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Witness: Donald J. Scacco Jr., Digaunto Chatterjee and Douglas P. Horton
Request from: Office of Consumer Counsel

Question:

Exhibit CLP-ELP-1 Please compare the Company's proposed $5.4 million threshold for catastrophic storm cost deferral treatment to a threshold equal to 1% of the Company's authorized distribution revenue requirement, as contemplated in the Docket No. 21-05-15RE01 Proposed Final Decision. Please quantify the dollar amount represented by a 1% threshold using the Company's proposed revenue requirement and explain why the Company believes the proposed $5.4 million threshold is more appropriate than a materiality threshold of 1% of the Company's revenue requirement.

Response:

The Company's written comments submitted in Docket No. 21-05-15RE01 on March 26, 2025, at pages 42-49, provided a comprehensive discussion as to why it is ill advised to establish a 1% threshold for catastrophic storm cost deferral. There, the Company explained that:

> The tables above also demonstrate the relationship between the catastrophic storm threshold level and the level of non-catastrophic storm costs that must be established in base distribution rates. This is because base rates must reflect a representative level of expenses so that the utility has an opportunity, but not a guarantee, to cover its costs of service in any given year. Base rates therefore must be set to reflect a representative level of expenses for storms that do not qualify for deferred treatment as a catastrophic (or pre-staging) storm event. The table above demonstrates that, if the catastrophic storm threshold is held at current levels, base rates would be set at a lower level if using any measure (i.e., any individual test year, the average of all years, the maximum, or the minimum) than if the threshold is increased as contemplated by the straw proposal.
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> To illustrate the point, if 2024 were used as the test year, base rates would be set to include approximately $30 million in non-catastrophic storm costs if the threshold were maintained at its current level, whereas base rates would have to be set $73 million higher if the threshold is increased to the level contemplated by the Revised Straw Proposal (to reflect $103 million in non-catastrophic storm activity). The same analysis holds if using the average of the four prior years, or if using any one of the years shown in the table. Moreover, the volatility and risk of over or under recovery to both customers and the companies is exacerbated with a higher

> threshold. For instance, if the level of non-catastrophic storms is increased as contemplated by the Revised Straw Proposal and PURA establishes the level of non-catastrophic storm costs in base rates at the 4 year average of $78 million, the standard deviation of $18 million indicates that the swing from year to year would be significant, causing a potential annual $18 million "over recovery" or "under recovery", depending on the frequency and magnitude of storms below the threshold as compared to the $78 million established in base rates. Whereas with the current threshold, that standard deviation is significantly lower, ensuring that customer rates remain more closer aligned with actual and expected storm expenses.

Docket No. 21-05-15RE01, Eversource, March 26, 2025 Written Comments at 47-48.

In this case, a 1% threshold based on the Company's proposed authorized distribution revenue requirement equates to $19,219,230, compared to a threshold of $5.4 million proposed in this application (refer to Docket No. 26-05-10, Exhibit CLP-REVREQ-2, WP C-3.26). While the dollar values in this proceeding differ from the dollar values presented in Docket No. 21-05-15RE01, the concerns remain the same. Although PURA has broad ratemaking discretion, PURA cannot simply decide to cut costs out of the equation for recovery, particularly incremental storm costs. Pursuant to Conn. Gen. Stat. § 16-19e(a)(4) and (5), the Company at least has the opportunity to prove that its costs were prudently and efficiently incurred. As a result, if not included in the storm-cost recovery framework, the costs have to be accounted for in base rates.

The ratemaking framework is an important component for classifying storm events as catastrophic, non-catastrophic or pre-staging. The method by which storm events are classified and the ratemaking treatment for each weather event are important regulatory decisions to ensure that (1) customers are not paying for storm costs that are not incurred in relation to actual storm events; and (2) actual, prudently incurred costs have a path for recovery consistent with law and appropriate ratemaking policy. Without an appropriate mechanism for recovery of costs outside of base distribution rates, there is a high likelihood that customers would either pay too much for storm costs, or that the Company will not have a fair and reasonable opportunity to recover its prudently incurred costs. Please refer to the Company's response in EOE-134[i], for additional discussion on the impact of storm events on the proposed revenue requirement.

Using 1% of the Company's proposed authorized distribution revenue requirement as the catastrophic storm threshold, the five-year average annual non-catastrophic expenses would be $117.1 million in 2028 dollars, which represents a $75 million increase as compared to the Company's proposed non-catastrophic storm funding of $42 million. Therefore, as stated in the Company's response to OCC-055[ii], if the $5.4 million threshold is modified in this proceeding, the historical level of storm activity should be re-evaluated as well to determine if a level of reserve funding, both catastrophic and pre-staging, in base rates different than what the company has

proposed is necessary. In addition, if the $5.4 million threshold is adjusted in this proceeding, the base level of non-catastrophic expense in base rates would likewise need to be adjusted.

Further, a reasonable threshold for major storm events will enhance PURA's regulatory oversight for future major storm events as proposed in the Company's SCRAF initiative.

Prior Referenced Responses:

[i] EOE-134 Question:

(2Q-4Q25 CATASTROPHIC STORM EVENTS) Discuss the impact that would result with respect to the Company's revenue requirements (i.e., for a proposed rate year) if a catastrophic storm event occurred during the test year (i.e., 2025) but the underlying costs were not deferred as permitted. Specifically explain if the revenue requirements could be overstated based on the higher O&M expenses for the test year.

EOE-134 Response:

The ratemaking framework for storm events revolves around the central point of this question, which is that the incremental operating and maintenance ("O&M") expenses caused by larger, more sporadic weather events need to be ***excluded*** from base rates so that the recurring base rates that customers pay do not include the large, "one-time" costs that are non-recurring and cannot be captured as a "representative" cost for the Rate Year revenue requirement. The method by which storm events are classified as catastrophic, non-catastrophic or pre-staging events – and the ratemaking treatment for each category of weather event – are important regulatory decisions to assure that (1) customers are not paying for storm costs that are not incurred in relation to actual storm events; and (2) actual, prudently incurred storm costs have a path for recovery consistent with law and appropriate ratemaking policy.

Without an appropriate mechanism for recovery of costs outside of base rates (or in base rates as an after-the-fact amortization), there is a high likelihood that customers would either pay too much storm costs, or that the Company will not have a fair and reasonable opportunity to recover its prudently incurred costs. For example, given the Company's historical experience, PURA would have to include an amount in the range of $150 million annually to cover the costs of storm restoration for major weather events, which is a significant amount of money for customers to pay in base rates without specific knowledge or expectations about when, or to what extent, the actual underlying costs would be incurred. Moreover, if included in base rates as a normally recurring cost item rather than deferred to a regulatory asset, no prudence review would be applicable after setting that amount in base rates, which does not make sense for storm costs.

Accordingly, as identified by the question, an increase to base distribution rates of $150 million would likely mean that the resulting revenue requirement would be overstated or understated in future years, even though the amount imputed into base rates would be informed by actual historical storm data and would attempt to impute a level of costs into rates that would reflect the expected costs in future years. Thus, even at the level of $150 million included in base rates, PURA would need to provide for a deferral mechanism because storms are completely unique in nature and severity and any amount built into base rates would require adjustment based on actual circumstances. For example, Storm Isaias in 2020 and Storm Henri in 2021 were each approximately $150M or more in costs by themselves, so that even an allowance of that magnitude in rates would not be sufficient to cover the costs that were actually incurred.

Please refer to the Company's response to OCC-055i, which states that the Company's proposals for base distribution rate funding for non-catastrophic storm/non pre-staging events, catastrophic storms and pre-staging events are based on a catastrophic storm threshold of $5.4 million, calculated by escalating the prior authorized threshold of $4 million using the GDP-PI from 2018 through the Rate Year. Importantly, if the $5.4 million threshold proposed by the Company is modified in this proceeding, the historical level of storm activity would need to be re-evaluated as well to determine if a level of reserve funding in base rates different than what the company has proposed is necessary. In addition, if the $5.4 million threshold is adjusted in this proceeding, the base level of non-catastrophic expense in base rates likewise need to be adjusted.

Lastly, although it may be counterintuitive, maintaining a reasonable threshold for the major storm reserve is the best approach for customers because the Company's base distribution revenue requirement would then, consequently, have a lower amount of *non*-catastrophic storm/non pre-staging event costs incorporated into it and customers would pay only for those costs that actually occur, at the time those costs occur, reducing the risk to both customers and the Company as more costs would be funded at exactly the amount that's deemed prudent by PURA, no more and no less.

[ii] OCC-055 Question

(Storm Reserves) Referring to Exhibit CL&P-RevReq-2 Schedule C-3.0, lines 43-44. Provide a detailed explanation why the Company is asking for increases in the rate years for the a) storm reserve accrual and b) pre-staging reserve accrual.

OCC-055 Response:

The Company presented its proposal for catastrophic storm reserve accrual in Exhibit CLP-REVREQ-1, pages 104 through 107. According to that testimony, the Company's average annual catastrophic storm activity is approximately $151.5 million (see Exhibit CLP-REVREQ-2, WP C-3.26, lines 27 through 35). However, the Company proposes to maintain catastrophic storm funding at approximately the same level, recognizing that annual activity is variable and difficult to predict. This approach aims to mitigate customer bill impacts amid the myriad factors described in that testimony and more broadly throughout the filing that are putting upward pressure on the cost of service and customers' electric bills. Therefore, the Company proposes a modest increase in the level of base rate catastrophic storm funding, from $57.516 million to $60 million. The overall storm cost recovery proposal, including a new Storm Cost Recovery Adjustment Factor ("SCRAF"), is described in detail in Exhibit CLP-ELP-1.

The Company presented its proposal for pre-staging event reserve accrual in Exhibit CLP-REVREQ-1, pages 107 through 108. The testimony calculated an average annual prestaging event expense of $4.097 million (see Exhibit CLP-REVREQ-2, WP C-3.27, lines 27 through 35), based on actual pre-staging event costs at $4.229 million in 2021, $6.350 million in 2022, $6.183 million in 2023, $0 in 2024, and $3.723 million1 in 2025 (using Gross Domestic Product – Price Index ("GDP-PI") to escalate costs to the Rate Year amounts). This average annual expense of $4.097 million supports the Company's proposed adjustment, increasing annual base distribution funding for pre-staging events from $3 million to $4 million.

It is important to note that the Company's proposals are based on a catastrophic storm threshold of $5.4 million, calculated by escalating the prior authorized threshold of $4 million using the GDP-PI from 2018 through the Rate Year. If the $5.4 million threshold is modified in this proceeding, the historical level of storm activity should be re-evaluated as well to determine if a level of reserve funding in base rates different than what the company has proposed is necessary. In addition, if the $5.4 million threshold is adjusted in this proceeding, the base level of non-catastrophic expense in base rates likewise need to be adjusted.