Public Service Company of New Hampshire d/b/a Eversource Energy
Docket No. DE 21-020

Date Request Received: March 15, 2022 **Date of Response: March 25, 2022**
Data Request No. RR-003 **Page 1 of 2**

Request from: Department of Energy

Witness: Horton, Douglas P

Request:

Marked as Exhibit 70: Provide updated testimony and supporting exhibits, including Exhibit 7, reflecting Eversource's proposed revised cost recovery proposal that excludes capital costs. Include live Excel formats of all schedules and attachments.

Response:

Please see CONFIDENTIAL Attachment RR-003-1, page 1, to this response for an updated version of Exhibit 7, as requested. There are three adjustments to this Attachment as compared to the version of Exhibit 7 filed in advance of the March 15, 2022 hearing on this matter. Those are:

1) Removing from the Company's request for recovery through the PPAM the capital-related costs associated with the initial purchase of these assets, and of the ongoing capital additions for pole replacements after acquisition. The Company has agreed to forego capital cost recovery associated with this transaction until its next rate case. Therefore, in CONFIDENTIAL Attachment RR-003-1, the Company has removed the recovery of return on average rate base (line 18), depreciation expense (line 19), and property tax expense (line 32).
2) Updating the estimated pole attachment rates, which impacts line 26 and 27 of Exhibit 7; and
3) Updating estimated vegetation management expense to reflect the fact that the Company is seeking to recover through the PPAM incremental vegetation management expenses for the period after December 31, 2020. In 2021, this amounted to approximately $8.2 million of incremental vegetation management expense sought for recovery through the PPAM. This is reflected on line 34. The annual estimated amount for recovery through the PPAM on line 34 for the period after closing has not changed from Exhibit 7, but will vary based on actual vegetation management activity.

Please note, the combined effect of the above referenced adjustments causes the estimated revenue requirement through year 3 to be reduced from $28.9 million to $17.6 million; a reduction of $11.3 million, or over 39 percent from the Company's initial filing. Notably, of the Company's capital related costs, this represents a ***$17 million reduction*** versus the initial estimates in this proceeding, which would represent real costs absorbed by the Company's shareholders in the absence of cost

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recovery of these capital-related components, as requested by the Company in the initial filing, but agreed to forego in the March 15, 2022 hearing.

Please also see Attachment RR-003-2 for supplemental testimony (updating the testimony marked as Exhibit 9 in this proceeding and originally filed on November 15, 2021). The limited changes reflect that the Company has agreed to remove its request for capital cost recovery associated with this transaction, if approved by the Commission, until its next rate case.

Attachment RR-003-3 provides a redline version of the proposed PPAM tariff to reflect the changes shown in Attachment RR-003-1 and explained in RR-003-2.

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9 **Estimated Incremental Revenue Requirement through Year 3 ($000s)**

		Year 0	Year 1	Year 2	Year 3	
12		**Year 0**	**Year 1**	**Year 2**	**Year 3**	
14	**Rate Base:**					
15	Rate Base End of Period	[redacted]	[redacted]	[redacted]	[redacted]	
16	Average Net Plant		[redacted]	[redacted]	[redacted]	
18	Return on average rate base		0.0	0.0	0.0	Average rate base x WACC
19	Depreciation Expense		0.0	0.0	0.0	Book depreciation
20	O&M -pole transfer		2.8	1.0	1.1	# Poles inspected x # Poles replaced x Transfer cost per pole
21	O&M inspection costs		1.7	1.1	1.0	# Poles inspected x Inspection cost per pole+Other upfront costs
22	Gross Rev Req JO Poles		4.5	2.2	2.1	Sum Lines 18 through 21
25	**Pole Attach. (PA) Revenues:**					
26	Third Party excluding CCI		(2.7)	(2.7)	(1.4)	# Third party attachments x Attachment rate
27	CCI as attacher		(5.0)	(5.0)	(4.1)	Years 1 and 2 per agreement. Year3: # of attachments x Attachment rate
28	Total PA Revenues		(7.7)	(7.7)	(5.5)	Line 26 + Line 27
30	Net Revenue Requirement		(3.2)	(5.5)	(3.4)	Line 22 + Line 28
32	Property Tax Expense		0.0	0.0	0.0	Average net plant x Property tax mill rate/100
34	Vegetation Management Expense (1)	8.2	7.0	7.2	7.4	Historical reimbursement level
36	**Total**	**$ 8.2**	**$ 3.8**	**$ 1.7**	**$ 3.9**	Line 30 + Line 32 + Line 34

38 (1) Vegetation management expense to be included in vegetation management program reconciliation component of annual RRA mechanism.

41 Assumptions:
42 WACC = Pre-tax WACC per DE 19-057
43 Depreciation rate = 3.206%
44 Pole replacements/year = 2,310 poles (estimated Yr 1), 2% (Yr 2-3)
45 Transfer cost/pole = $1,200
46 Replacement cost/pole = $5,400
47 Inspection cost/pole = $21.22
48 Upfront inspection costs = $0.25M (Yr 1), $0.2M (Yr 2), $0.075M (Yr 3)
49 # Poles inspected/year = 70,295 (Yr 1), 42,177 (Yr 2-3)
50 Average remaining life = 27.3 years
51 Existing third party attachements (estimated) = 312,704
52 CCI solely owned third party attachments (estimated) = 9,824
53 CCI attachments (estimated) = 403,140
54 Property tax mill rate = $2.95

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Estimated Cashflow through Year 5 ($000s)
$ in Millions

Line	Description	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	
1	**Purchase Price**		[redacted]					
2			[redacted]					
3	**Cash Outflows**		[redacted]					
4	Uncollected vegetation management through 2021	$ (23.0)	[redacted]	-	-	-	-	(1)
5	Estimated Vegetation Management frmly billed to CCI	$ -	[redacted]	$ (7.2)	$ (7.4)	$ (7.5)	$ (7.7)	(2)
6	Pole capital replacement	$ -	[redacted]	$ (9.2)	$ (4.7)	$ (4.8)	$ (5.0)	(3)
7	Pole O&M-transfer and inspection		[redacted]	$ (2.0)	$ (1.0)	$ (1.1)	$ (1.1)	(3)
8	Subtotal: Cash Outflows	$ (23.0)	[redacted]	$ (18.4)	$ (13.1)	$ (13.4)	$ (13.8)	
9			[redacted]					
10	**Cash Inflows**		[redacted]					
11	Vegetation management settlement through 2020	-	[redacted]	-	-	-	-	(4)
12	CCI Pole Attachment revenues	-	[redacted]	$ 5.0	$ 4.6	$ 4.2	$ 4.3	(5)
13	Incremental Third Party Pole Attachment revenues	-	[redacted]	$ 2.7	$ 1.4	$ 1.5	$ 1.5	(6)
14	Customer revenues through PPAM	-	[redacted]	$ 6.4	$ 2.9	$ 2.6	$ 3.9	(7)
15	Subtotal: Cash Inflows	$ -	[redacted]	$ 14.1	$ 9.0	$ 8.3	$ 9.7	
16								
17	**Total Net Cash Outflow**	$ (23.0)	$ (19.5)	$ (4.4)	$ (4.2)	$ (5.2)	$ (4.0)	Line 7+15
18	**Net Present Value**	$ (52.4)						

19

20 **Assumptions**

21 **Cash outflows**

22 (1) uncollected vegetation management through December 2021

23 (2) Estimated vegetation management level otherwise attributable to CCI

24 (3) See O&M and Capital Activity tab. Year one is prorated as of August 1, 2022 for illustrative purposes

25

26 **Cash inflows**

27 (4) ES/ CCI Pole Asset Transfer Agreement and Settlement, covering VM through 2020

28 (5) Full year one and two per ES/ CCI agreement. Year three # of attachments per agreeement x estimated Attachment rate.

29 (6) # Third party attachments x estimated attachment rate

30 (7) Customer revenues are on a lag, reflecting that PPAM rates go into effect August of each year to recover the prior year under-recovery

Line		Year 1	Year 2	Year 3	Year 4	Year 5
31						
32	Yr 0 Vegetation Management (total of $8.2M)	3.4	4.8	0.0	0.0	0.0
33	Net Revenue Requirement	0.0	1.6	2.9	2.6	3.9
34	Total Customer Revenues	3.4	6.4	2.9	2.6	3.9

STATE OF NEW HAMPSHIRE

BEFORE THE

NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

DOCKET NO. DE 21-020

JOINT PETITION FOR APPROVAL OF SETTLEMENT

AND POLE ASSET PURCHASE AGREEMENT

SUPPLEMENTAL DIRECT TESTIMONY OF

DOUGLAS P. HORTON

Revenue Requirement for Pole Purchase

On behalf of Public Service Company of New Hampshire

d/b/a Eversource Energy

March 25, 2022

STATE OF NEW HAMPSHIRE

BEFORE THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

SUPPLEMENTAL DIRECT TESTIMONY OF DOUGLAS P. HORTON

JOINT PETITION OF PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE d/b/a EVERSOURCE ENERGY AND CONSOLIDATED COMMUNICATIONS OF NORTHERN NEW ENGLAND COMPANY LLC, d/b/a CONSOLIDATED COMMUNICATIONSFOR APPROVAL OF SETTLEMENT AND POLE ASSET PURCHASE AGREEMENT

March 25, 2022

Docket No. DE 21-020

I. INTRODUCTION

Q. Mr. Horton, please state your name and business address.

A. My name is Douglas P. Horton. My business address is 247 Station Drive, Westwood, Massachusetts 02090.

Q. By whom are you employed and in what capacity?

A. I am employed by Eversource Energy Service Company as Vice President, Distribution Rates and Regulatory Requirements.

Q. What are your principal responsibilities in this position?

A. In my position, I am responsible for the oversight, coordination, and implementation of revenue requirement calculations and distribution rates for the Eversource Energy operating companies in New Hampshire, Massachusetts, and Connecticut, including Public Service Company of New Hampshire d/b/a

Eversource Energy ("Eversource" or the "Company"). In addition, I have the overall responsibility for regulatory interfaces for all revenue requirement-related filings before the New Hampshire Public Utilities Commission (the "Commission").

Q. Have you previously testified before the Commission?

A. Yes, including at the March 15, 2022 hearing in this proceeding.

Q. Please provide a summary of the events leading up to this supplemental testimony.

A. On February 10, 2021, Eversource and Consolidated Communications of Northern New England Company, LLC d/b/a Consolidated Communications (f/k/a Northern New England Telephone Operations LLC) ("Consolidated"), filed a "Settlement and Pole Asset Purchase Agreement" and Petition requesting that the Commission approve a transfer of interests in utility pole assets from Consolidated to Eversource pursuant to the terms of the Settlement and Pole Asset Purchase Agreement. In addition, the Petition requested that the Commission approve Eversource's use of its Regulatory Reconciliation Adjustment ("RRA") mechanism to recover costs associated with its purchase of Consolidated's interest in utility pole assets. The RRA was established through the settlement agreement in Docket No. DE 19-057, and approved in Order No. 26,433 (December 23, 2020), for recovery of certain categories of costs defined in Section 9 of that settlement agreement.

The Petition in this proceeding requested that a new component be added to the RRA to recover the annual net revenue requirement related to the purchase, inspection and replacement of the transferred poles, offset by incremental third-party attachment revenue. In addition, the Petition requested approval to use the existing components of the RRA to recover incremental property tax and vegetation management expense that would be incurred as a result of the transaction.

On August 4, 2021, the Office of the Consumer Advocate ("OCA") filed a motion to dismiss the case arguing that the settlement agreement in Docket No. DE 19-057 precluded Eversource from recovering these incremental costs. On August 16, 2021, Eversource timely objected to the OCA's motion and on August 19, 2021 the OCA filed a reply to Eversource's objection.

On October 22, 2021, the Commission issued Order No. 26,534 and, among other things, ruled on the OCA's motion to dismiss (the "Order"). The Order concluded that the "specific request to add a new component to the RRA for recovery of the net revenue requirement is precluded under the terms of the DE 19-057 settlement agreement approved by Order No. 26,433 because ***the recovery of new capital costs through the RRA*** is contrary to both sections 9.1 and 10.6 of the settlement agreement." Order No. 26,534 at 8 (emphasis added). As a result, the Commission granted the OCA's motion to dismiss, in part. *Id*.

As it related to the use of the existing RRA categories for recovery of increased property taxes and vegetation management expenses, the Commission concluded that "because property tax expenses and vegetation management work are variable expense items already included in the RRA, and are expenses not capital costs, we do not agree that they are *per se* precluded under the DE 19-057 settlement agreement." Order No. 26,534 at 9. Further, the Commission stated that it could not "conclude that no cost recovery mechanism excluding capital costs exists [] would be acceptable to Eversource." *Id*.

In light of its conclusion that there may be a cost recovery method acceptable to Eversource that is not precluded by the settlement agreement in Docket No. DE 19-057, the Commission directed Eversource "to file a proposed cost recovery mechanism that is not precluded by the Settlement Agreement and that is acceptable to it by November 15, 2021." *Id*. The Company filed supplemental testimony on November 15, 2021 in response to that directive. The November 15, 2021 supplemental testimony requested recovery of a new cost recovery mechanism called the Pole Plant Adjustment Mechanism ("PPAM"). If approved, the PPAM would allow Eversource to recover incremental costs resulting from the transfer of assets and maintenance responsibilities as identified in the Settlement and Pole Asset Purchase Agreement, including capital costs.

On March 15, 2022 an evidentiary hearing was held in this matter. At the outset of the hearing, the Commission asked the parties to comment on the OCA's motion to dismiss. On behalf of the Company, I explained that the November 15, 2021 supplemental testimony was filed in response to the Order. However, I also explained that the Company would agree to remove capital costs from the proposed cost recovery mechanism and defer recovery of these costs to a future rate proceeding. The Company believes removing the capital costs from the cost recovery sought in this docket and deferring the review of such costs to a future rate proceeding is consistent with the Commission's Order 26,534 and the Commission's questions raised during the hearing in this matter.

During the course of the hearing, the Commission issued Record Request 3 requesting an updated version of Exhibit 7 that provides the incremental revenue requirement for the proposed transaction. Specifically, the Commission asked the Company to revise Exhibit 7 to reflect removal of capital costs together with updated testimony. *See* Procedural Order issued on March 18, 2022. This testimony and supporting attachments respond to Record Request 3.

Q. How does this testimony address Record Request 3?

A. With this testimony, Eversource is explaining how cost recovery for the transaction would occur under the Company's proposal, including treatment of capital costs. In the November 15, 2021 filing (marked as Exhibit 9), the Company's PPAM proposal would have allowed recovery of capital costs associated with the transaction. The Company is now proposing to remove these capital costs from recovery through the PPAM and defer its request to recover these costs until a future rate case following a prudency review by the Commission.

Q. Why is it appropriate to allow the Company to recover the capital costs associated with the transaction?

A. As I explained in my November 15, 2021 testimony, the Company's revenue requirement established in docket DE 19-057 was based upon the level of existing pole-related obligations at the time of the rate case and does not contemplate the incremental costs associated with assuming ownership of the transferred poles. Moreover, the incremental revenues that will accrue to Eversource after the transaction will not be sufficient to cover the incremental costs. Therefore, as part of the Company's request for approval of the transaction, the Company is requesting the opportunity to include these capital costs in its next rate case filing.

Q. Did the November 15, 2021 filing proposing the PPAM address the concerns raised by the Commission in its Order and by the OCA in its Motion to Dismission?

A. In part. The Company's November 15, 2021 filing did not propose to remove capital costs from its cost recovery proposal because the Company requires recovery of the capital costs associated with the transaction. However, after additional consideration, the Company is now proposing to forego the recovery of those capital costs until the Company's next rate case instead of through the PPAM, similar to regulatory lag of traditional capital investments made between rate cases, but not yet reflected in rate base. The revised version of Exhibit 7, provided as

Attachment ES-DPH-3, provides the revenue requirement associated with the proposed transaction without inclusion of capital costs.

Q. Please explain the changes made in Attachment RR-003-1 (Confidential).

A. Attachment RR-003-1 (Confidential) provides the estimated incremental revenue requirement through year 3 following closing of the transaction in the same format as Exhibit 7. The only changes are to remove any recovery associated with the return on average rate base (Exhibit 7, line 18); depreciation expense (Exhibit 7, line 19); property tax expense (Exhibit 7, line 32); and to update the pole attachment revenues and vegetation management expenses. The removal of the return on average rate base, depreciation expense and property tax expense align with the Company's proposal to recover capital costs in a future rate proceeding. Property tax expense is associated with the capital additions, to the extent municipalities base their property tax assessments on the Company's net investment in the municipality.

Q. Why has the Company updated pole attachment revenues?

A. The Company has updated the estimate of pole attachment revenues for third-party attachers and Consolidated (Exhibit 7, lines 26-28) to reflect the Company's current pole attachment rates. Exhibit 7 was filed in February 2021 and was based on prior pole attachment rates. Actual pole attachment revenues in a given year will vary with the prevailing pole attachment rates in effect at the time and the number of attachments on the Company's poles.

Q. Why has the Company updated vegetation management expense?

A. Exhibit 7 included an estimate of annual vegetation management expense of $7 million per year and increasing with inflation. This amount represents the estimated amount of annual vegetation management expense that would otherwise be attributed to CCI, and for which the Company is requesting recovery of through the PPAM. Exhibit 7 was originally prepared under the assumption that the transaction would close in early 2021. Because the transaction is now not expected to close until sometime in 2022, the Company has included additional vegetation management costs incurred after December 31, 2020 (the period covered by the settlement reached between Eversource and Consolidated) and the transaction closing. The Company is requesting approval to recover these costs through the PPAM consistent with its November 15, 2021 filing (Exhibit 9).

As explained in Exhibit 9, the Company's current base rates do not include recovery of the vegetation management costs billed to Consolidated. Instead, the Company's base rates assume a contribution from Consolidated. As a result, after the transaction, the Company will not be able to perform the requisite level of vegetation management activity without accommodation for recovery of the amount of vegetation management expense that would otherwise have been paid by Consolidated. Eversource has committed to providing all necessary documentation and support to justify its calculation of the amount previously attributable to Consolidated and therefore recoverable through the PPAM.

Q. Do these changes impact how long the Company anticipates the PPAM rate to be in effect?

A. No. Consistent with the Company's November 15, 2021 filing, the Company anticipates that the PPAM would remain in place until at least the time of the Company's next rate case, at which time the Company anticipates that such costs included in the PPAM would be incorporated into Eversource's base rates, assuming at that point the costs of pole ownership included in the test year is at a representative level for going-forward ratemaking. The proposed change to remove capital costs does not extend or shorten the projected timeframe for the PPAM to be in effect.

Q. The Company provided the proposed tariff for recovery of costs under the PPAM with its November 15, 2021 supplemental testimony. What revisions to the proposed tariff are necessary to remove capital costs from the proposed recovery?

A. A copy of the revised PPAM tariff is provided as Attachment RR-003-3. The changes presented in this attachment are removal of the transferred pole rate base; pole replacement rate base; and property tax expense. These changes reflect the removal of these costs from the PPAM as discussed above.

Q. Please explain why this revised cost recovery mechanism is not in conflict with the Settlement Agreement?

A. The Commission's order concludes that a cost recovery mechanism may exist that is acceptable to Eversource and is not precluded by the Settlement Agreement approved in Docket No. DE 19-057. The Company believes that the revised cost recovery mechanism as outlined in this testimony is not in conflict with the

Settlement Agreement in that it allows for recovery of costs through a new mechanism without disturbing base distribution rates or the RRA covered under the Settlement Agreement. Further, with the deferral of capital cost recovery until a future base rate case, the debate over what is the appropriate treatment of capital costs is eliminated.

Q. Does the Company anticipate a complete prudency review by the Commission when it files for recovery of the costs associated with this transaction?

A. Yes. The Company does not equate approval of the proposed transaction with a determination of prudency for the associated cost recovery. The Company anticipates a complete prudency review by the Commission as part of the proceedings reviewing its petitions for cost recovery under the PPAM at a future date. This prudency review will include review of capital additions post-closing of this transaction. Saying that, if this transaction is to be approved, it is the Company's expectation that such approval would indicate a determination of the Commission that the purchase price paid to CCI and allowed in rate base as part of the Commission's decision in this proceeding would not later be subject to a prudency review. However, incremental capital additions Eversource makes post-closing as the sole pole owner would be subject to such a review, just as is the case for all other capital additions made by the Company.

Q. Does this conclude your testimony?

A. Yes.

33. Pole Plant Adjustment Mechanism

The Pole Plant Adjustment Mechanism ("PPAM") mechanism, shall recover or refund the reconciled costs associated with the following elements:

(a) Pole Replacement O&M Transfer Costs: The actual costs associated with replacement poles for the prior calendar year based on the actual number of poles replaced and the actual Eversource cost to transfer the conductor from the old to the new poles.

(b) Annual Inspection Costs: The actual inspection costs and other upfront costs for the prior calendar year consisting of the number of poles inspected in the former Consolidated maintenance area and the per pole rate in effect. Upfront costs of $250,000 in years 1 and 2 and $75,000 in year 3 will also be included

(c) Pole Attachment Revenue: Incremental third-party pole attachment revenues will be applied as an offset to the items in (a) through (d). Pole attachment revenues for formerly Consolidated owned poles will be tracked separately and billed at the Consolidated rate at the time of closing until a full pole attachment survey is conducted and, or a single, unified rate is applied to all poles.

(d) Vegetation Management Expense: The incremental vegetation management expense will be calculated as the vegetation management expenses formerly billed to Consolidated.

The PPAM shall be established annually based a full reconciliation with interest for any over- or under-recoveries occurring in prior year(s). Interest shall be calculated at the prime rate, to be fixed on a quarterly basis and to be established as reported in The Wall Street Journal on the first business day of the month preceding the calendar quarter. If more than one interest rate is reported, the average of the reported rates shall be used. There will be no adjustment for Accumulated Deferred Income Tax ("ADIT") in the interest calculation. For purposes of billing under the alternative net metering tariff that

became effective September 1, 2017, the PPAM will be considered part of the credit to net metering customers.

Issued:	March 25, 2022	Issued by:	Douglas W. Foley
Effective:	August 1, 2021	Title:	President, NH Electric Operations