

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF PUBLIC UTILITIES

Petition of NSTAR Electric Company and)	
Western Massachusetts Electric Company each)	
d/b/a Eversource Energy for Approval of an Increase)	D.P.U. 17-05
in Base Distribution Rates for Electric Service)	
Pursuant to G.L. c. 164, § 94 and 220 C.M.R. § 5.00)	

PETITION FOR APPROVAL

Pursuant to G.L. c. 164, § 94, and 220 C.M.R. §§ 5.00 *et seq.*, NSTAR Electric Company and Western Massachusetts Electric Company (“WMECO”) each d/b/a Eversource Energy (together, “Eversource” or the “Company”) respectfully request that the Department of Public Utilities (the “Department”) approve the Company’s proposed *Eversource Grid-Wise Performance Plan* including the proposed rate tariffs and associated cost-recovery proposals encompassed therein. In addition, the Company requests that the Department review and approve the corporate consolidation of NSTAR Electric Company (“NSTAR Electric”) and Western Massachusetts Electric Company (“WMECO”) in this proceeding, pursuant to the Department’s authority under G.L. c. 164, § 96 (“Section 96”).

In support thereof, the Company states as follows:

A. Introduction

1. The Eversource electric distribution system in Massachusetts is comprised of the operations of NSTAR Electric and WMECO. Both companies currently exist as individual, wholly owned subsidiaries of Eversource Energy. However, Eversource operates the legacy NSTAR Electric and WMECO electric distribution systems on a fully consolidated basis, with

two geographic areas designated as “Eversource East” and “Eversource West.” Through its Massachusetts electric operations, Eversource serves approximately 1.4 million customers in 139 cities and towns, or just less than one-half of the local municipalities in the Commonwealth of Massachusetts.

2. The service area designated as Eversource East encompasses the City of Boston and surrounding communities, extending west to Sudbury, Framingham, and Hopkinton, as well as communities in southeastern Massachusetts extending from Marshfield south through Plymouth, Cape Cod and Martha’s Vineyard, and west through New Bedford and Dartmouth. Within this geographic area, the Company serves approximately 1.2 million residential, commercial and industrial customers in approximately 80 communities, covering approximately 1,700 square miles. The customer base includes approximately 1,013,077 residential customers and 164,869 business customers.

3. The service area designated as Eversource West encompasses the City of Springfield and surrounding communities, extending west the New York border and north to Greenfield and the Vermont border. Within this geographic area, the Company serves approximately 209,000 residential, commercial and industrial customers in approximately 59 communities in western Massachusetts, covering approximately 1,500 square miles. The customer base includes approximately 189,507 residential customers and 18,961 business customers.

4. The Company’s principal administrative and operating office is located at 247 Station Ave., Westwood, Massachusetts 02090.

5. NSTAR Electric was last granted a general increase in distribution rates in Boston Edison Company, Cambridge Electric Light Company, Commonwealth Electric Company each d/b/a NSTAR Electric, and NSTAR Gas Company, D.T.E. 05-85 (2005). WMECO was last granted a general increase in distribution rates in Western Massachusetts Electric Company, D.P.U. 10-70 (2011).

B. Rate Proposals

6. In this proceeding, the Company is submitting a request for a change in base distribution rates for NSTAR Electric and WMECO. For NSTAR Electric, the Company is implementing revenue decoupling consistent with the Department's directives in Rate Structures that will Promote Efficient Deployment of Demand Resources, D.P.U. 07-50-A (2008) (the "Decoupling Order"). WMECO implemented revenue decoupling in 2011, following the Department's decision in Western Massachusetts Electric Company, D.P.U. 10-70 (2011), which is WMECO's most recent base-rate proceeding.

7. In addition, Eversource is presenting the *Eversource Grid-Wise Performance Plan* encompassing two major components. First, the Company is proposing to implement performance-based ratemaking mechanism ("PBRM") that would adjust rates annually in accordance with a revenue-cap formula to be approved by the Department in this case. The PBRM would substitute for a capital-cost recovery mechanism with the goal of furthering the Commonwealth's clean energy goals, creating stronger incentives for cost efficiency, and assuring continued achievement of top-tier service-quality performance. Second, within the PBRM, Eversource is proposing a Grid Modernization Base Commitment ("GMBC") of \$400

million in incremental capital investment over the next five years, without a new or separate cost recovery mechanism.

8. With the Department's approval of the PBRM, Eversource would initiate the GMBC as of January 1, 2018 to enable designated clean-energy initiatives, including the development of electric-vehicle infrastructure and electric-storage capabilities, as well as the implementation of technologies, such as remote sensing and switching that will assist in integrating distributed energy resources ("DER") and maintaining top-tier service reliability. These technologies will advance the Commonwealth's clean energy goals, as most recently expressed in the Baker Administration's Executive Order No. 569, Establishing an Integrated Climate Change Strategy for the Commonwealth (September 16, 2016) ("Executive Order No. 569"), including the reduction of greenhouse gases and preparation for the impacts of climate change.

8. As part of the *Eversource Grid-Wise Performance Plan*, the Company is proposing a set of 14 metrics within six GMBC investment categories that will allow the Department and other stakeholders to gauge the Company's progress on its GMBC commitments. The metrics are designed with the specific intention to yield information and insight into the Company's activities and progress in specified areas of interest, with explicit targets for each of the five years contemplated for the GMBC. The metrics are also designed to produce gains in knowledge and experience that will inform future development of the modernized electric grid. Performance on these metrics will be the basis for discussions with stakeholders over the investment horizon of the GMBC, and will help to confirm the course of action or to suggest other potential success areas.

9. Although NSTAR Electric and WMECO are fully integrated from a management and operational perspective, the corporate entities will remain separate pending the receipt of all necessary regulatory approvals. For purposes of this filing, Eversource has anticipated that the corporate consolidation will be effective January 1, 2018, coincident with the effective date of new rates resulting from this proceeding. The consolidation of NSTAR Electric and WMECO as corporate entities is in the public interest and will represent an important long-term strategy to assure a reliable, cost effective energy delivery system, with improved system reliability. Therefore, certain elements of this filing are presented on a unified basis for NSTAR Electric and WMECO, while other elements will remain separate until the first base-rate case following the corporate consolidation. For example, the Company is proposing standardization of tariff terms and conditions, line extension policies and rate classifications, but has not consolidated the revenue-requirement calculation or base distribution rates in this filing. Below, my testimony discusses the operational consolidation that has occurred since the merger and the impact on work functions and service quality

10. In this proceeding, the Company is requesting that the Department approve new delivery rates to alleviate a revenue deficiency calculated by the Company to be \$60.2 million for NSTAR Electric and \$35.7 million for WMECO. As explained by the Company's rate witnesses, this would represent an increase of approximately 7 percent in total distribution revenue for NSTAR Electric and 26 percent for WMECO. This proposed revenue change is based on a test-year ending June 30, 2016, adjusted for known and measurable changes to test-year amounts for ratemaking purposes. For NSTAR Electric, this deficiency is based on a total rate base of \$2.7 billion and an overall weighted cost of capital of 7.61 percent. For WMECO,

the revenue requirement is based on a total rate base of \$440.9 million and an overall weighted cost of capital of 7.62 percent.

11. For residential customers in Eversource's Eastern Massachusetts service area (currently the NSTAR Electric service area), the new distribution rates would add approximately 7 percent or \$8.45 to the monthly bill of a typical residential customer using 550 kilowatt hours of electricity. For residential customers in Eversource's Western Massachusetts service area (currently the WMECO service area), the new distribution rates would add approximately ten percent or \$11.64 to the monthly bill of a typical residential customer using 550 kilowatt hours of electricity.

12. To support the Company's proposed base distribution revenue increase and associated cost-recovery proposals, the Company's filing includes the following:

- The testimony of Craig A. Hallstrom, President, Regional Electric Operations for Massachusetts and Connecticut for Eversource Energy Service Company ("Eversource Service Company" or "ESC"), providing an overview of the Company's proposals to the Department in this proceeding and outlining the key organizational changes and operational consolidation completed by the Company in relation to its electric distribution operations since the merger of Northeast Utilities and NSTAR in April 2012;¹
- The joint testimony of Craig A. Hallstrom, Penelope M. Conner, and Douglas P. Horton, presenting the *Eversource Grid-Wise Performance Plan* introducing the two major components of the plan, the Performance-Based Ratemaking Mechanism ("PBRM") and the Grid Modernization Base Commitment ("GMBC"). Ms. Conner is Chief Customer Officer and Senior Vice President for ESC. Mr. Horton is Director, Revenue Requirement Massachusetts for ESC. This testimony also discusses the dynamics that are motivating the Company's proposal in this proceeding and describing the details of how the plan implementation;

¹ Northeast Utilities was the parent company of WMECO at the time of the 2012 merger; Northeast Utilities changed its name to Eversource Energy in 2015.

- The testimony of Mark E. Meitzen, Ph.D, Vice President, Christensen Associates, presenting the economic analysis of productivity in the electric distribution industry serving as the basis for the Company’s proposed revenue-cap formula within the Company’s proposed PBRM;
- The joint testimony of Craig A. Hallstrom, Penelope M. Conner, Paul R. Renaud, Vice President of Engineering for ESC Massachusetts, Jennifer A. Schilling, Director of Strategy and Performance for ESC, and Samuel G. Eaton, Project Director, Electric Vehicle Charging and Energy Storage Development for ESC, presenting a comprehensive discussion of the Company’s proposals relating to the GMBC as an element of the *Eversource Grid-Wise Performance Plan*;
- The testimony of Douglas P. Horton presenting the revenue-requirement calculation and existing revenue deficiency separately for NSTAR Electric and WMECO and a consolidated revenue requirement for NSTAR Electric and WMECO for illustrative purposes. This testimony also includes the rationale and support for (1) establishment of the Company Storm Fund, as a carry-over of and improvement on the storm-funding mechanisms that NSTAR Electric and WMECO currently administer; (2) the Company’s proposal for recovery of property tax associated with the valuation change that occurred in 2012; (3) the Company’s demonstration that recovery of merger-related costs associated with the NSTAR Electric/NU merger is warranted; and (4) the Company’s proposal for certain transfers and other adjustments to existing rate reconciling mechanisms proposed in this proceeding;
- The testimony of Robert B. Hevert, Managing Partner, ScottMadden, Inc., presenting the Company’s cost of capital analysis;
- The testimony of Sasha Lazor, Director, Compensation for ESC, presenting the Company’s employee compensation programs, including base and variable pay elements of compensation;
- The testimony of Michael P. Synan, Director, Benefits Strategy for ESC, presenting the Company’s employee benefits programs and associated costs, including healthcare expense, pension and retirement benefits;
- The testimony of Penelope M. Conner presenting the Company’s proposal to implement a “fee free” credit/debit card payment system that will allow customers to pay their bills electronically without a transaction fee;
- The testimony of Vera L. Admore-Sakyi, Director, Vegetation Management for ESC, presenting the Company’s proposals relating to the vegetation-management activities undertaken for system reliability and resiliency objectives on the Company’s distribution system in

Massachusetts, including an update on discussions with Verizon regarding cost sharing;

- The testimony of Leanne M. Landry, Director, Budget and Investment Planning for ESC, presenting the project documentation associated with the Company's historical capital additions and several post-test year additions proposed for inclusion in the rate base;
- The testimony of John J. Spanos, Senior Vice President, Gannett Fleming Valuation and Rate Consultants LLC, presenting the Company's depreciation study in support of its depreciation expense;
- The joint testimony of Edward A. Davis, Director of Rates for ESC; James D. Simpson, Senior Vice President for Concentric Energy Advisors; and Richard D. Chin, Manager of Rates for ESC, presenting the Company's proposed distribution rates and rate design, including the development of test year billing determinants and pro forma distribution revenue, rate design proposals and bill-impact analysis, and proposed tariff changes;
- The joint testimony of Edward A. Davis and Richard D. Chin, presenting the Company's proposed tariffs, including tariffs implementing the Company's proposed performance-based revenue adjustment and revenue decoupling mechanisms.

13. The Company's request for a change in base distribution rates is supported by a revenue-requirement analysis calculated consistent with the Department's established ratemaking practices and incorporating certain proposals of the Company put forth for the Department's consideration in this case. The revenue-requirement analysis and associated rate design is supported by a cost-of-capital analysis, lead/lag study, technical update to depreciation study, allocated cost of service study and marginal cost of service study.

C. Authorization to Complete Corporate Consolidation

14. On January 13, 2017, the Department issued a ruling in NSTAR Electric Company and Western Massachusetts Electric Company each d/b/a Eversource Energy, D.P.U. 16-108, which is the Company's request for an advisory ruling on the corporate consolidation of NSTAR Electric and WMECO. The Department found that the proposed corporate

consolidation of NSTAR Electric and WMECO will require Department review and approval under G.L. c. 164, § 96 (“Section 96”). See, D.P.U. 16-108, at 20.

15. In relation to the scope and timing of that review, the Department directed the Company that, in a filing for review of the proposed consolidation, Eversource should include, in addition to the showings provided by Section 96 and Department precedent, such information as a description of the consolidated entity; the functionality of the consolidated entity; the integration process; the timing of the integration process; and the organizational, accounting, and legal steps to be taken to accomplish the consolidation. D.P.U. 16-108, at 21. The Department further stated that, although it did not proscribe the appropriateness of the nature of that filing for review, the Department anticipated it would focus on matters associated with service quality and rate impacts. Id. The Department further noted that Eversource could elect to make this showing as part of the “upcoming” base-rate case. Id.

16. Section 96 sets forth the Department’s authority to review and approve mergers, consolidations, and acquisitions and, as a condition for approval, requires the Department to find that the proposed transaction is “consistent with the public interest.” In the past, the Department has construed the Section 96 standard of consistency with the public interest as requiring a balancing of the costs and benefits attendant on any proposed merger or acquisition, stating that the core of the consistency standard is “avoidance of harm to the public.” Boston Edison Company, D.P.U. 850, at 5-8 (1983). Thus, the Department historically interpreted the merger standard as a “no net harm” test, meaning that a proposed merger or acquisition is allowed to go forward upon a finding by the Department that the public interest would be at least as well served by approval of a proposal as by its denial. BECo/ComEnergy Acquisition, D.T.E. 99-19, at 10 (1999); Eastern/Colonial Acquisition, D.T.E. 98-128, at 5 (1999); NIPSCO/Bay State

Acquisition, D.T.E. 98-31, at 9 (1998); Eastern/Essex Acquisition, D.T.E. 98-27, at 8; D.P.U. 850, at 5-8.

17. Following a comprehensive investigation into the merger of BEC Energy and Commonwealth Energy System, creating NSTAR in 1999, the Department applied the “consistent with the public interest” and “no net harm standard” in reviewing and approving the corporate consolidation of Boston Edison Company, Commonwealth Electric Company and Cambridge Electric Light Company into NSTAR Electric in 2006. See, Boston Edison Company, Cambridge Electric Light Company, Canal Electric Company and Commonwealth Electric Company d/b/a NSTAR Electric, D.T.E. 06-40, at 8-9 (2006).

18. In reviewing the merger of Northeast Utilities and NSTAR in D.P.U. 10-170, the Department modified the Section 96 standard from a “no net harm” test to a “net benefits” test, requiring Northeast Utilities and NSTAR to show that the benefits of the merger would outweigh the costs. D.P.U. 10-170-B at 30-31. The Department further stated that various factors may be considered in determining whether a proposed merger or acquisition is consistent with the public interest pursuant to Section 96. Traditionally, the Department has considered the following factors: (1) effect on rates; (2) effect on the quality of service; (3) resulting net savings; (4) effect on competition; (5) financial integrity of the post-merger entity; (6) fairness of the distribution of resulting benefits between shareholders and ratepayers; (7) societal costs; (8) effect on economic development; and (9) alternatives to the merger or acquisition.

19. As amended in 2008, Section 96 expressly requires the Department to consider, at a minimum, the following four factors: (1) proposed rate changes, if any; (2) long-term strategies that will assure a reliable, cost-effective energy delivery system; (3) any anticipated interruptions in service; and (4) other factors that may negatively impact customer service. Only the

requirement of “long-term strategies to assure a reliable, cost-effective energy delivery system” is additive to the Department’s historical factors.

20. On April 4, 2012, the Department issued its final decision approving the determining that merger of NSTAR and Northeast Utilities (the “NSTAR/NU Merger”) was consistent with the public interest. D.P.U. 10-170-B at 107. Specifically, the Department found that based on its investigation, and in balancing the applicable factors, the merger would provide net benefits to customers and is consistent with the public interest. Id. Pursuant to the merger approval, NSTAR merged with and into Northeast Utilities on April 10, 2012. In accordance with the merger approval, NSTAR ceased to exist upon the closing of the merger.

21. As an integrated entity, Northeast Utilities undertook numerous initiatives post-merger to achieve the substantial cost savings projected in the “Net Benefits Study” accepted by the Department in D.P.U. 10-170. D.P.U. 10-170-B, at 57-58. The legal consolidation of NSTAR Electric and WMECO was not necessary to achieve those savings. The estimated savings quantified in the Net Benefits Study resulted from the integration of shared services and other corporate functions and processes, which has occurred. As of this date, the Eversource Energy corporate and administrative business functions are operating on a fully integrated basis, including finance, administration, human resources, legal, corporate relations, operations services and electric engineering. In addition, the operations of NSTAR Electric and WMECO are fully consolidated under common management with unified business and operational processes. Conversely, the legal entities remain independent and separate books of account continue to be maintained, along with separate regulatory filings.

22. In D.P.U. 10-170, the Department conducted a thorough review of the impacts of the NSTAR/NU merger, including a range of impacts for NSTAR Electric and WMECO,

specifically. D.P.U. 10-170-B, at 33-104. Although it is clear that the Department's approval of the merger did not encompass the approval of the legal consolidation of NSTAR Electric and WMECO, the Department's review of the impact of merging NSTAR and Northeast Utilities necessarily involved in-depth analysis of the impact that would result for the customers of each operating company through common ownership and control.

23. On the basis of the Department's findings and directives in its ruling in D.P.U. 16-108, the Company requests that the Department review and approve the proposed corporate consolidation of NSTAR Electric and WMECO in this proceeding.

24. In this filing, the Company has set forth the information necessary to demonstrate that the proposed consolidation of NSTAR Electric and WMECO is consistent with the public interest and will produce "no net harm" for customers, when considered under the factors typically applied by the Department in reviewing a Section 96 petition (to the extent that those factors apply). The testimony of Mr. Hallstrom and Mr. Horton provide the information requested by the Department as to a description of the consolidated entity; the functionality of the consolidated entity; the integration process; the timing of the integration process; and the organizational; accounting, and legal steps to be taken to accomplish the consolidation. See, D.P.U. 16-108, at 21. The Company's filing includes specific and comprehensive information on service quality and rate impacts.

24. For example, the testimony of Mr. Hallstrom in this proceeding demonstrates that electric operations already reflect the adoption of "best practices" between NSTAR Electric and WMECO, which have been implemented since the NSTAR/NU Merger, and customers are benefitting from this exchange of ideas, methods, and procedures as well as the implementation of system-wide best practices in the areas of operations and customer service.

25. The testimony of Mr. Hallstrom also demonstrates that the consolidation of NSTAR Electric and WMECO will not have any adverse impact on service quality. Rather, service quality will continue to be a priority and will improve where there is the opportunity to do so. Currently NSTAR Electric and WMECO are required by the Department to report service quality performance on a company-by-company basis. No change to this framework will occur solely as a result of legally consolidating the companies. Any future proposed change to the service-quality reporting requirements would require review and approval by the Department prior to implementation, and even then, would involve a change in reporting and tracking of service-quality data rather than any change in the underlying quality of service. Lastly, as the Department has reiterated in other cases, service quality is measured, monitored and enforced through the annual service-quality filings reviewed by the Department, and penalties may be assessed if service were to fall below historical benchmark levels.

26. Any rate proposals made in this case in relation to the consolidation of NSTAR Electric and WMECO will be subject to review, analysis and may ultimately be accepted, rejected or modified by the Department based on the record evidence developed in this proceeding. Similarly, any proposed modifications to cost-recovery mechanisms will be reviewed and approved by the Department prior to any rate change.

27. Conversely, the legal consolidation of NSTAR Electric and WMECO would improve administrative efficiency in reducing the number of books and records to be maintained, reconciled, and audited and in reducing the number of regulatory filings required to be submitted on an annual basis. The reduction of administrative burdens from a financial reporting and regulatory compliance viewpoint will achieve administrative efficiency by eliminating multiple filing dockets. For example, the Company's filing in this case would eliminate numerous annual

filings by WMECO that are currently required. Other positive impacts include: (1) an anticipated lower borrowing rate for the consolidated entity, which results because WMECO's standalone borrowing rate is higher than NSTAR Electric's; (2) avoided costs associated with the WMECO Form 10-K and FERC Form 1 reporting; and (3) creating a more cost-efficient platform for implementation of future enterprise-wide business initiatives.

28. Therefore, by this petition, the Company is requesting that the Department approve the corporate consolidation of NSTAR Electric and WMECO under Section 96, which would be achieved through the merger of WMECO with and into NSTAR Electric as part of the Eversource Energy holding company system.

WHEREFORE, for the reasons set forth in this petition and in the testimony and exhibits of the Company's witnesses, the Company respectfully requests that the Department:

ORDER: That the Company's ratemaking proposals and requests for cost recovery are approved;

ORDER: That the Proposed Tariffs No. M.D.P.U. No. 500 through No. 535; M.D.P.U. No. 116E through No. 338F; and M.D.P.U. No. 1002X through 1054C for effect January 1, 2018 and January 1, 2019; attached hereto, are just and reasonable and are approved;

ORDER: That the proposed consolidation of NSTAR Electric and WMECO and the terms thereof are consistent with the public interest pursuant to G.L. c. 164, § 96;

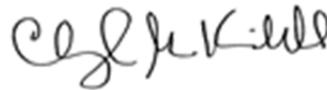
ORDER: That NSTAR Electric Company, as the surviving corporation of the merger among and between NSTAR Electric and WMECO, will continue to have all of the franchise rights and obligations that were previously held by WMECO, and that further action, pursuant to G.L. c. 164, § 21, is not required to consummate the merger; and

ORDER: Such other and further orders and approvals as may be necessary or appropriate.

Respectfully submitted,

**NSTAR ELECTRIC COMPANY and
WESTERN MASSACHUSETTS ELECTRIC
COMPANY
each d/b/a EVERSOURCE ENERGY**

By its attorneys,



Cheryl M. Kimball, Esq.
Danielle C. Winter, Esq.
Jessica Buno Ralston, Esq.
Keegan Werlin LLP
265 Franklin Street
Boston, MA 02110
(617) 951-1400

Date: January 17, 2017