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

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.

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	Ex. CLP-IAP-1, pp. 70–84; Ex. CLP-PBR-

	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	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[i].

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.

Prior Referenced Responses:

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[i] UPA-022 Question:
Reference Application, Ex. CLP-IAP-1, p. 25. Identify the evidence Eversource relies upon to conclude that the proposed capital plan is affordable from the customer perspective and quantify the bill or energy-burden impact attributable to the proposed capital investment. Provide all supporting calculations and workpapers.

UPA-022 Response:
To conclude that the proposed capital plan is affordable, the Company followed the Three B's discussed in response to UPA-021,[i] and relied on the following evidence: (1) the cost benchmarking performed by LEI (Exhibit CLP-PBR-3); (2) the Company's benefit-cost modeling of reliability investment (Exhibit CLP-TSP-1 & CLP-TSP-3); (3) application of the RE08 affordability test (notwithstanding the Company's stated concerns with the methodological basis for this alleged threshold); (4) alignment with RE011; and (5) data showing that the distribution costs are not significantly impacting the volatility of customer bills (Exhibit CLP-IAP-1,atpage. 21–22; 48-49; Figures 2 and 4).

Using the proposed "Three B's Framework", Eversource has provided the following evidence that the proposed capital plan is affordable:

1. "Burden" or impact on customers:
    a. The distribution portion of a typical residential bill has grown modestly in real terms -- about 9 percent from January 2015 to 2026 (about 0.8 percent per year), and about 0.2 percent in real terms from 2019 to 2026 (page 22, line. 11–17; page 48, line. 5–16; Figure 4).
    b. The bill volatility customers have experienced since 2021 came from supply and public-benefits charges, not distribution (page 21, line 3; page 22, line 7; Figure 2).
    c. Under the current multi-year plan, the ESI limited the bill impact of $2.7 billion of capital investment to less than $2 per month each year, on average, over 2018–2025 (page 60, line 12–16)
    d. The most direct quantitative measure of customer affordability available to PURA is energy burden under the RE011 framework. The Company's five-tier low-income discount is designed to hold participating customers' energy burden to roughly six percent (Exhibit CLP-IAP-1, at page 86, ll. 8–12; Exhibit CLP-CUSTOMER-1).
2. "Budget"
    a. Structural protections in the proposal -- the Capital Funding Mechanism caps the level of capital revenue support during the PBMRP at the approved forecast in this proceeding and reconciles annually, but only downward, so customers pay the lesser of forecast or actual plant in service (page 61, line 14–18; page 87, line 3– 13; Exhibit CLP-ELP-1, at page 101–102). Amounts expended above the cap would be allowed in rates only prospectively from the date of a future prudence review and forward (in the context of a future rate case), imposing an element of regulatory lag on capital investments above the cap, and above forecasted levels.

b. The proposed reliability investment satisfies the RE08 affordability test, notwithstanding the Company's concerns with the methodological basis for that threshold (UPA-021) (Exhibit CLP-IAP-7; Exhibit CLP-IAP-1, page 23, line 1–19).

3. "Balance"

a. The Company prioritizes reliability investment using a benefit-cost model that ranks work by customer benefit per dollar, so that the investment delivers the reliability it is meant to buy at an appropriate cost relative to alternatives (Exhibit CLP-TSP-1, page 34–35; Exhibit CLP-TSP-3, slide 34). See, also, the responses to UPA-024[i] through UPA-026.[i]

b. National and peer comparisons point the same way. LBNL's national study shows that 20 of 22 sampled utilities plan more spending on managing the existing system than on capacity expansion, and indirectly that Eversource is at the low end of planned capital growth among peers, and that New England's distribution rate pressure reflects a contracting sales base more than capital spending growth (Exhibit CLP-IAP-1, at page 46–47, 52–53; Exhibit CLP-IAP-4, at page 19, 21–22, 30). LEI's benchmarking places CL&P's capital cost per customer below the national average and below the model-predicted benchmark (Exhibit CLP-PBR-3, at page 9 and 17). Once the plan is in place, the Company proposes to measure its performance against its own plan, accounting, territory and customer (Exhibit CLP-IAP-1, at page 57, line 3–16; please refer to the response to UPA-031[i]).

Exhibit CLP-IAP-1 does not independently calculate the bill impact of the ongoing capital plan. However, the Company has provided total bill impacts by rate class in response to AMTRAK-012[i]. In that response, the total average bill impacts are 1.3%, 1.3% and 1.4% for Rate Years 2, 3, and 4 (UPA-022 Attachment 1, Line 66). For Rate Years 2 through 4, the revenue requirement associated with the proposed capital plan is recovered through the Capital Funding Mechanism. The table below isolates that component from the total revenue increases.

The capital plan adds $67.2 million, $71.4 million and $74.5 million of incremental distribution revenue in Rate Years 2, 3 and 4 which represent 87%, 88%, and 89% of the estimated total distribution revenue increase for each Rate Year 2, 3, and 4. These are forecast amounts. Under the Capital Funding Mechanism, recovery is reconciled annually to the lesser of forecast or actual and can be adjusted downward only.

($ Millions)	Rate Year 2	Rate Year 3	Rate Year 4
F-Factor Revenue	$67.2	$71.4	$74.5
Total Revenue Increase (F-Factor + I-X)	$77.6	$81.1	$83.0
F-Factor % of Total	87%	88%	89%

[ii] UPA-033 Question:
Reference Application, Ex. CLP-IAP-1, pp. 30–31. Explain the role of performance-based regulation in the Investment Calibration Framework. State whether Eversource's framework depends on implementation of a performance-based ratemaking structure to maintain capital investment within the calibrated range and identify any PIMs, metrics, or mechanisms used to evaluate capital investment. If not, identify how the framework maintains investment within the calibrated range absent performance-based regulation.

UPA-033 Response:
No ratemaking structure, performance-based or otherwise, determines whether a given investment is effective or efficient (UPA-024[ii]). This determination comes as a result of the work of planning, engineering and execution, tested through the Company's project justification and alternatives analysis and, ultimately, PURA's prudence review. What

a ratemaking mechanism determines is the financial environment in which those decisions are made and the underlying incentives inherent in the regulatory framework (Ex. CLP-IAP-1, p. 30, ll. 1–12).

Performance-based regulation, properly designed, is the structure that makes calibration achievable and holds it in place over the plan term (p. 30, l. 13 – p. 31, l. 3). The PBMRP follows the methodology of a comprehensive PBR plan, except that its formula applies to O&M only (Ex. CLP-ELP-1, p. 85, ll. 12–19). O&M revenue is adjusted annually by the I − X − S formula, with the Consumer Dividend as the S-Factor. Capital investment is addressed through the Capital Funding Mechanism, which limits recovery to the lesser of the approved forecast or actual plant in service and places the risk of excess capital spending on the Company (pp. 101–102).

An index applied to capital would pass input-price changes through to customers; a fixed forecast does not. The capital forecast underlying the cap was developed by the Company's engineering organization and is described by the Leadership Panel and the System Engineering Panel (Ex. CLP-ELP-1, pp. 64–72; Ex. CLP-TSP-1, pp. 39–61). The intent of the framework proposed by the Company is to advance a regulatory framework that affordably enables cost effective system investment to support the economic vitality of Connecticut, introduces PIMs for transparency and accountability for the duration of the plan, and retains appropriate incentives for the Company to control costs of both O&M and capital spending to the greatest extent possible over the course of the plan.

The framework itself does not depend on performance-based regulation; it is an evaluation lens that PURA can apply under any ratemaking structure. However, the PBMRP is the Company's proposed means of keeping investment within the calibrated range for CL&P over the plan term, balancing recovery of costs with rate stability and gradual year-over-year customer bill impacts. In addition, PBR drives efficiency in utilities working within these confines and supports cost discipline over time. Absent performance-based regulation, that evaluation would occur in base rate cases as part of the prudence review. The Company has stated that, without the PBMRP, it would expect to file rate cases as close to annually as possible (Ex. CLP-ELP-1, p. 85, ll. 1–3).

The mechanisms and controls in the PBMRP that the Company relies upon to keep capital investment within the calibrated range, and to provide transparency and accountability for performance are:

- Capital Funding Mechanism. Revenue is capped based on the approved capital expenditure forecast with an annual, downward-only reconciliation (Ex. CLP-ELP-1, pp. 101–102).
- Reliability PIMs: System Reliability PIMs for blue-sky SAIDI and SAIFI with performance-based benchmarks, and a Customer Reliability PIM targeting repeat CEMI and CELID customers, offered as part of the PBMRP (Ex. CLP-ELP-1, p. 50, ll. 1–9; pp. 106–107, Table 3). These tie the Company's financial results to the reliability the capital program is meant to support. The SAIDI and SAIFI PIMs are penalty-only, with penalties of $1.75 million to $3.5 million each; the Customer Reliability PIM is incentive-only, with an incentive of $1.5 million to $3.0 million.
- Performance Metrics: 16 proposed metrics across three categories, with descriptions, targets and PIM design in Exhibit CLP-ELP-3 (Ex. CLP-ELP-1, p. 103, ll. 10–16).
- Reporting: Capital spending against the approved plan and reliability against commitments, with regular public reporting (p. 57, ll. 3–8); cost-efficiency metrics, reported without targets or penalties (Ex. CLP-ELP-1, p. 112, Table 5; p. 113, l. 5 – p. 114, l. 16).
- Project-Level Review: The reliability benefit-cost model on the record (Ex. CLP-ELP-1, p. 67, ll. 17–19; Ex. CLP-TSP-1, p. 60, ll. 3–7) and prudence review.

The Company's proposals set forth a comprehensive framework in this proceeding, leveraging the Company's experience, and that of its expert consultants work in other jurisdictions, while conforming as closely as possible to the proposed final decisions 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 four years, which will result in more frequent rate cases, in which all components of the Company's costs will be updated to then-current levels.