Date Filed: November 16, 2026

Witness: Juan-Pablo Velez
Request from: Connecticut Industrial Energy Consumers

Question CIEC-2:

Please refer to Velez Direct Testimony at page 95, lines 1-16, and page 98, lines 10-18.

a. Please confirm that Rate HP is not designed to be revenue neutral with respect to the residential class as a whole.

b. Please identify who Mr. Velez contends should bear any reduction in distribution and transmission revenue resulting from Rate HP (*e.g.*, other residential customers, non-residential customers, or the Company's shareholders), and explain the basis for that position.

c. Does Mr. Velez recommend that any portion of the revenue reduction resulting from Rate HP be recovered from customers outside the residential class? If so, identify each class and the amount. If not, explain how his recommendations would prevent that result.

d. In developing his recommendations, did Mr. Velez consider how any revenue reduction resulting from Rate HP would be recovered between rate cases through the Company's reconciling mechanisms? If so, describe that consideration and provide any analysis. If not, explain why not.

Response:

a. The term "revenue neutral" is used in many different ways, so I define it precisely here to clarify what my Rate HP proposal does and does not do.

Rate HP is *not* designed to be revenue neutral with respect to the residential class as a whole, in the following sense: if *all* customers currently on other residential rate schedules were switched to Rate HP — whether or not they had a heat pump — the Company would experience a revenue shortfall.

Rate HP is also *not* designed to be revenue neutral with respect to residential heat pump customers as a whole, *relative to what they would pay under Rate 1*: under Rate 1, a heat pump customer overpays by $1,040 a year, on average, and Rate HP is designed specifically to remove this overcharge, while still charging these customers for any additional T&D costs caused by their heat pump.

b. From other residential customers.

My complete proposal *is* designed to be revenue neutral with respect to the residential class as a whole, in the sense that any revenue reduction that occurs when *existing* heat pump customers who are currently on Rate 1 enroll in Rate HP would be recouped from the residential customers left on Rate 1, by slightly increasing Rate 1's charges. (As shown in CIEC-1(a), any *new* heat pump customers enrolled in Rate HP at install time would produce more revenue after the switch, not less.)

In other words, the basis for my position that other residential customers should bear any revenue reduction resulting from existing heat pump customers joining Rate HP is this: the Company should have been collecting this revenue from non-heat pump customers in the first place, not from heat pump customers. Rate 1 unfairly shifts costs from non-heat pump customers to heat pump customers; Rate HP

unwinds this significant and growing cross-subsidy *within the residential class* to improve *intra*-class equity.[1]

c. No. I recommend that no portion be recovered from customers outside the residential class, because Rate HP addresses an intra-class equity problem.

My recommendations prevent that result by proposing Rate HP as a *residential* rate schedule, and changing how the residential class's allocated costs are split between Rate 1 and Rate HP, not the cost allocation across classes. So when rates are set, any revenue Rate HP gives up is recovered by slightly raising Rate 1's charges. Nothing moves to other classes. (Reconciling mechanisms work slightly differently; see the following question.)

d. I considered this but did not address it in my testimony. I do so here. The two reconciling mechanisms relevant to Rate HP are the Revenue Decoupling Mechanism (RDM) for distribution and the Transmission Adjustment Clause (TAC) for transmission. Rate HP does not change any other riders — customers on Rate HP pay the same SBC, CTA, FMCC, and SCRAF rates as Rate 1 — so the remaining reconciling mechanisms are unaffected.[2]

How the RDM and TAC work. Between rate cases, the RDM reconciles the Company's actual distribution revenue against the fixed revenue target approved in this proceeding.[3] If actual revenue falls short of the target — because customers used less electricity than forecast, or, in this case, because customers switched to a rate schedule that lowered the per-kWh distribution charges applied to their same usage — the RDM adds a surcharge in the following year to recover the difference. If actual revenue exceeds the target, the RDM credits the difference back. The surcharge or credit is set as a flat ¢/kWh and applied to every rate class.[4] The TAC works similarly for transmission. Each year, it recovers the Company's projected transmission costs (external charges from ISO New England (ISO-NE) that the Company passes through) plus the prior year's under- or over-recovery, and allocates the total among classes by each class's demand at the Company's twelve monthly system peaks rather than by kWh.[5]

New heat pump customers. When a customer installs a heat pump and enrolls in Rate HP, their electricity consumption rises, with winter kWh roughly tripling. By design, even at Rate HP's lower winter distribution and transmission rates, the volume increase means the Company collects more total revenue from this customer than it collected before the heat pump was installed. As shown in CIEC-1(a), each new heat pump customer enrolled in Rate HP at installation adds roughly $10 a year in T&D

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[1] Direct Testimony of Juan-Pablo Velez on behalf of Conservation Law Foundation and Sierra Club ("Velez Direct"), at 28:20–21 (Oct. 21, 2026) (heat pump customers' overpayment "contributes directly to a cross-subsidy to electric customers that heat with fossil fuels"), 29:7–17 (that cross-subsidy "violates intra-class equity" and is "*systematic*, *substantial*, and will continue to *grow with electrification*"), and 82:5–7 (the "ultimate objective of Rate HP is to fix the intra-class equity and building electrification policy problems that Rate 1 creates").

[2] *Id.* at 85:1–2 (generation rates, the monthly customer charge, and all distribution riders remain the same as under Rate 1).

[3] Joint Direct Testimony of Edward Davis and Kimberly R. Parsons on behalf of The Connecticut Light and Power Company d/b/a Eversource Energy ("Davis-Parsons Direct"), Exhibit CLP-RATES-3 at 404 (July 14, 2026) (the RDM reconciles "annual authorized distribution revenue with annual actual distribution revenue").

[4] Davis-Parsons Direct, Exhibit CLP-RATES-1 at 22:21 ("the rate will be set at a flat kWh rate across all rate classes").

[5] Davis-Parsons Direct, Exhibit CLP-RATES-3 at 409 (the TAC recovers "the difference between the Company's TAC revenue and the Company's TAC costs from the prior period"); Docket No. 26-01-03, *PURA Annual Review of the Rate Adjustment Mechanisms of The Connecticut Light and Power Company*, CL&P Rates Filing, Attachment 1, Exhibit 4 ("RAM Exhibit 4"), at 4:60 (Feb. 17, 2026) (class shares of the transmission revenue requirement are based on "Average rate class KW demands coincident to the Company's 12 monthly system peaks").

revenue above what they paid previously. Between rate cases, this added revenue raises the Company's actual revenue relative to the targets the reconciling mechanisms true up to, pushing them toward a credit.

Existing heat pump customers. When an existing heat pump customer switches from Rate 1 to Rate HP, their kWh do not change — they already have a heat pump. They simply pay a lower per-kWh rate in winter. This reduces the Company's distribution and transmission revenue by $1,040.34 per customer per year ($723.61 distribution, $316.73 transmission), as shown in CIEC-1(a).

At the next rate case. The shortfall is addressed properly: Rate 1's rates are recalculated without the kWh of the heat pump customers who have moved to Rate HP, and the distribution and transmission revenue shortfalls are recovered from the remaining residential customers, helping to unwind the cross-subsidy between heat pump and non-heat pump residential customers.

Between rate cases. Until then, the RDM and TAC reconcile these revenue shortfalls: all else equal, they push each mechanism toward a surcharge in the next Reconciling Adjustment Mechanism (RAM) period, so the Company still recovers its revenue between rate cases.[6] That by itself is not a problem. If these mechanisms recovered each class's revenue variance from that class alone, residential customers would bear the shortfall between rate cases just as they would at the next one, and no other class would be affected.

The problem is that neither mechanism currently works this way. The RDM pools every class's distribution revenue variance and recovers the net through one ¢/kWh rate charged to every class.[7] The TAC pools the transmission true-up with the current year's transmission revenue requirement and divides the total among classes by their demand at the Company's twelve monthly system peaks.[8] Either way, any shortfall that arises entirely within the residential class leaks to non-residential classes until the next rate case — and vice versa.[9]

Which way the leak runs today. This leak is not new, and so far it has favored non-residential customers. Every Rate 1 residential customer who installs a heat pump between rate cases contributes more revenue than expected, which flows to the RDM as an over-collection credited to all classes, including non-residential customers. The Authority itself recognized this dynamic: "beneficial electrification will result in increased kWh sales and a net RDM credit to customers."[10] Non-residential classes have been receiving a share of heat pump customers' overpayment for years, and new heat pump customers enrolled in Rate HP would keep that credit flowing.

How large the leak could be. If PURA chose to auto-enroll the 55,000 existing heat pump customers identified in CIEC-1(b), the annual distribution shortfall would be $39.8 million, and approximately 50%

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[6] Davis-Parsons Direct, Exhibit CLP-RATES-3 at 404 (RDM), 409 (TAC) (each "will be applied as a separate line item on Customer bills for the 12 months beginning approximately 120 days following the annual period subject to reconciliation").

[7] *Id.* at 404 (the RDM Adjustment divides "the difference in the approved distribution revenue target and actual distribution revenue for the preceding annual period" by "the kWh sales anticipated for the 12-month period over which the RDM Adjustment will be applied"); Davis-Parsons Direct, Exhibit CLP-RATES-1 at 22:21.

[8] Davis-Parsons Direct, Exhibit CLP-RATES-3 at 409 (the TAC is set by dividing "(1) the current period's Transmission revenue requirement; plus (2) a true-up of any under or over recoveries . . . from the prior year's TAC charges or credits"); RAM Exhibit 4 at 1:20, 29, 4:60.

[9] Non-residential share of Rate Year billed sales: 20,457,507 MWh total billed sales minus 10,319,093 MWh residential (Rate 1, Rate 5, and Rate 7) = 50% non-residential. Davis-Parsons Direct, Exhibit CLP-RATES-2 at 3; also in CIEC-2 Attachment 1, CIEC-2d_rdm_tac_nonres_impact.xlsx, sheet inputs, rows 12–14.

[10] Docket No. 23-01-03, *PURA Annual Review of the Rate Adjustment Mechanisms of The Connecticut Light and Power Company*, Decision, at 30 (Aug. 16, 2023).

of it — about $19.7 million — would fall on non-residential classes through the RDM until the next rate case. The same dynamic applies to the TAC for the winter transmission rate reduction: about 47% of the $17.4 million annual transmission shortfall, or $8.3 million, would be allocated to non-residential classes by demand — each year, until the next rate case.[11]

Spread over company-wide sales, the distribution shortfall works out to 0.195 ¢/kWh on every customer's bill.[12] I have not calculated a comparable figure for the transmission shortfall, which the TAC allocates by each class's demand at the Company's twelve monthly system peaks rather than by kWh.

These figures are a worst case, however, and most of the shortfall can be avoided.

Avoiding the existing heat pump customer auto-enrollment reconciliation shortfall. The shortfall above arises only if existing heat pump customers are auto-enrolled into Rate HP *after* Rate 1 and Rate HP are set. If the Authority instead sets both rates in this rate case using billing determinants that already place existing heat pump customers' load on Rate HP, then no reconciliation shortfall would arise from those customers. Instead of waiting until the next rate case for a fix, the Authority could address the problem proactively in this rate case.

Later existing heat pump customer enrollees. If the Authority auto-enrolls the 55,000 existing heat pump customers who received rebates from Energize CT at the start of the rate period, that mass enrollment happens once. Thereafter, the only reconciliation shortfalls would come from existing (not new) heat pump customers who were "missed" by the Company's initial auto-enrollment and who enroll in Rate HP between rate cases. These customers would likely be far fewer in number, because opt-in heat pump rates have achieved negligible participation elsewhere (see my response to CIEC-1(a)).

Keeping any remainder within the residential class. For any reconciliation shortfall that remains, PURA has existing regulatory tools that can keep the RDM and TAC from passing it through to non-residential classes, and I recommend that the Authority use them.

One tool is transparency. In June 2026, the Massachusetts Department of Public Utilities (DPU) directed the state's three electric distribution companies, which all offer seasonal heat pump rates, to report "the billed revenues recorded from heat pump customers in their annual revenue decoupling filings and to compare those revenues to the amounts that would have been billed if those customers had not enrolled in the heat pump rates."[13] In other words: every year, each company must show how much revenue it actually collected from heat pump rate customers and how much it would have collected had those customers stayed on the default rate. That comparison makes the shortfall — or the surplus — visible to the regulator and all parties, rather than burying it in the company-wide RDM true-up. I recommend that the Authority adopt the same reporting requirement here.

Another tool is targeted recovery. If the reporting shows a net shortfall from existing heat pump customers enrolled in Rate HP beyond the amount built into rates, the Authority can direct the Company to recover that amount from the residential class only, rather than spreading it across all classes through

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[11] 55,000 customers × $723.61 distribution and $316.73 transmission revenue decrease per customer (CIEC-1(a)), times each mechanism's non-residential share: 50% of billed kWh for the RDM, and 47% of demand at the twelve monthly system peaks for the TAC (RAM Exhibit 4 at 4:18, 20, 56). CIEC-2 Attachment 1, CIEC-2d_rdm_tac_nonres_impact.xlsx, sheet shortfall, rows 6–7; inputs and sources on sheet inputs.

[12] $39.8 million annual distribution shortfall ÷ 20,457,507 MWh company-wide billed sales (× 1,000 kWh/MWh). CIEC-2 Attachment 1, CIEC-2d_rdm_tac_nonres_impact.xlsx, sheet shortfall, row 10.

[13] D.P.U. 25-08-A, *Inquiry by the Department of Public Utilities on its own Motion into a Seasonal Heat Pump Rate*, Order on Seasonal Heat Pump Rates, at 41 (June 1, 2026).

the company-wide RDM. There are at least two ways to do this. One is a residential-only adjustment — a separate line item on residential bills that recovers the identified shortfall from the class that Rate HP serves. The other uses the Company's existing RDM Rider, which already contains a provision excluding from the company-wide calculation any revenue "specifically identified and approved for exclusion by PURA."[14] The Authority could invoke that provision to exclude the Rate HP shortfall from the company-wide RDM, and instead recover it through a residential-specific mechanism. Either way, the result is the same: the shortfall stays where it belongs — with the class whose rate caused it.

This is not a radical redesign of the RDM. In December 2025, the Authority considered — and declined — a proposal to allocate the entire RDM by class, which would have tracked revenue variances for every rate class separately. The Authority found that approach "indicated significant potential swings to the volumetric rate for certain rate classes" and concluded that "at this time, the current allocation methodology used for the RDM is appropriate."[15] What I recommend is far narrower: it is one identifiable dollar amount, attributable to one rate, assigned to the one class that rate serves. Connecticut's decoupling statute leaves the design of the decoupling mechanism to the Authority, and asks it to consider whether that design is "in the best interest of ratepayers."[16] Keeping a residential shortfall with residential customers would meet that test: it shields non-residential customers from a cost they did not cause, and leaves the RDM unchanged for every other class.

[14] Davis-Parsons Direct, Exhibit CLP-RATES-3 at 404.

[15] Docket No. 24-12-05, *PURA Procedural Review of the Annual Rate Adjustment Mechanisms of The Connecticut Light and Power Company and The United Illuminating Company*, Decision, at 22 (Dec. 10, 2025).

[16] Conn. Gen. Stat. § 16-19tt(b) ("The authority shall have the discretion to determine the decoupling mechanism and methodology . . . ." and "shall consider factors, including . . . (1) whether the decoupling mechanism and methodology is in the best interest of ratepayers"). I am not an attorney and do not offer a legal opinion. My understanding is that the statute does not require that every revenue variance be spread company-wide; it leaves the choice of mechanism to the Authority.