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Witness: Matthew Nelson and Michael Goldman
Request from: Public Utilities Regulatory Authority

Question:

Reference Application, Ex. CLP-IAP-1, p. 33. Clarify the relationship between the Investment Calibration Framework and the traditional ratemaking principle of gradualism. State whether Eversource intends for the framework to supplement gradualism, incorporate gradualism as one component, or change how the Authority considers gradualism when evaluating capital investment and associated rate impacts.

Response:

The Company's proposed Investment Calibration Framework is intended to supplement the ratemaking principle of gradualism. The Company is not proposing to change how PURA applies the principle.

Saying that, the two address different questions. The Investment Calibration Framework addresses whether the level and pace of investment are calibrated to customer value. Whereas, gradualism in ratemaking addresses the pace at which the rate impact of that investment reaches customers. The testimony notes that gradualism, traditionally associated with avoiding rate shock, is also an affordability concept where households face rising costs across many expenses at once (Ex. CLP-IAP-1, p. 33, ll. 14–18).

The PBMRP applies gradualism to recovery over the plan term. The PBMRP recovers costs in smaller, steadier increments rather than through large increases that are typical of full rate cases (p. 59, ll. 7–21). Under the current multi-year rate plan from 2018-2025, the ESI limited the bill impact to less than $2 per month each year, on average, while recovering the costs of $2.7 billion of invested capital (p. 60, ll. 12–16).

As an example, Docket No. 17-12-03RE11 ("RE11"), the energy-burden framework provides a measurable, household-level reference point for the affordability concern that gradualism addresses. Gradualism is traditionally judged at the system or rate-class level, by the size of each rate change. The testimony's point is that affordability is experienced by households, which face rising costs across many expenses at once (p. 33, ll. 14–18). Energy burden, meaning the share of household income spent on energy, the measure PURA used in Docket No. 17-12-03RE11 that households' experience, and the five-tier low-income discount developed under RE11 is designed to hold participating customers' energy burden to roughly six percent (p. 86, ll. 8–12; Ex. CLP-CUSTOMER-1).

The PBMRP and the RE11 discount rate work together. The PBMRP applies gradualism in two ways. For O&M, the annual I − X − S adjustment limits increases to input-cost inflation, net of productivity and the Consumer Dividend. For capital investment, the Capital Funding Mechanism limits recovery to the approved forecast, reconciled annually but only downward, so the maximum capital-related increase during the PBMRP is known and cannot exceed the forecast (Ex. CLP-ELP-1, pp. 101–102). The RE11 discount then protects the customers most exposed to those increases, so that the pace of calibrated investment need not be set by the circumstances of the most vulnerable households alone.