additions placed in service in 2020, explaining the development of projects completed in 2020, from the initiation of a project to placement of plant into service. Eversource maintained that all capital investments included in its second step increase request were prudently incurred, used and useful.

Eversource discussed several projects and project accounts at hearing. First, Eversource testified about the Welch and Locks Island cable replacement project. According to Eversource, the project was initiated in 2016 to replace two submarine cables installed in the 1940's and 1960's, respectively. Eversource acknowledged that although the project was initially budgeted in 2016 at approximately \$360,000, the project's life to date costs totaled approximately \$1.8 million. Eversource testified that the project was competitively bid, and that the installation included shoreline infrastructure improvements and redundant systems to increase the cables' service life and increase reliability.

Eversource discussed the Pemigewasset transformer project, which Eversource acknowledged had increased in cost from approximately \$4 million to approximately \$6.8 million. According to Eversource, the cost increases were attributable to expanding the control house, testing and commission costs, and animal protection equipment, among other things. With regard to testing and commissioning, Eversource acknowledged that voltage issues were discovered during testing that were attributable to an engineering contractor, which ultimately resulted in higher costs, including internal labor. Eversource emphasized that the engineering contractor performed all necessary revised engineering at no additional cost. Eversource argued that the testing did what it was intended to do by uncovering a problem before the project was installed and operational, which mitigated costs and damages, and therefore the associated costs are reasonable.

Eversource discussed its treatment of costs related to replacing plant in service when a third party damages utility property. Eversource explained that once the Company knows that the damage was caused by a third party, and the third party is identified as responsible for payment, the Company will bill the individual or insurance company for the damages. Once Eversource generates the bill for damages, Eversource credits the work order within the annual project in the calendar year that the Company actually bills the third party. Eversource argued that it would be inappropriate to assume recovery of damaged plant is a given, and stated that this topic should be addressed during its upcoming business process audit.

Eversource also discussed its practice of treating load tap changers and controls, devices associated with transformers, as separately capitalized units of property as opposed to treating the item as a maintenance expense. Eversource acknowledged that the item may be replaced before the retirement of the transformer. Eversource highlighted the improved functionalities of

newer changers and controls as increasing service quality and reliability. Eversource stated that it had given the item consistent accounting treatment in accordance with written company policy since 2012, and that no issues with its treatment of the cost were raised during its most recent rate case in the instant docket. Eversource argued removal of the costs would be unreasonable and inappropriate.

B. Office of the Consumer Advocate

Regarding the accounting treatment of load tap changer controls and utility property damaged by third parties, the OCA encouraged the Commission to adopt the findings of the audit (Exhibit 63), including treating load tap changer controllers as a maintenance expense.

The OCA declined to take a position on the Welch and Locks Island cable replacement project and the Pemigewasset transformer project items at hearing.

The OCA noted that Eversource carries the burden to show that the costs it seeks recovery of in this hearing were prudently incurred, as well as used and useful.

C. Department of Energy

The Department of Energy expressed generalized concerns about cost overruns of projects in this matter. Regarding the Pemigewasset transformer project, Energy recommended that at least \$911,000 in costs attributable to the third party engineering contractor's error be disallowed as imprudently incurred. These costs include Eversource's additional internal engineering efforts, construction, testing and commissioning, and other costs identified by Eversource as resulting from the contractor's error but not covered under its contract. *See* Exh. 64 at 55-56. According to Energy, Ratepayers should not be responsible for incremental costs associated with the error of a third party consultant.

Regarding the load tap charger controllers, Energy recommended that the item should be removed from the 2019 and 2020 step increases, and treated as a maintenance expense as recommended in the audit report. *See* Exhibit 63 page 21. Energy recommended further examination of the accounting treatment given to damaged utility property, including examining disincentives to the utility to seek the identify third parties who damage utility property. With those exceptions noted, Energy otherwise agreed with Eversource that the costs proposed for inclusion in the step increase are for used and useful facilities, and were prudently incurred. Subject to the exceptions noted, Energy concluded that the resulting rates are just and reasonable, and recommended that the Commission approve the filing subject to the exceptions it raised.

III. COMMISSION ANALYSIS

Step adjustments are a mechanism the Commission has approved for limited use between rate cases to allow a utility to collect additional revenue on investments that are generally non-revenue producing and are made to improve safe and reliable service. Step adjustments are generally limited in scope and allow recovery for investments similar to those that have been reviewed in the underlying rate case that established the step adjustment provision. Utilities have the burden of showing that capital investments included in step adjustments are prudent, in service, and used and useful.

In order to approve this step increase, the Commission must determine whether the investments included in the calculation of the step increase are prudent, used and useful under RSA 378:28. As noted in the record, both Energy and the Company view the majority of projects requested for recovery within the step adjustment to be used and useful, as well as prudently incurred, and that the requested rates are just and reasonable.

Concerning the subset of costs associated with the Pemigewasset transformer project related to the engineering contractor's error, we agree with Energy that some of the costs were not prudently incurred. Eversource acknowledged that it incurred additional costs as a direct result of a third party contractor's error, but that those costs were not covered by its contract. Exh 64 at 55. At hearing, Eversource went on to state that its contracts limit contractor liability, that it did not seek any "insurance" claim through the contractor for "consequential" damages, and that its own internal reviews did not catch the issue. Hearing Transcript of July 19, 2021 (Tr.) at 78-79. The costs attributable to the third party engineering contractor's error include: additional internal engineering efforts, construction, testing and commissioning, and other costs resulting from the contractor's error but not covered under its contract are disallowed as imprudently incurred. *See* Exh. 64 at 55-56. Based on the testimony, we do not find that Eversource has met its burden to show that these consequential costs were prudently incurred, and disallow \$911,000 in investment costs associated this project.

Concerning the Welch and Locks Island cable replacement project, the Commission notes that testimony established that the underlying analysis and estimate regarding this project in 2016 was insufficient. Eversource witnesses acknowledged the lack of specific information related to the initial decision to proceed with this project. *See, e.g.*, Tr. at 58-59, 127-128 (acknowledging the original project authorization form did not contain a cost basis for the original \$360,000 estimate). The Commission gives weight to Eversource's subsequent project analysis, Exh. 64 at 1-7, and the fact that the project was later competitively bid two times. Exh. 64 at 1, Tr. at 17. Further, Eversource indicated that the approval process has been improved, requiring specific detailed information to support estimates and decision-making. Tr. at 127-131. In addition, Energy and Eversource indicated that a review of this process will be part of the

Business Process Audit to be conducted pursuant to the Settlement Agreement in the underlying rate case. Tr. at 151, 158. We conclude that the costs incurred prior to the supplemental authorization approval were imprudently incurred, and disallow \$163,000 in investment costs associated with this project. Exh 64 at 1 (identifying \$163,000 in charges to the project total incurred prior to the time of supplemental authorization and based upon the initial decision). In light of the evidence provided in Exhibit 64 regarding supplemental analysis, decision-making, and approval that occurred following the initial decision regarding this project, the Commission finds the project to be used and useful, the remainder of the related costs prudently incurred, with improved processes in place for future projects. Although not relied upon in reaching our decision, we also note subsequent analysis, provided in a record request, showed that the diesel and solar alternatives would have resulted in the higher costs while providing lower reliability for shorter time periods than the underwater cable. Exh 66. The Commission advises Eversource that a thorough review of alternatives is expected for large projects and that Eversource risks recovery when alternatives are not fully analyzed.

Turning to the accounting treatment of property damage attributable to third parties, we note that this issue was discussed in the proceeding regarding the first step increase in this docket. *See* Order No. 26,439 at 7 (December 23, 2020). We agree with Eversource that the upcoming business process audit provides an appropriate opportunity for further review of this practice and expect to see analysis and recommendations regarding this issue addressed in that audit. In light of that, we approve associated costs in this matter for recovery as proposed in Eversource's petition, subject to reconciliation.

Regarding Eversource's accounting treatment of load tap changer controls, we agree with Energy and the audit report's conclusion that the item should be accounted for as a maintenance

expense pursuant to 18 C.F.R. § 367.59 (c)(3). We find it compelling that Eversource itself historically interpreted the federal regulation in the same manner as recommended by Energy and conceded at hearing the language of the regulation had not changed. We direct that Eversource implement this accounting change on a going forward basis.

Subject to the determinations above, we find the expenditures which are the subject of Eversource's petition to be prudent, used, and useful, and we find the resulting rates to be just and reasonable, pursuant to RSA 374:1, RSA 374:2, RSA 378:7 and RSA 378:28.

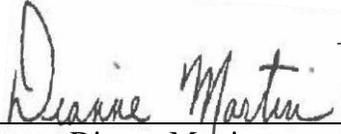
Based upon the foregoing, it is hereby

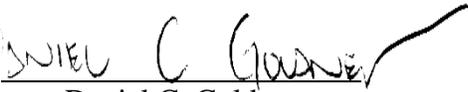
ORDERED, that the step adjustment to be added to distribution rates, as calculated by Eversource in its Step 2 filing of May 3, 2021, and supplemented by testimony and record request responses for its 2020 capital investments, as reduced for the disallowance for specified portions of the Pemigewasset transformer project and the Welch and Locks Island cable replacement project as discussed in the body of this order, is hereby **APPROVED**; and it is

FURTHER ORDERED, that Eversource is authorized to implement the rates approved herein on a service-rendered basis effective August 1, 2021; and it is

FURTHER ORDERED, that Eversource shall file tariff pages as required by N.H. Code Admin. R., Part Puc 1603, conforming to this order within 15 days of the date hereof.

By order of the Public Utilities Commission of New Hampshire this thirtieth day of July, 2021.


Dianne Martin
Chairwoman


Daniel C. Goldner
Commissioner

Service List - Docket Related

Docket# : 19-057

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