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Witness: Donald J. Scacco Jr., Digaunto Chatterjee, Douglas P. Horton, Matthew Nelson and Michael Goldman
Request from: Public Utilities Regulatory Authority

Question:

Reference Application, Ex. CLP-IAP-1, pp. 10–16. Identify the specific determinations Eversource asks the Authority to make based on this testimony and distinguish those determinations from policy guidance, advisory conclusions, and issues addressed by other Company witnesses or panels.

Response:

The purpose of Exhibit CLP-IAP-1 is to offer the PURA an affordability lens that distinguishes calibrated investment from both over-spending and under-spending, and not to advocate for any particular level of capital expenditure (Exhibit CLP-IAP-1, at page 11, line 7–11; page 16, line. 10–15). Through that testimony, the Company is providing an analytical construct for PURA to use in evaluating affordability in relation to the investment necessary for the Company to safely and reliably serve its customers in a cost environment that has shifted sharply upward since its last rate case (Ex. CLP-IAP-1, at page. 12, line 18;page 13, line 3), and to consider a multi-part framework for reviewing affordability, as discussed in response to UPA-021[i].

Specifically, based on Exhibit CLP-IAP-1, the Company asks PURA to: (1) evaluate the affordability of the proposed capital investment using the Three Bs and the Investment Calibration Framework, as described in the response to UPA-021; and (2) approve the four affirmative affordability measures (the PBMRP, the Economic Development Rate, Rate 6 - Optional Residential Space Heating Rate, and the Consumer Dividend as the S-Factor), as described in the response to UPA-030[ii], with the design and tariff provisions sponsored by other Company witnesses. The case studies, the discussion of the tail risks of underinvestment, and the recommended role of peer benchmarking are offered as policy guidance to inform PURA's review, not as separate determinations.

The level of investment and the project-level need for it are supported by the Leadership Panel (Exhibit CLP-ELP-1) and the system planning testimony (Exhibit CLP-TSP-1 through CLP-TSP-3).

Prior Referenced Responses:

[i] UPA-021 Question:

Reference Application, Ex. CLP-IAP-1, p. 25. State whether Eversource proposes that the Authority consider the "Three Bs" (Budget, Burden, and Balance) and Investment Calibration Framework as the standard for evaluating affordability in this proceeding. If not, identify the existing Authority affordability standard Eversource believes should continue to govern and explain how Eversource proposes to apply the "Three Bs" and Investment Calibration Framework in conjunction with that standard.

UPA-021 Response:

Yes, the Company is proposing that PURA consider the "Three B's" and the "Investment Calibration Framework" as the standard for evaluating affordability in this proceeding. This framework is designed to: (1) retain the definition of customer affordability and low-income discount rate standards established in Docket No. 17-12-03RE11 ("RE11"), as further refined in subsequent proceedings; and (2) modifies and replaces the "unaffordability"[i] threshold from Docket 17-12-03RE08 ("RE08") with a valid analytical framework, utilizing the Company's benefit-cost analysis. The Company developed the benefit-cost analysis following Docket No. 17-12-03RE08 in combination with the prioritization of reliability investment, the inherent PBMRP design, and PURA's balanced review of costs and benefits, applying the statutory standard of "just and reasonable rates" for safe and reliable service. This is an integrated framework that brings together the customer affordability, capital cost and reliability considerations that PURA already weighs so that these elements are assessed together.

The "Three Bs" are built on existing constructs and map to: "Budget" (a budgetary inflationary test, discussed in CLP-IAP-1 as the affordability threshold in RE08, but also an element of the PBMRP design itself, as well as the RE08 benefit-cost analysis – discussed further below), "Burden" (low-income discount rates established under RE11), and Balance (general ratemaking principles). The framework organizes how those standards are applied together -- it does not replace these mechanisms with a single test.

The framework has three steps, as discussed in Exhibit CLP-IAP-1, at page 17-20:

1. Budget: Is the cost reasonable? In this step, PURA first establishes whether the proposed level of spending is in a reasonable range, taking into account historical spending, input-cost escalation and the Company's prioritization of investment (page 18, line 5–12).

2. Burden: What is the effect on customers? PURA then evaluates the resulting bill impacts and whether customers, particularly low-income customers, are protected. The Company does not propose to change PURA's approach here. The low-income discount framework established in Docket No. 17-12-03RE11 continues to govern, as addressed in Exhibit CLP-CUSTOMER-1 (page 24, line 10–19). The RE11 energy-burden analysis is also the

most direct quantitative measure available to PURA of whether customers can bear the resulting bills.

3. Balance: Does the investment deliver safe and reliable service at the right level and pace? Lastly, PURA determines whether the investment avoids both underinvestment and overinvestment, so that each dollar buys a commensurate reliability or service benefit (page19, line 4–11; page 25, line 11–18). This is the step the framework adds, and it is where the Investment Calibration Framework applies (page 20, line 7–9).

The Company supports the Reliability and Resilience Frameworks established in RE08, pursuant to which the Company has planned its reliability and resilience capital investment plan. The frameworks rely on and utilize the benefit-cost analysis the Company developed for that purpose, and a standardized case planning for a five percent SAIDI and SAIFI improvement, which the decision describes as an evaluation tool rather than an implementation directive (Exhibit CLP-TSP-1, at page 13, line 1–4; page 84, line 8; page. 85, line 3). The Company supports those frameworks, and the Balance step relies on them.

The Company does not support the "unaffordability" threshold from RE08, as it is fundamentally flawed from a legal and factual perspective. Aside from the legal flaws, this threshold is unable to account for multiple drivers of cost over time, including changes in system need, asset age, weather exposure, electrification, or equipment prices that move differently from the chosen index. Moreover, its results vary materially depending on which inflation index is used (page 23, line 20; page 24, line 9). The Company proposes that, for capital planning, the RE08 benefit-cost framework, together with the PBMRP, serves the purpose potentially contemplated by PURA in Docket No. 17-12-03RE08. The PBMRP escalates O&M by an inflation index net of productivity, and it caps capital at an approved forecast, which together provide disciplined budgets with predictable customer impacts. The benefit-cost framework measures that spending against the reliability benefits the investment is meant to buy.

As the name implies, the Balance step is a balancing test, not a single numeric threshold, and it requires PURA's judgment and discretion. The framework supplies the guideposts for that judgment, including a budget review of the Company's benefit-cost analysis and prioritization of reliability investment (Exhibit CLP-ELP-1, at page 67, line 17–19; Exhibit CLP-TSP-1); the RE011 energy-burden analysis; and a ratemaking mechanism that governs the pace of recovery and holds the Company accountable for results, which in this proceeding is the proposed PBMRP with its capital cap and reliability PIMs (Exhibit CLP-ELP-1, at page 50, line 1–9; page 101–102). Please refer also to the Company's responses to UPA-024[i], UPA-025[i], and UPA-026[i]. This framework brings together multiple analyses that PURA already considers and is intended to provide the framework through which affordability is evaluated in this proceeding.

[ii] UPA-030 Question:

Reference Application, Ex. CLP-IAP-1, pp. 57–58. For each of the four affirmative affordability measures Eversource identifies (the performance-based multi-year rate plan, economic development rate, optional residential space-heating rate, and Consumer Dividend), state the specific action Eversource recommends that the Authority take in this proceeding. Also, state whether conclusion is that CL&P's proposal is affordable depends on implementation of each measure and, if not, identify which measures Eversource considers necessary to support that conclusion.

UPA-030 Response:

The Company recommends that PURA take the following actions with respect to each affordability measure:

Measure	Recommended action	Supporting testimony
PBMRP	Approve the PBMRP as proposed, including the I − X − S adjustment to base-rate O&M and the Capital Funding Mechanism capped at the approved forecast with annual, downward-only reconciliation	Ex. CLP-ELP-1; Exs. CLP-PBR-1 to PBR-3; Ex. CLP-IAP-1, pp. 59–62
Economic Development Rate	Approve the EDR rider for qualifying Rate 57 and 58 customers adding incremental load, with a declining five-year discount, a marginal-cost floor, and a repayment provision	UI 22-08-08 Ex. CLP-RATES-1; Ex. CLP-IAP-1, pp. 62–67
Optional residential space heating rate (Rate 6)	Approve optional Rate 6 for eligible residential customers converting from delivered fuels to air-source heat pumps	Exs. CLP-RATES-1, RATES-6; Ex. CLP-IAP-1, pp. 67–70
Consumer Dividend	Adopt the Consumer Dividend as the S-Factor, with an unconditional 0.30 percent floor, an asymmetric annual ratchet that can raise the applied level to 0.60 percent over the plan term, and a trigger based on Core Operating Expense per customer against the escalated benchmark	Ex. CLP-IAP-1, pp. 70–84; Ex. CLP-PBR-1 Ex. CLP-ELP-1, pp. 92–96

While each measure is designed to provide value to customers, the affordability of the Company's proposal is not dependent on the implementation of each measure. The conclusion that CL&P's proposed investment is affordable rests primarily on the calibration evidence: benefit-cost results (Ex. CLP-IAP-7), the historical bill and cost benchmarking record, and the documented system need (Ex. CLP-IAP-1, p. 85, l. 13 – p. 86, l. 7). The measures are complementary. The Economic Development Rate and Rate 6 can each be evaluated on its own merits; the Consumer Dividend operates, and therefore is dependent on the PBMRP. Please also see the response to UPA-022[ii].

Of the four, the PBMRP, meaning the O&M formula together with the Capital Funding Mechanism, is the measure the Company considers necessary to sustain that conclusion over the plan term. It is the structure that makes calibrated investment achievable over time: the annual change in revenue adjustments supporting capital is capped at the approved forecast, reconciled only downward during the course of the PBMRP, and recovered at a measured pace (p. 30, l. 13 – p. 31, l. 3; p. 87, ll. 3–13). See Exhibit See Exhibits CLP-ELP-1 (pp. 73–119) and CLP-PBR-1 for support of the PBMRP proposal.

The next three measures were designed to benefit consumers without shifting costs to other customers. The Consumer Dividend is an affordability enhancement for the PBMRP and operates within it as the S-Factor through which customers share in efficiency gains. The Economic Development Rate addresses the sales base over which fixed costs are spread and can have a meaningful effect depending on customer participation (p. 58, ll. 7–20). The optional residential space heating rate (Rate 6) is a targeted measure that lowers the electric cost of operating a heat pump, relative to the standard residential rate, for eligible customers, with no cost redistribution to non-adopting customers, and adds sales over which embedded costs are spread (p. 69, ll. 3–12).

As described in the Company's response to UPA-033[ii], the Company acknowledges that its proposals in this proceeding do not reflect the singular framework in existence that could support affordable investment in the state of Connecticut. The Company has proposed a comprehensive framework in this proceeding, leveraging its experience and that of its expert consultants work in other jurisdictions, and conforming as closely as possible to the PFDs in

PURA's PBR proceedings, in order to propose a framework that could support the level of going-forward system investment needs while operating in a multi-year rate case stay out, which is a fundamental component of PBR frameworks adopted elsewhere. If PURA adopts a framework that materially differs from the Company's proposals, or is not calibrated to support the level of investment needed in the system on a going forward basis, the Company will not be in a position to commit to a rate case stay-out period of, which will result in more frequent rate cases, in which all components of the Company's costs will be updated to then-current levels.