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Request from: Public Utilities Regulatory Authority

Question:

Reference Application, Ex. CLP-IAP-1, pp. 31–32 and 54. Identify each quantitative threshold, benchmark, or other criterion used to distinguish underinvestment, calibrated investment, and overinvestment under the Investment Calibration Framework. If Eversource establishes no such thresholds or criteria, state so. Explain how the results presented on page 54 of Ex. CLP-IAP-1 to determine where CL&P's proposed capital investment falls within the framework.

Response:

The Investment Calibration Framework does not establish a numeric threshold, such as a dollar amount per customer or a percentage of rate base, separating underinvestment, calibrated investment and overinvestment. The framework is a way of organizing PURA's review of the level of investment; it is not a formula that produces a number.

That is deliberate. The appropriate level of investment depends on each system's age, condition, load, weather exposure and policy requirements, so a single threshold would not be sound, and it would carry its own unintended consequences. Spending just under a fixed line could be treated as sufficient regardless of the system's condition and spending just over it as excessive regardless of need. Setting investment levels is a judgment made within parameters, much as PURA sets other multi-year program budgets, i.e., the budget is built from historical experience and from the work needed going forward, and decisions are then made within that range.

The framework's focus was to create a methodology of quantifying and prioritizing the investments costs and benefits so that effective and efficient investments can be identified and prioritized, understanding all of the moving parts that change these estimates and potentially whether a project is cost effective. The focus was not meant to provide a single number. The Company's proposed budgets target impacts in relation to what is deemed by analytical evaluation to be effective and efficient.

The level of investment that is effective and efficient also depends on the objective it is measured against. The Company's benefit-cost model identifies the most cost-effective work for a stated reliability objective, such as a given improvement in SAIDI or SAIFI, and it can be run against different objectives (Ex. CLP-TSP-1, p. 34, ll. 12–18; p. 60, ll. 3–5). What is cost-effective therefore depends on the selected objective. The Company's planning presents the choice as a

range, which is how the framework expects the question to be approached. The Company identified three investment levels: (1) Sustained Performance, the baseline needed to sustain the system, which carries lower near-term spending but higher emergent-failure and capital risk; (2) the proposed level, which adds Enhanced Reliability and Resiliency to constituted the Targeted System Performance plan; and (3) a higher Advancing the Grid level that the Company does not propose in this proceeding. The framework does not determine the specific dollar amounts at any of those levels. The support for the amounts proposed, including how the capital forecast was developed, is presented by the Leadership Panel and the System Engineering Panel (Exs. CLP-ELP-1; CLP-TSP-1 through TSP-3; see also the response to UPA-033[i]).

The framework is neutral as to the answer. The crux of the analysis is the identification of a planning and investment approach and a vision on the "end state" that is envisioned as the proper regulatory outcome for customers. Therefore, in place of a fixed threshold, the framework identifies criteria that the Company recommends PURA apply collectively, several of which are quantitative:

Criterion	Indicates Insufficient Investment	Indicates Calibration	Indicates Over-Investment
Project Benefit-Cost Results	High-value projects repeatedly deferred	Portfolio funded in order of value; funded projects above 1.0	Projects funded below 1.0 or lower-cost alternatives passed over
Reliability and Asset Condition	Deteriorating SAIDI/SAIFI, rising equipment-caused and fair-weather outages, growing replacement backlog	Performance stable or improving against commitments	Gains well beyond commitments at a relatively high cost
Composition of Spending	Existing system work is consistently deferred	Spending mainly on maintaining and strengthening the existing system	Building for load that is not there or not expected (p. 47, ll. 3–6)
Cost Benchmarking	Capital investment levels well below peers, alongside rising maintenance needs on an aging system (p. 56, ll. 7–10)	Costs near or below benchmark with adequate performance	Capital investment well above peers without commensurate performance

The Company applies these criteria through two planning approaches. For reliability improvement, it selects projects using the benefit-cost model described in the response to UPA-024, ranked by metrics such as dollars per customer-minute of interruption saved (Ex. CLP-TSP-

3, slides 34–35). The ranking sets the order in which work is funded toward the stated objective; it is not a rule that every project above a fixed benefit-cost ratio is built. For asset health, it runs programmatic replacement of asset classes with known degradation patterns, including bare copper overhead conductor, paper-insulated lead cable, right-of-way poles, direct-buried cable, pad-mounted switchgear and substation transformers. The pace of each program reflects historical spending patterns, with reasonable escalations for age and condition (p. 67, ll. 3–5; p. 69, ll. 11–13) (Ex. CLP-TSP-3, 37, 57–62, 71).

The asset programs, their pacing and the associated failure data are presented by the System Engineering Panel (Ex. CLP-TSP-1; Ex. CLP-TSP-3, slides 57–62, 71). Exhibit CLP-IAP-1 offers no opinion on the specific program lengths or budgets. It identifies the age and condition of assets pacing, weighed against cost, as the kind of consideration the Balance step relies on.

Applied to CL&P, the benchmarking results describe the Company's historical position. LEI's unit cost benchmarking ranks CL&P 32nd of 88 utilities nationally and 8th of 22 in the Northeast on capital cost per customer, and 47th of 88 and 8th of 22 on total cost per customer. After controlling for labor prices, network density, scale and other drivers, CL&P's capital costs averaged approximately 14 percent below the model-predicted benchmark and its total costs approximately 2 percent below it over 2015–2024 (Ex. CLP-PBR-3, pp. 9, 16-17)[1]. Together with the condition of an aging system, those results place CL&P historically within the calibrated range, toward the under-investment side.

The benchmarking results do not by themselves locate the proposed plan. The testimony's conclusion that the proposed investment is calibrated rests on the combination of criteria above: the proposed reliability budget satisfies the RE08 affordability test and the investments carry benefit-to-cost ratios above 1.0 (Ex. CLP-IAP-7), the spending is directed at the existing system (Ex. CLP-IAP-1, p. 46, l. 10 – p. 47, l. 11), and the need is documented in Exhibits CLP-TSP-1 through TSP-3, including an aging asset base and rising SAIDI (Ex. CLP-ELP-1, p. 42, l. 4 – p. 43, l. 2; p. 48, ll. 3–9).

Prior Referenced Response:

[i] 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

[1] The benchmarking figures stated on pages 53–54 of Exhibit CLP-IAP-1 differ slightly from those in the filed benchmarking report, Exhibit CLP-PBR-3. The Exhibit CLP-PBR-3 figures are used in this response and supersede the corresponding figures in Exhibit CLP-IAP-1. The conclusion stated on page 54 is unchanged.

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[i]). 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.