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Witness: Carmody, Christine M, Moreira, John, Schweiger, Werner J, Conner, Penelope
Request from: F T I Consulting

Question:
Please describe the shared services organizations that provide administrative or management services directly or indirectly to the Connecticut utilities and the services they provide. By shared services organizations we mean Eversource Energy Service Company, or any other U.S. affiliate of Eversource (to the extent their management or administrative costs are directly or indirectly allocated or otherwise charged to the Connecticut utilities.

Response:

The Eversource Energy management structure is streamlined for maximum cost efficiency, operational effectiveness and superior customer service. Eversource Energy executive leadership is referred to as the "Senior Team" and is comprised of the Chief Executive Officer ("CEO") and Executive Officers in six functional areas, as follows:

1. Operations: Executive Vice President and Chief Operating Officer (Schweiger)

2. Customer Experience and Energy Strategy: Executive Vice President (Conner)

3. Finance: Executive Vice President, Chief Financial Officer and Treasurer (Moreira)

4. Human Resources and IT: Executive Vice President (Carmody)

5. Legal, Internal Audit, Energy Supply: Executive Vice President and General Counsel (Butler)

6. Corporate Relations and Sustainability: Executive Vice President (Hunt)

These six functional areas encompass all shared services supporting the Eversource Energy Operating Companies. The Executive Officers comprising the Senior Team are directly responsible for providing administrative and management services to the Connecticut utilities and the other Operating Companies in MA and NH. Within these shared services, there are resources that are shared across all operating companies, as well as resources that are dedicated to one or more operating companies, as necessary and appropriate.

The presidents of the Operating Companies, including CL&P, YGS and AQ in Connecticut, report directly to the Chief Operating Officer ("COO"). The COO reports directly to the CEO.

The Operating Companies also interact with the shared-service functions through a variety of committees and activities, as described below.

Within this framework, the Eversource Energy Service Company ("ESC") essentially functions only as a cost accounting and tracking entity through which all shared services are provided. ESC does not encompass a decision-making function that is outside of the purview of the Senior Team.

Organizational Structure and Accountability

With respect to ESC and the services it provides to the Operating Companies, a decision was made in 2012, following the merger of Northeast Utilities and NSTAR, to operate ESC consistent with the Service Company model that existed pre-merger at NSTAR. In that model, the "shared services" entity functions exclusively as a cost-sharing platform with a unified management team overseeing both the operating companies and the delivery of shared services to the operating companies. ESC is set up to operate in this same manner with direct oversight and control resting with executive leadership and the Operating Company Presidents, all actively participating in the decision-making framework.

In this shared-services organization, the leaders of each one of the respective shared-service organizations are responsible for an operating budget and work plan. To the extent that work is performed on a shared basis for multiple entities, there is a billing process to account for the cost of that work in alignment with the level of services provided to each Operating Company. In all cases, direct billing of costs is encouraged if work is conducted exclusively for a specific entity. If work benefits two or more companies, the costs are allocated across multiple entities obtaining a benefit from the particular services. The fundamental concept is that the Executive Vice President that runs the respective shared-service function is responsible for assuring that needed work functions and activities are executed efficiently and effectively throughout the EVP's organization and that operating performance goals are achieved for that business unit.

Using this operating model, Eversource Energy has achieved a high mode of efficiency because, rather than having the Operating Companies working as independent entities with separate participation by each Operating President, there is a high level of integration between the Operating Companies and the shared service functions to develop a consolidated business case for major business decisions and solutions in IT, ERP, HR and other functions. Eversource Energy is aware that a relatively large percent of its customers experience Eversource service in one form or another from neighboring states and that some of these customers have multiple accounts in different states. It is not acceptable to customers to have a different experience online or with how they pay their bill or options to pay depending on the state in which they are experiencing the service. Therefore, Eversource identified that it needed to have a consistent quality of service and customer experience across all 4,000,000 customers in CT, MA and NH. For this reason, the shared services function is built to collaborate closely with the Operating

Presidents and to provide them with numerous opportunities for input and participation to arrive at a consensus solution across the Eversource Energy enterprise.

The shared services organizations all function similar to the Operating Company organizations in that each shared service organization has its own set of goals and individual budget, both O&M and capital, and those plans are developed and executed on an annual basis. For each cost control center, a system is established to allocate the cost based on the work that is being performed and the shared-service organization is held accountable for the budget and operating plan associated with their function. Accountability for spending and execution rests with the leader of each one of the shared services organizations. Each one of these senior leaders, whether Legal, IT or Human Resources, are responsible for running their own aspect of the business and keeping within the confines of the approved budgets that are established for each year.

In this context, the role of the presidents of each Operating Company is to assist in developing the capital plan; to execute the annual work plan to meet discrete performance goals; to provide leadership on project and work initiatives; to oversee adherence to the approved O&M budget, while assuring safety to each employee; and otherwise run the business. The Operating Presidents do not have a direct role in ESC as the "cost sharing entity" or its allocations. Instead, the Operating Presidents report to the COO, while having direct interaction with the shared services teams headed by each Executive Officer comprising the Senior Team, as explained further in the section below labeled "Shared Services Reporting." Monthly performance data is produced for evaluation by the Senior Team and the Operating Presidents join the Senior Team for an expanded Senior Team meeting periodically over the course of the year to present and discuss operating and performance results.

The Operating Companies are structured to focus on operations and running the business, whereas the ESC functions as a clearinghouse for the shared-services organizations such as accounting and finance, IT, human resources, regulatory affairs, legal, corporate relations, government relations, customer care and shared operational services. As an example, if in the course of operations, the Operating President sees that a human resource issue or some inefficiency is coming from the shared process, the Operating President has the opportunity to address the issue with the respective shared services personnel assigned to the respective Operating Company or to raise concerns to the COO and/or with the respective Executive Vice President and the leadership team running the shared-service unit.

This organizational approach has yielded accountability and substantial operating efficiency in relation to shared services because all functions are carefully managed from a cost and productivity standpoint under a transparent management structure. This works to ensure that the costs of shared services attributed to each operating company are the result of a rigorous financial-management process.

Aquarion Company operates differently in that there is no service company, primarily due to its size. Costs are directly incurred, directly charged or allocated as appropriate with the management of Aquarion Company performing the shared service function across the operating entities. In this case, Aquarion Company, the parent company, will charge down to CT, MA or NH, as appropriate. Also, as referenced in response to other questions, the Aquarion Company organization utilizes an SAP system that fully integrates all business functions under one platform enabling a model that does not require a formal shared-services entity and is an efficient approach to operate autonomously from Eversource Energy.

With respect to charges between Eversource Energy and Aquarion, it is important to note that Aquarion is largely autonomous. Aquarion receives a monthly bill from ESC for shared services that are provided. ESC employees can only direct-charge Aquarion and billed amounts are settled through a sundry billing process. As a result, Aquarion is not included in any of ESC′s causal-based rate codes or any common allocators, which is further explained in the following section. Aquarion Company is separately billed a management fee that includes costs associated with the Senior Team oversight. Officer salary and overheads are charged through separate accounting work orders that are set up for ESC to charge Aquarion Company through the sundry billing process.

Interactions between the Operating Companies and Shared Services

With respect to the direct interactions between the Operating Companies and Shared Service organizations, there are numerous efforts made to serve the separate and collective interests of the Operating Companies.

First, the shared service organizations are set up in a way so that dedicated staff is embedded in each respective Operating Company to assist in the running of the operation (for example, Investment Planning, IT and Human Resources). This means that, if the Operating President has a HR, IT or financial planning issue, there is designated shared-service staff assigned to the respective Operating Company to work with directly to resolve pending issues. If there is any problem going on in a particular area, the Operating President knows exactly who to call and to work with to get the issue resolved. The Operating President is also free to reach out to the EVP responsible for the shared-service unit, but normally would not do so whereas the dedicated staff is there to assist.

Second, with respect to financial results, the Operating Presidents receive daily, weekly and monthly insight into the status of their O&M and capital budgets through the support of the Investment Planning Organization located within the Eversource Energy Finance group. The Operating Presidents have the ability to log into the Eversource Energy financial system or performance tracking system and obtain information necessary to perform their leadership role. Investment Planning also conducts a formal monthly meeting with each Operating President and his direct reports to review O&M and capital results, overtime levels and any other financial matters. The AQ Operating President has a line of sight into O&M and capital for each

Aquarion operating subsidiary and has a monthly and quarterly meeting with the COO to review the status.

Third, there are many coordinated functions and activities that are undertaken within the Eversource Energy organization to provide customers with a high level of service and achieve rigorous cost control that involve the participation of the Operating Company Presidents and shared services organizations. Examples of this coordination and collaboration include, but are not limited to, the following:

- On a bi-weekly basis, the Chief Operating Officer conducts a staff meeting for all of his direct reports, as well as key leaders from across the Eversource Energy enterprise, including Finance, Customer Operations, Energy Supply, HR, IT, Legal and Internal Audit. In addition to a roundtable discussion that reviews content across the Eversource Energy enterprise, there are generally two presentations made in powerpoint format by one of the attending organizations. Examples of such presentations might cover Customer Operations, Supply Chain, HR and Labor Relations, IT, as well as others of technical content. These meetings generally last 4+ hours.

- On a monthly basis, the Chief Operating Officer conducts workplan meetings with the Operating Presidents and their leadership teams of the electric, gas and water companies. The monthly workplan meeting date back to 2002, when adopted by the current COO in his former role of Senior Vice President of NSTAR Electric & Gas. A pre-requisite to the monthly workplan meeting is the development of the annual financial Operating Plan discussed in response to FTI-033, by each business unit within Electric, Gas and Water Operations. The workplan meeting then covers the status of the annual financial Operating plans and ongoing activities relating to staffing, operating performance, major projects, safety and other areas and functions. The monthly workplan meetings, led by the respective Operating President or Executive Vice President (of a shared service function) includes members of their immediate staff as well as organizations key to the success of the business unit such as Supply Chain, Safety, Finance and other. These meetings generally last 4-6 hours and may go the entire day.

- On a monthly basis, the Voice of the Customer (VOC) Team distributes a communication to all leaders within Eversource Energy that provides insights to customer survey results, known as the "VOC Spotlight." The results include month-to-date and year-to-date information by state and Operating Company, as appropriate. An overall customer satisfaction update is always included, along with other specific areas of satisfaction that are reviewed based on what is most relevant or important to highlight to leadership on a month-by-month basis. The items highlighted in the monthly communications include overall performance, trends, key takeaways (including both quantitative and qualitative data), areas of opportunity and customer compliments. Within the monthly communication, a link to an online Customer Experience Dashboard is also included that

provides further details to survey results. FTI-117, Attachment 6(ES) provides a sampling of the VOC communications for 2022.

- On a daily basis, transactional surveys are sent to customers to obtain insights on our performance and understand opportunities to improve. Feedback and survey results are pushed to the online Customer Experience Dashboard daily so that management can monitor real-time performance, analyze and take action on customer concerns. Leaders are able to view the results at the Eversource, state or operating company levels and in most cases, drill down into their specific town or work center. Each survey section features key metrics and analytics that allow the viewer to track trends and understand key influences on the results. In some surveys, the dashboard includes customer data that allows leaders to view results by customer segmentation and includes data that allows leaders to benchmark results with similar industry metrics. The CX Dashboard was completed in early 2019 and in 2020, won the industry CS Week Expanding Excellence Award for the Best Analytics Project for a large utility.

- On a bi-monthly basis, the Operating Presidents participate in the Eversource Energy Customer Council, which is comprised of the 16 senior leaders from all of the customer-facing functions across Eversource Energy, including the SVP of IT. At the meetings, the Council reviews detailed customer-service data for each operating jurisdiction with the Operating Presidents, including data on customer satisfaction, customer engagement metrics and digital channel plans. “Voice of the customer” input and performance data are presented at the state-specific level for operational metrics such as call-center performance on billing queries and other customer-facing operational indicators. The Customer Council has a standing charter provided as FTI-117, Attachment 5 (ES).

  The Customer Council was created by the SVP of Customer Operations in early 2022 when he started with Eversource Energy. Prior to his arrival, a Customer Experience (CX) Steering Committee existed involving the collaboration of the Customer Group and the CL&P and YGS Presidents. For example, when it was identified that, based on customer feedback, there were extended time intervals when CL&P would respond to customers about reported outages, a team was organized to analyze and resolve the issue. The Customer Experience Steering Committee reviewed VOC information to identify and implement initiatives to improve the customer experience, and also addressed emergent issues. Strategic initiatives launched and managed by the CX Steering committee included: (1) establishment of the robust voice of the customer infrastructure that now includes online communities, demographically representative of the Eversource customer base by segment, and by state; (2) establishment of the My Account digital experience that presents customers with one click account overview, bill pay, outage reporting experiences; and (3) implementation of Plus 1 culture where every employee has been trained in how to deliver a Plus 1 experience for the customer. This team did not typically review state-by-state performance as the Customer Council now does.

Instead, this team developed and carried out initiatives to address emergent issues relating to the customer experience.

Human Resources also participates in the Customer Council due to the fact that the new processes that come out of this initiative may require education, training and change management with employees. For example, Human Resources led the development of the Plus 1 Culture Change training, and ongoing reinforcement of this throughout the organization. Similarly, customer communications is involved with this group in order to develop the strategic communications necessary to educate customers.

- On a weekly basis, leaders of customer operations and digital channel management functions meet to review contact center and meter-to-cash performance metrics for each operating company, as well as customer satisfaction survey responses to identify emergent issues and areas that require focus for improvement.

- Along with monthly reports on performance, the Senior Team conducts expanded leadership meetings periodically with the inclusion of business leads across the enterprise, such as the Senior Vice President of IT, the Senior Vice President of Customer Operations and Digital Strategy, and the Operating Presidents for CT, MA and NH, as well as Aquarion. At these meetings, the Corporate Performance Management Team reports out on performance across the Eversource Energy enterprise and any problems with performance within a specific operating unit are raised. If there is a variance in performance from the established targets, there is discussion as to what's driving that variance. With the expanded Senior Team around the table, the unit business leads review their actual performance with the group and discuss any issues that need to be addressed. Each participant in the meeting receives a detailed corporate performance report on operating performance across the Eversource Energy organization and the business units.

- At least once annually for CL&P and YGS, the Senior Vice President of IT meets with each Operating President to review the IT Strategic Road Map. The IT Strategic Road Map sets out the three-year investment plan and is designed to enable effective service delivery and strong operating performance of the Operating Company. The IT Strategic Roadmap is developed collaboratively with the business leaders and the annual budget meeting is used as a platform for a robust discussion about the components of the Road Map. At the annual budget meetings, a review of all projects comprising the Road Map is conducted, as well as any re-prioritization of investments and solutions on the Road Map to achieve operating and business objectives. AQ has a separate schedule for the President’s interaction on IT given that it maintains its own IT system, including SAP.

These are just some examples of the collaboration and alignment that exists between the shared service functions and the Operating Company leadership in relation to all major business initiatives, business planning, workforce planning, collective bargaining, labor-management

problem solving, talent management, employee engagement and other matters. The Eversource Energy governance structure and management processes enable full discussion and alignment across the enterprise with respect to the goals, objectives and needs of the Operating Companies.

The structure also enables Eversource Energy to leverage best practices across one or more Operating Companies or shared services organizations to deliver strong performance for customers and efficiencies in the business.

Shared Services and Cost Accounting

Service Company Operating Agreements are in place between ESC and each Operating Company to govern the provision of services provided to the respective Operating Company by the ESC. Please refer to FTI-115 for the service agreements between ESC and the CT Utilities for a description of the services that are provided.

Accounting Policy Statement 24, Time Reporting Policy, notes that "Each subsidiary company should be charged directly, when possible, for employees' time benefiting that subsidiary." This avoids cross-subsidization between the Operating Companies. Refer to FTI-120, Attachment 5(ES) for this policy statement.

When an ESC employee is providing services to one subsidiary or business segment, the direct methodology may be utilized. These are categorized as the "N" rate codes, which will directly assign 100% of the costs to that subsidiary or business segment. For example, the following ESC work orders have been established for employees supporting the CT Management Audit:

CL&P: PURAAN11

YGS: PURAAN71

The last three characters of the work-order number contain an alpha followed by two digits. The alpha character in these examples is an "N," which indicates the methodology. In this case, "N" indicates use of the direct-charging methodology, whereby 100% of the charges will be directly assigned to a subsidiary or business segment. The last two digits of a work-order number utilizing the direct methodology indicate the entity code, which is the subsidiary or business segment. When ESC employees charge the work orders noted above, the charges are assigned 100% to CL&P (entity 11) or YGS (entity 71). Please refer to FTI-117, Attachment 1(ES) for the Chart of Accounts and a listing of the Eversource entities.

As mentioned above, services are not allocated to AQ. Therefore, services provided to AQ in support of the CT Management Audit are charged to work order AQPURACT, which has been established to accumulate charges in an ESC intercompany receivable that is included in the monthly sundry bill to AQ.

When costs are incurred to serve the Operating Companies more broadly and cannot be directly assigned by charging an operating company work order or utilizing the ESC direct methodology, costs are allocated based on a specific causal-based methodology. For example, the Plant Accounting team provides accounting services to the Operating Companies and generally allocates their time based on the Gross Plant Assets methodology; whereas members of the Customer Care team generally allocate their time based on the Number of Customers or Customer Handle Time methodologies. Allocations are made only after it is determined that it is not practical or reasonably possible to perform a direct assignment of the costs.

When direct charging is not feasible and a specific causal-based methodology cannot be utilized, common allocators are used to allocate costs. The common methodology is based on the average of net income and gross plant assets. For example, the Corporate Accounting team primarily charges work order ACTG0C04 when supporting the monthly financial close of Eversource Energy. The employees in this organization generally use a common allocator as there is no specific causal driver of the costs or causal-based methodology that may be utilized for providing these corporate accounting services. Please note that the last two characters of rate codes for causal-based and common allocators is not the entity code as it is with the direct methodology, but rather the sequential numbering of rate codes for the combinations of subsidiaries and business segments.

For a listing of the allocation methodologies used as the basis for the applicable rate codes, please refer to FTI-126 and the ESC FERC Form 60 annual filings that present these methodologies on Schedule XXI. This Schedule also explains the rationale for the methodologies. Please also refer to FTI-116 and the ESC Cost Allocation Manual for additional details regarding the allocation methodologies and a list of rate codes.

Shared Service Controls and Reporting

There are several controls in place to ensure costs are appropriately allocated. All rate codes are updated annually in January, and as needed, and are prepared, reviewed and approved by the Corporate Accounting Allocations team. The Director of the Corporate Accounting Allocations team is responsible for ensuring the corporate rate codes are accurate.

As it relates to the allocation or assignment of costs, whether those costs be employee payroll, invoiced charges, inventory or otherwise, the person authorized to approve the transaction is responsible for ensuring the appropriate work order and rate code are used to cause the cost to be allocated to the proper affiliate(s) depending on the subsidiaries or business segments benefitting from the goods or services provided.

In addition, the internal control structure used by ESC to ensure all costs are properly charged to the affiliates includes a process that is managed by the Corporate Accounting Allocations team. This process involves comparing the allocated charges to a manual calculation of charges

eligible to be allocated to the subsidiaries or business segments. Any differences are researched and resolved.

The Corporate Allocations Team also sends out a Monthly Monitoring Report from the PowerPlan system, which houses the enterprise-wide cost records. The Monthly Monitoring Report is a set of approximately 400 reports issued to all ESC Cost Center Managers, or their designees for each ESC cost center. The Monthly Monitoring Report shows the amount of O&M expense charged by accounting work order and the percentage by work order charged to each Operating Company. The Corporate Allocations Team also sends out a monthly Key Comparison Report that shows the percentage of O&M expense charged to each subsidiary for the current and prior month, quarter to date and the prior 12 months. The Key Comparison Report also shows the total charge to each Operating Company in that current month. Please refer to FTI-117, Attachment 2(ES) and FTI-117, Attachment 3(ES) for examples of these reports for Cost Control Center 025.

An executive summary is also prepared monthly for the Vice President, Controller and Chief Accounting Officer. This report shows a 13-month comparative analysis of ESC O&M allocated to each Operating Company by each shared service unit through the Executive Vice President level and identifies month-over-month variances within each business area. Please refer to FTI-117, Attachment 4(ES) for the October 2022 reporting package, as an example.