# STATE OF CONNECTICUT

**PUBLIC UTILITIES REGULATORY AUTHORITY**
**TEN FRANKLIN SQUARE**
**NEW BRITAIN, CT 06051**

**DOCKET NO. 18-11-12 PETITION OF THE CONNECTICUT LIGHT AND POWER COMPANY D/B/A EVERSOURCE ENERGY FOR APPROVAL TO RECOVER ITS 2017-2018 CATASTROPHIC STORM COSTS**

April 17, 2019

By the following Commissioners:

John W. Betkoski, III
Michael A. Caron

## DECISION

# TABLE OF CONTENTS

I. INTRODUCTION ..... 1
A. SUMMARY ..... 1
B. BACKGROUND OF THE PROCEEDING ..... 1
C. CONDUCT OF THE PROCEEDING ..... 1
D. PARTIES AND INTERVENORS ..... 1
E. PUBLIC COMMENT ..... 2

II. PETITION ..... 2

III. AUTHORITY ANALYSIS ..... 4
A. STORM RESPONSE TO THE FIVE STORMS ..... 4
B. CAPITALIZATION ..... 6
1. Transformer Capitalization ..... 7
2. Appurtenance Capitalization ..... 10
C. MATERIALS ..... 12
D. PRE-STAGING COSTS ..... 14
E. TECHNICAL CORRECTION TO CL&P'S SUMMARY ADJUSTMENTS ..... 15
F. FRONTIER-RELATED MATTERS ..... 15
1. Vegetation Management costs allocable to Frontier ..... 15
2. CL&P and Frontier Pole Replacement Agreement ..... 16
G. VARIOUS WORK ORDER INVOICES AND AUDIT ..... 17
1. Meal and Cafeteria Invoices ..... 17
H. DIRECT INCREMENTAL LABOR COSTS ..... 18
I. CARRYING CHARGES AT WEIGHTED AVERAGE COST OF CAPITAL (WACC) ..... 20
J. ANNUAL REVENUE REQUIREMENTS FOR THE STORM REGULATORY ASSET ..... 22
K. EMERGENCY RESPONSE PLAN AWARD PAYMENTS ..... 24
L. EXCESS ADIT FROM THE 2017 TAX CHANGES ..... 26
M. MISCELLANEOUS ADJUSTMENTS ..... 27
1. Invoice from Par Electric ..... 27
2. Storm Costs Audit ..... 27
3. Tolls from Out-of-State Contractor ..... 28
N. SUMMARY OF AUTHORITY ADJUSTMENTS ..... 28

IV. FINDINGS OF FACT ..... 29

V. CONCLUSION AND ORDERS ..... 35
A. CONCLUSION ..... 35
B. ORDERS ..... 35

# DECISION

## I. INTRODUCTION

### A. SUMMARY

In this proceeding, the Public Utilities Regulatory Authority allows The Connecticut Light and Power Company a storm regulatory asset of $141.026 million. The allowed storm regulatory asset will be amortized over six years, effective May 1, 2019.

### B. BACKGROUND OF THE PROCEEDING

On October 31, 2017, and November 1, 2017, Connecticut was impacted by a damaging wind and rain event (November Storm), causing 201,222 concurrent outages to customers of The Connecticut Light and Power Company d/b/a Eversource Energy (CL&P or Company) at its peak, and requiring restoration to a total of 311,318 CL&P customers. This was followed by three Nor'easters on March 2, 2018, March 7, 2018, and March 13, 2018, respectively (collectively, the March Nor'easters), in which 255,450 customers lost power concurrently at the peak, and requiring restoration to a total of 457,072 CL&P customers. In addition, on May 15, 2018, severe thunderstorms, tornadoes, a macroburst and a microburst (collectively, the May Storm) hit Connecticut, causing 139,581 CL&P customers to lose power concurrently at the peak, and requiring restoration to a total of 193,624 customers. (The November Storm, March Nor'easters and May Storm are collectively referred to as the Five Storms.)

Section 4(b)(i) of the March 23, 2018 Amendment to the Settlement Agreement (Settlement Amendment) approved by the Public Utilities Regulatory Authority (PURA or Authority) in the Decision Dated April 18, 2018, in Docket No. 17-10-46, Application of The Connecticut Light and Power Company d/b/a Eversource Energy to Amend its Rate Schedules (2018 Decision) by and between CL&P, the Office of Consumer Counsel (OCC) and the Prosecutorial Staff of the Public Utilities Regulatory Authority (PRO) (together, the "Settling Parties") states that the Company's storm costs shall be subject to review and approval in an adjudicatory proceeding.

### C. CONDUCT OF THE PROCEEDING

By Notice of Hearing dated February 5, 2019, hearings were held at the offices of the Authority on February 6 and 7, 2019. A Late-Filed Exhibit Hearing was held on February 25, 2019. The Authority issued a Proposed Final Decision in this matter on April 5, 2019. All participants were provided the opportunity to submit Written Exceptions to, and present Oral Arguments on, the Proposed Final Decision. An Oral Argument was held on April 16, 2019.

### D. PARTIES AND INTERVENORS

The Authority recognized the following as Parties to this proceeding: The Connecticut Light and Power Company, d/b/a Eversource Energy, P.O. Box 270, Hartford, CT 06141-0270; the Office of Consumer Counsel (OCC), Ten Franklin Square,

New Britain, CT 06051; the Public Utilities Regulatory Authority's Prosecutorial Unit, Ten Franklin Square, New Britain, CT 06051. On January 25, 2019, The Office of Attorney General (AG) requested and was granted Intervenor status in this proceeding in a letter ruling dated January 28, 2019.

### E. PUBLIC COMMENT

Written public comment was submitted in this proceeding whereby customers of the Company voiced concern over constant raises in electric rates. Elmer Letter dated January 25, 2019; Pinto Letter dated January 28, 2019; Gay Letter dated January 30, 2019. One commenter noted that the delivery charges outweigh the cost of the electric usage amount by three to four times. Skiba letter dated February 2, 2019. Additionally, it was raised that the weather events should be seen as customary and fall under the category of expected instead of catastrophic, where the damages from these events should be covered by a "rainy day fund." Kalafus Letter dated February 6, 2019. A commenter argued that the $152.5 million of incremental storm expense should be treated as operating expense for Eversource. A commenter added that, in 2017, 2016, 2015, 2014 and 2013, the Company reported a net income of $987.99 million, $942.3 million, $878.48 million, $819.54 million and $789 million, respectively. Landfear Letter dated February 6, 2019. The commenter argued that the Company has an adequate amount of cash flow to absorb the $152.5 expense due to the catastrophic storm costs. Id.

## II. PETITION

In a filing dated November 16, 2018, in the instant proceeding (Petition or Application), the Company requested PURA approval to recover catastrophic storm costs in Accordance with Section 4(b)(i) the Settlement Amendment. Application, p. 1. In particular, CL&P requested that the Authority approve the recovery of $152.5 million in incremental costs incurred for restoring service to customers for the Five Storms. Id. Additionally, CL&P indicated that Section 4(b)(i)(C) of the Settlement Amendment authorizes any storm costs approved by PURA to be recovered in distribution rates beginning with the next change in base rates on May 1, 2019, pursuant to the terms of the Company's approved multi-year rate plan. Id.

The Company's filing was submitted pursuant to the General Statutes of Connecticut (Conn. Gen. Stat.) §§ 16-11, 16-19, 16-19e and 4-176, and Section 4(b)(i) of the March 23, 2018 Settlement Amendment approved by PURA in the 2018 Decision. Application p. 1. CL&P notes that its Petition presents an accounting of the Company's costs for its preparation and response to the Five Storms. Id.

A summary of the initial storm costs filed by the Company are as follows:

| Work Order | Storm Date | Type of Event | ($000) |
|---|---|---|---|
| MS17M011 | October 29, 2017 | November Storm | 35,041 |
| MS18C011 | March 2, 2018 | March Nor'easters | 25,343 |
| MS18D011 | March 7, 2018 | March Nor'easters | 36,573 |
| MS18E011 | March 13, 2018 | March Nor'easters | 10,340 |
| MS18G011 | May 15, 2018 | May Storm | 72,895 |
| | Total Incremental Storm Costs Incurred | | **180,191** |
| | Frontier Communication Corp.'s (Frontier) Share | | (6,101) |
| | Recovery per Docket No. 17-10-46 | | (18,625) |
| | Reserve Accruals/Other | | (3,000) |
| | Request for Recovery in this Case | | **152,465** |

Application, p. 6.

During the course of the discovery process in this proceeding, the Company filed a series of adjustments to the incremental cost recovery request. Late-Filed Exhibit No. 1, SP01 to SP04. A summary of the final set of adjusted storm costs presented by the Company are as follows:

| Work Order | Storm Date | Type of Event | ($000) |
|---|---|---|---|
| MS17M011 | October 29, 2017 | November Storm | 35,041 |
| MS18C011 | March 2, 2018 | March Nor'easter | 25,343 |
| MS18D011 | March 7, 2018 | March Nor'easter | 36,573 |
| MS18E011 | March 13, 2018 | March Nor'easter | 10,340 |
| MS18G011 | May 15, 2018 | May Storm | 72,895 |
| | Total Incremental Storm Costs Incurred | | **180,191** |
| | Frontier's Share | | (6,101) |
| | Additional Frontier Credits (Q-OCC-016) | | (70) |
| | Recovery per Docket No. 17-10-46 | | (18,625) |
| | October 2018 Credits Inadvertently Excluded (Q-EL-014) | | (149) |
| | Hydro One Network Inc. Removal of Charges (Q-EL-059) | | (2,540) |
| | Customer Claim Adjustment (ES Identified) | | (15) |
| | Removal of UVLs from the Filing (Including Q-OCC-022) | | (4,248) |
| | Invoices Received Post October 2018 | | 4,212 |
| | Removal of Transmission Costs (Q-LF-006) | | (69) |
| | Additional Capitalization (Q-LF-016) | | (375) |
| | Additional Capitalization (Q-LF-004-SP01) | | (3,481) |
| | Reserve Accruals/Other | | (3,000) |
| | Total Adjusted Incremental Storm Reserve at October 31, 2018 | | **$145,729** |

Late Filed Exhibit No. 1 SP04.

## III. AUTHORITY ANALYSIS

### A. STORM RESPONSE TO THE FIVE STORMS

CL&P stated that the storm costs for which it is seeking recovery were predominantly for line crews and tree crews who respond to emergencies, clear fallen vegetation and repair the distribution system; the costs incurred by those crews is directly related to the number of damage locations caused by the Five Storms. Brief, pp. 8 and 9. Across the Five Storms, the Company responded to 19,442 outage-based trouble spots and 17,000 non outage-based trouble spots. Tr. 2/6/19, p. 12. For perspective, the Company responds to approximately 16,000 non-catastrophic-storm-related trouble spots over the course of a typical year. Id. The Company restored service to approximately 962,000 customers affected by the Five Storms. Id., p. 13.

The table below summarizes the outages for each storm.

Customer Outages from the 2017 and 2018 Storm Events

| Storm Date | Peak Customer Outages | Total Customers Restored |
|---|---|---|
| Oct. 29, 2017 | 201,222 | 311,318 |
| Mar. 2, 2018 | 81,376 | 179,211 |
| Mar. 7, 2018 | 168,647 | 256,995 |
| Mar. 13, 2018 | 5,427 | 20,866 |
| May 15, 2018 | 139,581 | 193,624 |

Application, p. 5.

A summary of the storm Event Level Classification[1] with guidelines for typical number of crews recommended for response and restoration activities and actual crews retained by the Company are presented in the Table below.

[1] The Event Level Classification is defined in the Company's emergency response plan (ERP) that was approved by the Authority in Decision dated August 24, 2016 in Docket No. 16-02-28, 2016 PURA Review of Connecticut Public Service Company Plans for Restoration of Service that is Interrupted as a Result of an Emergency.

Storm Event Guidelines

| Event Start Date | 10/29/17 | 03/02/18 | 03/07/18 | 03/13/18 | 05/15/18 |
|---|---|---|---|---|---|
| Event Level Classification | 4 | 5 | 4 | 5 | 5 |
| Weather Type | Warm | Cold | Cold | Cold | Warm |
| Typical Crew Resource Strategy from ERP | 250-800 | 250-350 | 300-1,000 | 250-350 | 200-300 |
| Typical Line Resource FTE Strategy from ERP[2] | 500-1600 | 500-700 | 600-2000 | 500-700 | 400-600 |
| Actual Maximum Line Resource FTEs per Storm | 943 | 555 | 1,468 | 414 | 1,320 |

Hayhurst and Landry PFT, p. 23.

No Party, Intervenor, or member of the public in this proceeding disputed specific response activities or general restoration actions taken by CL&P in the performance of its storm response duties that include all make-safe work, road clearing, emergency response, community outreach, system repair, or service restoration. CL&P for its part used its experience during the Five Storms to evaluate some of its policies and make appropriate modifications to its preparedness and response and recovery capabilities. Late Filed Exhibit No. 14, Attachment 1.

Response and Recovery related improvements included locating community liaison unit leaders in regional emergency operations centers (EOCs) to facilitate communications between communities and CL&P resources working in those communities. Id.; Tr. 2/25/19, p. 247. CL&P improved communications and field equipment management for its wires down guards and patrollers. Late Filed Exhibit No. 14. CL&P also identified improvements to resource tracking tools, to better locate available line and tree resources, and to the damage assessment models used in the outage management system to locate trouble spots. Id.; Tr. 2/25/19, pp. 254-256.

Preparedness improvements included mitigating future food and lodging challenges that the Company faced in responding to the May Storm by signing agreements with state universities and better managing contractor rosters. Late Filed Exhibit No. 14. The Company implemented a number of improvements to better communicate with local communities and town officials to coordinate response activities for responding to emergencies and clearing blocked roads. Id.; Tr. 2/26/19, pp. 249-251.

The Authority reviewed the Company's response to the need for internal and external mutual aid line crew mobilization, de-mobilization, and staging for each storm in relation to the restoration trouble spots and customer outages. Responses to Interrogatories EL-31, EL-32, and EL-33. The Authority finds that CL&P's storm performance was generally good and fell within the guidelines outlined in the Company's emergency response plan (ERP) approved in the Decision dated August 24, 2016, in Docket No. 16-02-28, 2016 PURA Review of Connecticut Public Service Company Plans for Restoration of Service that is Interrupted as a Result of an Emergency.[3] In the case

[2] There are typically two full time equivalents (FTE) employees per crew.

[3] Subsequent to the Five Storms, the Company filed an a updated ERP in Docket No. 18-03-29, 2018 PURA Review of Connecticut Public Service Company Plans for Restoration of Service that is

of the May Storm, where crew numbers were substantially larger than the guidelines outlined in the ERP, the Authority finds the Company acted reasonably in exceeding the guidelines to address the localized but extremely damaging event. Overall, the Authority deems the Company's emergency response and restoration activities to the Five Storms to be reasonable under the specific circumstances presented for each storm.

## B. CAPITALIZATION

Of the total restoration costs for the Five Storms, only the incremental expenses applied to the catastrophic storm balance are sought by CL&P for recovery in this proceeding. Dixon PFT, p. 5. Non-incremental expenses[4] and capital costs for these storms are not sought for recovery since they have either been built into existing rates (non-incremental costs) or will be included in rate base in the Company's next rate case filing. Id., pp. 4, 5 and 7.

Since some of the restoration work performed by CL&P during catastrophic storms involves replacement of capital units of property, the Company must segregate the capital costs from non-capital costs. Id., p. 8. Under normal (non-storm) conditions, the Company tracks capital costs by establishing unique work orders for each capital project. Brief, p. 13. Under catastrophic storm conditions, however, the Company does not establish unique work orders for each capital project because of the substantial number of damage locations and additional restoration priorities. Id. When a storm occurs, CL&P establishes a work order specific to that event and all restoration-related transactions are recorded under specific accounting codes within that work order. Dixon PFT, p. 8. It is not until after restoration is complete that the Company estimates the capital costs associated with that specific storm work order. Id.

CL&P's general procedure for estimating storm-related capital costs follows. Amounts to be capitalized were first based on the costs of the actual capital units of property[5] that were installed to restore service. Id., p. 9. The Company then uses information from its work management system to estimate the associated labor costs – and various associated overheads and indirect costs associated with the estimated labor – for each unit of property. Id. Specifically, the Company's general process for allocating labor and associated costs to specific units of property involves the following steps:

1. The Company establishes an estimate of the man-hours to install a specific unit of property. The estimate is determined from the work management system historical data and is unique for each unit of property. Response to Interrogatory EL-9; Tr. 2/25/19, p. 238.

Interrupted as Result of an Emergency. The Authority approved that CL&P's ERP in the Decision dated August 29, 2018, in Docket No. 18-03-29.

4 CL&P defined non-incremental storm costs as costs that the Company would have incurred even in the absence of the storm and include items such as CL&P direct straight-time payroll and associated payroll benefit overheads and fixed vehicle expenses such as lease costs, insurance, facility costs and payroll of garage personnel. Incremental costs are defined as those costs that would not have occurred had it not been for the storm event. Dixon PFT, p. 9.

5 CL&P classified the following as a minimum set of capital units of property: poles, conductors, cables, various arresters, cutouts, reclosers, switches, insulators, spacer cables, and transformers. Late Filed Exhibit No. 16, SP01; Tr. 2/25/19, p. 225.

2. The installation times are scaled up to account for adverse conditions (multiplied by two) and to allow for set-up time (adding 1.5 hours). Response to EL-9; Late Filed Exhibit No. 16, SP01.

3. That derived installation time from Step 2 is then divided by two to arrive at an estimate for the installation/replacement hours required for a 2 FTE Crew. Id.

4. The Company multiplied that figure by a blended 2 FTE Crew rate (in dollars per hour) to determine the direct labor costs associated with a unit of property type. The blended 2 FTE Crew rate was a storm-specific estimate of the weighted average of internal and external line crews that performed work during the specific storm. The average internal crew rate used for this calculation was $196/hr. and the average external crew rate was $450/hour. Tr. 2/6/19, pp. 67 and 68. The Company estimated the proportion of internal line crew and external line crew hours for each storm and used those to determine the blended 2 FTE crew rate. Response to Interrogatory EL-9.

5. To determine the estimated labor costs tied to each unit of property, CL&P added a supervisory overhead element at 11.98%; this figure was scaled by the proportion of internal crew hours spent on that storm. The final supervision adder varied per storm, but ranged from 3-4%. Late Filed Exhibit No. 16, SP01.

6. Labor overhead costs for non-CL&P internal labor of 42% (standard internal labor overhead) were also scaled by a set percentage (ranging from 4%-12% per storm); the 4-12 percent scaling factors were storm-specific figures that reflected the percentage of non-CL&P internal labor (labor from CL&P's operating affiliates) to the total line crew labor. Dixon PFT, p. 11; Late Filed Exhibit No 16, SP01.

7. To account for the fact that incremental labor reflects between 93% and 96% of the total labor costs for each storm, an adjustment is made to reduce the proposed capitalization of incremental-only costs by 4% to 7%. Response to Interrogatory EL-18.

8. A portion of meals, lodging and employee expenses were capitalized based on an estimate consistent with the approach approved by the Authority in Decision dated March 12, 2014 in Docket No. 13-03-23, Petition of The Connecticut Light and Power Company for Approval to Recover its 2011-2012 Major Storm Costs (2011-2012 Major Storms Decision). CL&P calculated the total cost of food, lodging and expenses as a proportion to total cost of a storm and applied that percentage to the total capitalized amount for each storm. Tr. 2/6/19, p. 70.

**1. Transformer Capitalization**

CL&P replaced over 2,000 transformers as part of storm restoration for the Five Storms. Late Filed Exhibit No. 4, SP01, Attachment 1. Prior to storm events, CL&P precapitalized the installation of replacement transformers and thus did not capitalize those assets using the same post-storm accounting as it had for other capital units of property. Tr. 2/25/19, p. 226. The total amount precapitalized for the transformers across

the Five Storms was $4,278,698 and was not included in the incremental storm expense request. Id. The approximately $4.3 million included the total installed costs, but CL&P did not scale the labor component as it had for the other capitalized units of property. Id., pp. 239 and 240.

A breakdown of the precapitalized total installed transformer costs as reported by the Company are shown in Table 1 below.

Table 1. Total Installed Transformer Costs

| | Quantity | Cost | Total Labor Costs | Total Vehicle Costs | Total Other Materials | Total Installed Cost |
|---|---|---|---|---|---|---|
| MS17M011 | 420 | $ 510,355 | $ 212,171 | $ 34,138 | $ 20,534 | $ 777,198 |
| MS18C011 | 331 | 391,849 | 167,211 | 26,904 | 16,183 | 602,147 |
| MS18D011 | 367 | 434,467 | 185,397 | 29,830 | 17,943 | 667,637 |
| MS18E011 | 41 | 48,537 | 20,712 | 3,332 | 2,004 | 74,586 |
| MS18G011 | 1,193 | $1,399,170 | 602,668 | 96,967 | 58,326 | 2,157,131 |
| TOTAL | **2,352** | **$2,784,378** | **$1,188,160** | **$ 191,171** | **$ 114,989** | **$4,278,698** |

Late Filed Exhibit No. 4 SP01, Attachment 1

Table 2 shows the detail of the precapitalized labor costs.

Table 2. Precapitalized Transformer Installed Labor Costs

| | Quantity | Installation Rate ($/hour) | | | Total Labor Costs |
|---|---|---|---|---|---|
| | Transformers | Internal | External | Total | |
| MS17M011 | 420 | 151.24 | 353.93 | 505.17 | $ 212,171 |
| MS18C011 | 331 | 151.24 | 353.93 | 505.17 | 167,211 |
| MS18D011 | 367 | 151.24 | 353.93 | 505.17 | 185,397 |
| MS18E011 | 41 | 151.24 | 353.93 | 505.17 | 20,712 |
| MS18G011 | 1,193 | 151.24 | 353.93 | 505.17 | 602,668 |
| | **2,352** | | | | **$1,188,160** |

Id.

The Authority deems it reasonable to account for the adverse conditions for transformer installation in the same manner as for all other capital units of property and,

therefore, it is necessary to apply a scale-up factor for the labor costs to account for set-up time and adverse field conditions. The Authority notes that the labor rates provided by the Company for transformer installation are different than what was provided for all other units of property. Notably, the Company did not adjust for adverse conditions, nor did it use storm-specific blended crew rates (as detailed above) as it had for estimating capitalized labor for other units of property. The Authority finds that accounting for these factors would represent a more accurate estimate of actual labor rates to be capitalized for transformer installation.

Therefore, to apply the same scaling factors to transformer installation as it did to other units of property, the Authority must estimate the baseline, non-storm condition installation time for a 2 FTE Crew. For the analysis here, the Authority will assume that the installation rate provided by the Company – and shown in Table 2 above – represents the total weighted-average costs (weighted between internal and external crews) to install a single transformer for a 2 FTE crew.

Since the estimated percentage of internal and external line resources used by CL&P for the Five Storms was roughly 50% each, the blended average 2 FTE Crew rate is $323/hour ($196/hr. x 50% + $450/hr. x 50%). Late Filed Exhibit No. 16SP01, pp.1-5. If a reasonable estimate of the hourly rate of a blended 2 FTE Crew is $323/hour, then it follows that based on the CL&P-provided per-transformer installation cost, the total time for a 2 FTE Crew to install a transformer is 1.56 hours per transformer ($505.17 per transformer / $323 per hour). Therefore, the total estimated man-hours to install a transformer is 3.12 hours (1.56 hours x 2 FTE per crew).

Following the retroactive capitalization process that the Company provided in Late Filed Exhibit No. 16, the total man hours are first doubled for adverse conditions, then 1.5 hours are added on to allow for set-up time which brings the total installation time to 7.74 man-hours (3.12 hours x 2 + 1.5 hours). Late Filed Exhibit No. 16. Adjusting the hours to a 2 FTE Crew gives 3.87 hours (7.74 / 2) per transformer. The following factors specific to storms are then accounted for: internal supervision, non-CL&P internal incremental labor overheads, and a credit for non-incremental internal labor. Id. These calculations are performed for each storm and summarized in Table 3 below.

Table 3. Adjusted Capitalized Labor Costs

| | | MS17M011 | MS18C011 | MS18D011 | MS18E011 | MS18G011 |
|---|---|---|---|---|---|---|
| Man Hours | | 3.12 | 3.12 | 3.12 | 3.12 | 3.12 |
| Factor for Adverse Conditions | | 2 | 2 | 2 | 2 | 2 |
| Total Restoration Time | | 6.24 | 6.24 | 6.24 | 6.24 | 6.24 |
| Factor for set up time | | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| Total man hours | | 7.74 | 7.74 | 7.74 | 7.74 | 7.74 |
| FTEs/Crew | | 2 | 2 | 2 | 2 | 2 |
| Total Crew Hours | | 3.87 | 3.87 | 3.87 | 3.87 | 3.87 |
| Crew Rate | | $ 336 | $ 313 | $ 336 | $ 315 | $ 331 |
| Crew Cost per UOP | | $ 1,299 | $ 1,211 | $ 1,299 | $ 1,220 | $ 1,279 |
| UOPs | | 420 | 331 | 367 | 41 | 1193 |
| Total Labor Cost | | $ 545,588 | $ 400,683 | $ 476,740 | $ 50,035 | $ 1,526,269 |
| Supervision Allocation | | 3.15% | 4.05% | 3.15% | 3.94% | 3.34% |
| Internal Supervision | | $ 17,168 | $ 16,236 | $ 15,001 | $ 1,974 | $ 50,931 |
| Total Direct Labor Costs | a | $ 562,756 | $ 416,919 | $ 491,741 | $ 52,008 | $ 1,577,200 |
| PBR/NO Overheads | | 42.03% | 42.03% | 42.03% | 42.03% | 42.03% |
| Non CL&P Internal Labor | | 4.00% | 6.00% | 7.00% | 5.00% | 12.00% |
| Incremental Labor Overhead | b | $ 9,461 | $ 10,514 | $ 14,468 | $ 1,093 | $ 79,548 |
| Non-Incremental Labor | | 7.00% | 5.00% | 5.00% | 7.00% | 4.00% |
| Credit for non Incremental Labor | c | $ (39,393) | $ (20,846) | $ (24,587) | $ (3,641) | $ (63,088) |
| Total Labor Costs | a+b+c | **$ 532,824** | **$ 406,587** | **$ 481,622** | **$ 49,461** | **$ 1,593,660** |

Late Filed Exhibit No. 16

Therefore, the total capitalized labor costs for storm transformer replacement is $3,064,154 ($532,824 + $406,587 + $481,622 + $49,461 + $1,593,660). Since the Authority made no other adjustments to the Company's precapitalization amounts for transformers (material and vehicle costs) and since CL&P initially precapitalized transformer replacement labor costs of $1,188,160, the total adjusted capitalized labor costs are therefore $1,875,994 ($3,064,154 - $1,188,160). Accordingly, the Authority directs CL&P to lower the incremental storm expense request by $1,875,994.

### 2. Appurtenance Capitalization

Appurtenance costs include materials and associated labor for various utility pole attachments, notably crossarms and related hardware. Tr. 2/25/19, pp. 235-236. The Company included the capital costs of fully installed appurtenance costs in an after-the-fact capitalization analysis described above. However, the Company estimated the appurtenance costs differently than it had for other units of property. Id., p. 235. The appurtenance costs were tied directly to capitalized poles at a constant cost of $754.10 per pole. Id. Like other costs associated with capital units of property, this value was scaled by the various labor-related scaling factors: supervision, internal incremental

overhead, and non-incremental labor. Late Filed Exhibit No. 16-SP01, Attachment 1. Unlike the other units of property, only 75% of the appurtenance cost was scaled by those labor factors. Id. The $754.10 total includes more than just labor costs and the labor component roughly equates to 75% of the total cost. Tr. 2/25/19, p. 237; Late Filed Exhibit No. 16-SP01.

The labor and material cost breakdown for the appurtenance cost is shown in Table 4 below.

Table 4. Appurtenance Cost

| **Cost of Appurtenances** | |
|---|---|
| Materials | $ 105.00 |
| Labor (internal) | $ 320.35 |
| Labor benefits | $ 134.65 |
| Vehicles | $ 72.80 |
| Cost of removal | $ 121.30 |
| Total | $ 754.10 |

Late Filed Exhibit No. 16-SP01.

These installations and attachments are performed in the field during storm restoration. Id. CL&P did not account for the scale-up factors for adverse conditions or set up time to determine the labor estimate. Tr. 2/25/19, p. 235. It also appears from Table 4 that CL&P only considered labor costs based on internal crew labor rates.

Therefore, and similar to what was done in the transformer analysis, the Authority deems it reasonable to include scale-up factor for associated labor costs for appurtenance installation. To perform that calculation, the Authority must again determine the man-hours to install utility pole appurtenances. Based on the installation labor costs provided in Table 4, and the internal crew rate of $196/hour for a 2 FTE internal crew, the total base time for a 2 FTE internal crew to install appurtenances per pole is 1.63 hours ($320.35 per pole / $196 per hour). Since appurtenances are tied to utility poles, it is reasonable to assume that the set-up time addition of 1.5 hours is already accounted for in the pole installation labor factor and the Authority will not adjust the labor hours by that amount. Doubling the 2 FTE Crew time of 1.63 hours to account for adverse conditions gives total 2 FTE Crew installation time of 3.26 hours.

CL&P included only internal rates, and did not include the higher external crew rates that it incurs during storm response. Therefore, the Authority will use the weighted 2 FTE Crew rate that CL&P estimated for each of the Five Storms. Late Filed Exhibit No. 16-SP01, Attachment 1. Applying that rate to the estimated 2 FTE Crew installation time will give a more reasonable estimate of capitalized labor rates for appurtenance installation. The Authority will determine a new Appurtenance cost constant that will be

applied to the capitalization calculations that CL&P had performed. The new appurtenance capitalization estimate calculations are shown in Table 5.

Table 5. Authority Adjusted Appurtenance Estimate.

| | | MS17M011 | MS18C011 | MS18D011 | MS18E011 | MS18G011 |
|---|---|---|---|---|---|---|
| Crew Time (hours) | | 1.63 | 1.63 | 1.63 | 1.63 | 1.63 |
| Adverse Scaling Factor | | 2 | 2 | 2 | 2 | 2 |
| Total Crew Time (hours) | a | 3.26 | 3.26 | 3.26 | 3.26 | 3.26 |
| Crew Rate ($/hour) | b | $ 335.66 | $ 312.80 | $ 335.66 | $ 315.34 | $ 330.58 |
| Labor Cost | (a X b) | $ 1,094.26 | $ 1,019.72 | $ 1,094.26 | $ 1,028.00 | $ 1,077.70 |
| Labor Overhead | | $ (134.65) | $ (134.65) | $ (134.65) | $ (134.65) | $ (134.65) |
| Materials | | $ 105.00 | $ 105.00 | $ 105.00 | $ 105.00 | $ 105.00 |
| Vehicles | | $ 72.80 | $ 72.80 | $ 72.80 | $ 72.80 | $ 72.80 |
| Cost of Removal | | $ 121.30 | $ 121.30 | $ 121.30 | $ 121.30 | $ 121.30 |
| Cost | | $ 1,258.71 | $ 1,184.17 | $ 1,258.71 | $ 1,192.45 | $ 1,242.15 |

Note that labor overhead has been removed since the Company's calculation under poles factors in overhead. Late Filed Exhibit No 16-SP01, Attachment 1. No changes were made to costs associated with materials, vehicles, or removal. Applying the new appurtenance costs to each storm as a constant as CL&P had originally done in Late Filed Exhibit No. 16-SP01, Attachment 1, provides the increased capitalized amount associated with installed poles. Table 6 summarizes the adjusted capitalized amounts.

Table 6. Adjusted Capital Costs for Utility Poles by Appurtenance Cost ($)

| | MS17M011 | MS18C011 | MS18D011 | MS18E011 | MS18G011 | TOTAL |
|---|---|---|---|---|---|---|
| Appurtenance Cost @ $754 | 609,289 | 689,655 | 1,002,151 | 34,141 | 4,484,960 | 6,820,196 |
| PURA Adjusted Appurtenance C | 720,245 | 798,838 | 1,185,553 | 39,565 | 5,268,798 | 8,012,998 |
| Difference | 110,956 | 109,183 | 183,402 | 5,424 | 783,837 | **1,192,802** |

Accordingly, the Authority will require the Company to move $1,192,802 from incremental storm reserve to capitalized storm costs.

## C. MATERIALS

In addition to the capitalized units of property that are installed during storm restoration, there are a set of essential non-capital material expenses. Hayhurst and Landry PFT, p. 10. These types of materials include personal protective equipment (PPE), tools, supplies, lobby stock (nuts, bolts, splices, connectors), and stores (expenses associated with operating the storeroom). Id.; Response to Interrogatory OCC-25.

The Company argued that each storm event requires the acquisition of a certain amount of these types of items to replace breakage, inventory turnover, supply external crews, and meet specific needs of personnel who, during restoration, perform duties entirely unrelated to their everyday assignments. Response to Interrogatory EL-21; Response to Interrogatory OCC-9. The Company contended that the request for recovery for these types of materials are all incremental to the storm and not covered as part of

normal operating expenses. Response to Interrogatory EL-21. The Company ensured that these costs are related to the specific storms because the material acquisition is tied to unique storm work orders. The Company also ensures that materials issued to staff and external line crews are returned and that returned items are then credited to the storm work order. Id.; Hayhurst and Landry PFT, p. 10; Application, Exhibits CLP 2- CLP 6.

The OCC argued that because tools and similar durable goods can be used in future storms after restoration is complete, it is not appropriate to consider the totality of these cost as incremental. OCC Brief, p. 4. In support of its argument, the OCC cited the 2013 Storm Decision, in which the Authority found that costs for items that have a useful life beyond the storm for which they were procured should be considered as part of normal operating expenses. Id.; 2013 Storm Decision, p. 24. In that Decision, the Authority disallowed 50% of the tools and durable goods costs. Id. Based on the 2013 Storm Decision, the OCC recommended a disallowance of 50% of costs of tools and supplies in this proceeding. OCC Brief, p. 4.

The Company argued that absent recovery here, that it will never recover these costs since they are not included in base rates. OCC Reply Brief, p. 20. CL&P claimed that denying recovery would violate its right to recover prudently incurred incremental operating costs. Id.; CL&P Written Exceptions, pp. 12-14.

The Authority finds that the disagreement centers not around whether tools and like goods have a useful life. There is agreement these items do have an extended useful life, at least to some degree. CL&P Brief, p. 32. The disagreement centers on whether costs of tools, durable goods, and PPE should be considered as normal operating expenses or as specific and incremental to actual catastrophic events.

The Authority notes that, for the 2018 Decision, the Company was allowed an annual material expense of approximately $7 million and included in rate base approximately $42 million for material and supplies. 2018 Decision Amended Settlement Attachments 2 and 3.

Evaluating the costs from that perspective, it is clear that many of these costs were necessary for the storm, but the Company has acted imprudently in not classifying some of these costs as normal operating expenses. Indeed, the Authority determined in the 2013 Storm Decision that CL&P should consider a portion of storm-related items, such as small tools and other durable goods as part of normal operating expenses. Decision, p. 24. Furthermore, it is CL&P policy that all employees are eligible for storm duty, it is reasonable to expect that CL&P should, as a part of normal operating expenses, have goods and PPE available for employees who may perform storm functions unrelated to their normal duties. Tr. 2/6/19, p. 119.

In the 2013 Storm Decision, the Authority disallowed 50% of all tools and durable goods, finding that these items can be used post-storm. 2013 Storm Decision, pp. 23 and 24. A review of the practices the Company used to track the acquisition and return and tie the related costs to the storm work order indicate to the Authority that the Company has improved its accounting for these items in recent years and therefore, will not disallow the full 50% as recommended by the OCC. Response to Interrogatory EL-21; Hayhurst and Landry PFT, p. 10; Application, Exhibits CLP 2- CLP 6. Nevertheless, based on the

expectation of the Company that all employees perform storm-related duties as noted above, the Authority considers a small portion of tools, supplies and PPE to be considered normal operating expenses and deems it reasonable to disallow 25% of those costs. For the Five Storms, the Company incurred a total $764,124 for tools, supplies and PPE. Response to Interrogatory OCC-25, Attachment 1. Accordingly, the Authority disallows $191,031 (25% x $764,124) from the Company's storm expense.

## D. PRE-STAGING COSTS

Pre-staging costs have been defined by the Authority in its Decision dated December 17, 2014, in Docket No. 14-05-06, Application of the Connecticut Light and Power Company to Amend its Rates Schedules (2014 Rate Case Decision) as costs incurred in advance of potential catastrophic storms. Decision, p. 91. Pre-staging costs typically include securing external line and tree crews and performing other advance preparations so that the Company may comply with storm preparedness and restoration requirements. Id. The Authority initially approved annual accrual for a pre-staging staging reserve of $2 million per year. Id., p. 92. That accrual was increased to $3 million per year beginning May 1, 2018, in the 2018 Decision. 2018 Decision, p. 58 and Appendix D, Amended Attachment 3; Late Filed Exhibit No. 11.

In the 2014 Rate Case Decision, the Authority specified the following conditions for recovery of pre-staging costs:

1. That pre-staging reserve accruals are for costs for storms that do not occur.
2. Pre-staging reserve amounts are separately calculated from storm reserve.
3. Unused pre-staging reserves are not accumulated, but transferred to the storm reserve at the end of each calendar year.
4. Activity in these accounts are subject to audit and review.

2014 Rate Case Decision, pp. 92 and 93

The OCC argued that, based on the pre-staging reserve accrual amounts approved by the Authority in 2014 Rate Case Decision and 2018 Decision, the Company collected $4,666,667 through 2017 and 2018 and only incurred $2,231,556. Brief, pp. 7 and 8; Late Filed Exhibit No. 11. The OCC argued that, therefore, the storm cost filing requested by the Company should be reduced by $2,345,111, the difference between the accrued and incurred pre-staging funds in 2017 ($4,666,667 - $2,231,556). Brief, p. 8. The OCC argued that the difference is not incremental for two reasons: (1) CL&P must have incurred pre-staging costs for these storms; and (2) that a portion of those costs are included in base rates through the pre-staging reserve. Id., pp. 7 and 8.

The Authority disagrees with the OCC's assertion that CL&P incurred pre-staging costs for this storm and therefore the pre-staging reserve accruals should be applied for that reason. While it is true the Company incurred pre-staging costs, the pre-staging reserve was designed to apply to pre-staging costs for catastrophic storms that do not materialize. 2014 Decision, pp. 91-93. CL&P's practice is to apply only those pre-staging costs to the prestaging reserve if the storms do not materialize. If the storm becomes a catastrophic event, then all the costs are applied to the catastrophic storm reserve. Tr. 2/6/19, pp. 65 and 66. The Authority finds that CL&P has rightly applied all costs for the

materialized storms to the appropriate reserve for the storms under consideration here. Tr. 2/25/19, p. 266.

Nevertheless, an additional requirement of the pre-staging reserve was that the Company not accumulate unused funds from year to year, but to apply at the end of a calendar year unused funds to the storm reserve. CL&P had unused funds, or a pre-staging credit balance, of $579,452 at year-end 2018. Therefore, to remain within the requirements of the pre-staging accrual reserve, the Authority will require the Company to reduce the total storm cost filing by this amount.

The Company also acknowledged that as of February 25, 2019, no pre-staging costs had been incurred. Tr. 2/25/19, p. 232. The Authority finds it reasonable to apply an additional two months of pre-staging accrual (for January and February 2019) equaling $500,000 (2 months X $250,000 per month). Late Filed Exhibit No. 11. The Authority finds it reasonable to apply the 12-month amortization accrual through April 2019 of $140,634 ($421,902 - $281,268) that was approved by the Authority in 2018 Decision. Id.

Accordingly, the Authority directs CL&P to reduce the total incremental storm cost expense requested by the Company in this case by $1,220,086 ($579,452 + $500,000 + $140,634) to reflect the application of the pre-staging accruals noted above.

## E. TECHNICAL CORRECTION TO CL&P'S SUMMARY ADJUSTMENTS

Throughout the proceeding, the Company updated its original application and incremental expense request to reflect adjustments identified during the discovery process. CL&P Brief, p. 17. Some of these adjustments were for additional capitalization of various units of property such as reclosers, switches and insulators. Late Filed Exhibit 16-SP01. These adjustments were provided as additional capitalization figures in Late Filed Exhibit No. 1-SP04, Attachment 2 as $3.481 million. CL&P cited the calculations provided in Late Filed Exhibit No 16-SP01, Attachment 1 as the source for the adjustment.

A review of the capitalization for reclosers, switches and insulators for all storms provides a total capitalization adjustment of $3.539 million. Late Filed Exhibit No 16-SP01, Attachment 1. Accordingly, the appropriate capitalization adjustment due to the property identified above includes an additional $58,000 ($3.539 - $3.481 million).

## F. FRONTIER-RELATED MATTERS

### 1. Vegetation Management costs allocable to Frontier

CL&P reduced the proposed total incremental storm costs by $6.172 million for allocated storm-related vegetation management cost billable to Frontier. Late Filed Exhibit No. SP02, Attachment 2, p. 2. The Company has not been reimbursed by Frontier and is actively seeking recovery. Application, p. 6. However, CL&P noted that the Company reserves the right to petition the Authority to recover any allocated amount not paid by Frontier for any reason. Id.

According to contract with the Company for storm-related vegetation management activities, Frontier is responsible for 30% of the total costs. Response to Interrogatory EL-17. To account for this work, the Company indicated that tree crews charged a storm-specific work order by filling out weekly time sheets that were used to capture the hours worked for each laborer and equipment. Furthermore, CL&P stated that the Company's vegetation management employees verified the timesheet data entered into the Trees Work Management System (TWMS). TWMS calculates the cost for each crew according to the negotiated contract as well as tolls, food, and lodging costs by storm work order. The Company then determines Frontier's share at 30% and submits invoices to Frontier on a quarterly basis. Id.; Response to Interrogatory OCC-16.

Regarding CL&P's contention that it has the right to petition the Authority to recover Frontier's portion, the OCC stated that there is no basis for CL&P's ratepayers to be subsidizing Frontier. The OCC recommends that CL&P be directed to pursue full payments from Frontier and to seek payment through the court system, if necessary. Also, the OCC recommends that the Company be ordered to make six-month periodic compliance filings listing all of the aggressive efforts taken to pursue payment from Frontier. OCC Non-Proprietary Brief, pp. 11-13. The AG also objects to CL&P ratepayers bearing costs that it argued should be borne solely by Frontier. AG Brief, p. 2. The AG argued that CL&P historically has not taken reasonable actions to obtain reimbursement for vegetation management costs from Frontier's predecessor AT&T. Id. The AG and OCC both argued that the Authority should not at this time authorize CL&P to seek reimbursement from the Company's ratepayers, in the event that Frontier fails to reimburse the Company. Both the AGG and the OCC urged the Authority to instruct the Company to enforce its contract rights. AG Brief, pp. 2-3; OCC Non-Proprietary Brief, p. 12.

CL&P asserted that it has billed Frontier and provided all back-up documentation that had been requested by Frontier. CL&P Reply Brief, p. 26; Response to Interrogatory OCC-16. The Company is willing to provide information every six months on the status of its efforts to obtain reimbursement from Frontier. CL&P Reply Brief, p. 27.

The Authority will not allow any of the allocated vegetation management costs incurred and allocable to Frontier to be recouped from CL&P's ratepayers. CL&P's ratepayers should not bear the burden of risk associated with financial losses from agreements to recover certain costs from third parties, including Frontier. These costs are related to assets owned and operated by Frontier, and the responsibility of Frontier under their agreement with CL&P. CL&P should not be seeking recovery of costs that are attributable to third party from its ratepayers. To stay apprised of the CL&P's collection efforts, the Authority will require the Company to report every six months on the status of these efforts as discussed in the Orders below.

### 2. CL&P and Frontier Pole Replacement Agreement

CL&P testified that, based on an understanding it has with Frontier, the Company does not seek reimbursement for the cost of pole replacements with Frontier and that Frontier similarly does not seek reimbursement from the Company for poles it replaces during catastrophic events. Tr. 2/6/19, p. 132. The Company explained that the idea behind this agreement is that, over the long run, pole-replacement costs incurred by each

company will wash out. Id. CL&P admitted that it does not know if costs do average out in practice. Id.

The OCC and AG stated that this is not an even-handed standard because of the magnitude of CL&P's work during catastrophic storms. OCC Brief, p. 12; AG Brief, p. 3. Supporting this argument, the AG noted CL&P's testimony that the Company believed that Frontier does not employ external crews during storm response. Id., p. 4; Tr. 2/6/19, p. 132 and 133. The AG argued that because Frontier's shareholders would bear the costs of storm replacements, it is incentivized to allow CL&P ratepayers to cover the costs. AG Brief, p. 3. According to the OCC, the current arrangement provides Frontier an enormous and unwarranted subsidy for the costs incurred by the CL&P to replace poles damaged during storms. OCC Brief, p. 12. The OCC recommended that the Authority open a new docket with Frontier, CL&P, and The United Illuminating Company (UI), among others, named as parties to further review this arrangement between the electric utilities and Frontier. Id.

CL&P asserted that costs for replacing poles are capital costs and capital storm costs are excluded from its request in this proceeding and therefore should be addressed not in this docket but in a future proceeding where the Company seeks recovery for storm-related capital costs. Reply Brief, p. 27.

The Authority notes that capital costs – especially those associated with labor – are estimated, and therefore, are not totally excluded from review in this proceeding. Nevertheless, the costs associated with utility pole replacement themselves are not disputed as capital costs and are therefore not considered incremental storm costs that are under review in this proceeding. The Authority deems it appropriate to address the prudency of specific pole replacement activity and associated capital costs in a future proceeding. In the meantime, the Authority will consider the OCC's request to open a separate proceeding to address the storm pole replacement policy between CL&P and Frontier.

## G. VARIOUS WORK ORDER INVOICES AND AUDIT

### 1. Meal and Cafeteria Invoices

The OCC objected to the vast number of meals that exceeded $25, arguing that it is unreasonable to expect ratepayers to reimburse employee meals that cost over $50. OCC Proprietary Brief, p. 11. The OCC objected also to the cafeteria invoice at CL&P's Incident Command Center in Berlin, CT during the November Storm. The OCC maintained that there was unreasonable cost control standard used by the Company where the labor charge of the cafeteria vendor remained constant despite the decrease in the quantity of food being provided. Id. Therefore, in the OCC recommended that the Authority disallow meal and cafeteria costs totaling $39,518.[6]

The Company stated that meals costing over $25 were a prudent expense since they are boxed meals that can be eaten in the field and they contain enough sustenance (3,000 calories) for demanding field work until an evening meal is served. Late Filed

[6] The aggregate amount charged does not reveal confidential rates. CL&P Reply Brief, p. 23.

Exhibit No. 53. CL&P argued that these types of meals reduce the need for crews to demobilize and remobilize if not eating in the field. Id.; Tr. 2/7/19, pp. 200 – 204. Regarding the cafeteria invoice for the November Storm, CL&P calculated that the average cost per meal during the restoration window was just over $20. Reply Brief, pp. 23 and 24. Similar to the box lunches for field crews, CL&P argued that meals served on site resulted in employees performing more efficiently, and therefore restoration activities were also more efficient, because travel time to outside restaurants could be avoided. Id.

The Authority deems all meal expenses by CL&P to be reasonable in these events and will therefore make no disallowance.

## H. DIRECT INCREMENTAL LABOR COSTS

CL&P stated that direct labor costs for resource or time codes reflecting straight time are classified as non-incremental costs and those for overtime labor are considered incremental costs. Also, the Company averred that costs for other time codes that contain shift differential pay and premium rates are split between incremental and non-incremental costs. Moreover, CL&P testified that labor charged from its affiliates is considered an incremental cost. Dixon PFT, p. 10. Based on these assertions, CL&P proposed to recover total direct labor costs of $31.357 million for the Five Storms. The Company's portion of the total direct labor cost is $20.373 million. Response to Interrogatory EL-3 Attachments 1-6. The table below summarizes the total direct labor costs for the Five Storms.

Total Direct Labor Costs($)

| Storm | All Affiliates | CLP's Portion |
|---|---|---|
| MS17M011 | 5,327,634 | 4,028,550 |
| MS18C011 | 5,092,943 | 3,947,830 |
| MS18D011 | 6,636,572 | 4,652,849 |
| MS18E011 | 1,190,015 | 944,198 |
| MS18G011 | 13,110,163 | 6,799,099 |
| Total | 31,357,327 | 20,372,526 |

Id.

The OCC claimed that the incremental direct labor costs requested by the Company are overstated because CL&P over-collected on labor expense in 2017 and 2018. According to the OCC, the Company provided that non-storm payroll expenses allowed in rates are $130.328 million in 2017 and $121.485 million in 2018. However, the actual non-storm payroll expenses are $119.956 million in 2017 and $125.568 million in 2018. Thus, the OCC concludes that CL&P over-collected by $10.372 million ($130.328 - $119.956) in 2017 and under-collected by $4.083 million ($125.568 - $121.485) in 2018. This resulted in a net over-collection for calendar years 2017 and 2018 of $6.289 ($10.372 – $4.083) million. OCC Non-Proprietary Brief, pp. 5-7. The OCC asserted that for the direct labor costs to be considered incremental, this net over-collection should be taken into account. The OCC claimed that because the Company collected more payroll expenses in base rates than it actually spent in 2017 and 2018, the net over-collected amounts are not considered incremental and should not be recoverable as storm costs. Otherwise, the company would achieve a double recovery; first in base rates, and again

through the allowed incremental direct labor storm costs. As a result, the OCC recommends that the Authority reduces the incremental direct labor storm costs by $6.289 million. Id.

CL&P states that the $6.3 million constitutes incremental overtime expense paid to its personnel; does not represent double recovery; and was not collected in base rates in 2017 and 2018, and gives four reasons why this is the case. CL&P's Reply Brief, pp. 7 and 8. First, CL&P indicates that between rate cases it experiences cost increases in some areas of its business and cost decreases in others. The Company is required to manage its overall distribution operations using the revenues generated through its authorized base distribution rates. CL&P claims that the OCC's recommendation fails to take into consideration the fact that the actual expense for contractors performing non-storm work substantially exceeded the amount allowed in its base rates for the same time period. According to the Company, its cost for non-storm overhead line contractors for 2017 was $35.542 million, which is excess of the $17.410 million annually allowed in base rates. Id., pp. 8 and 9.

Second, the Company states that its earned returns on equity (ROEs) were 9.15% for the 12-month period ended December 31, 2017 versus the 9.17% allowed; and 9.21% for the 12-month period ended September 30, 2018 versus the 9.22% allowed. CL&P indicates that its actual ROE was 8.98% for the 12-month period ended December 31, 2018, compared to the 9.22% allowed. CL&P concludes that based on the fact that it did not achieve its allowed ROE in 2017 and 2018, there are no excess funds available in base rates to offset incremental storm costs. Id., pp. 9 and 10.

Third, CL&P states that it incurred $13.2 million for non-catastrophic storms during the eight-month period of May 1, 2018, through December 31, 2018, which is significantly more than the $4.2 million allowed annually in base rates. The Company states that during this eight-month period, CL&P incurred a net loss of $9 million ($13.2 - $4.2), which is not recoverable in future rates nor in the reserve for catastrophic storms. Id., pp. 10 and 11.

Lastly, CL&P states that the 2018 Decision established that the prudency of CL&P's storm costs would be reviewed in this proceeding. The Company indicates it has met the Authority's standards for prudency review and its management adequately prepared for and responded to the storms in a reasonable manner based on the facts known to them at the time and applicable industry standards. For reasons described herein, CL&P recommends that the Authority not accept the OCC's proposal that $6.3 million of direct labor costs be disallowed as incremental storm costs. Id., p. 11.

The Authority's analysis of the total direct labor costs proposed by the Company raises concerns similar to those brought up by the OCC regarding costs classified as incremental storm costs. However, absent any proof of imprudent activities by CL&P, the Authority determines that it would be improper to isolate the over- and under-recoveries of labor costs without considering other expenditures embedded in the base distribution rates that may also have resulted in shortfalls or surpluses. Therefore, the Authority will not reduce the incremental labor storm costs by $6.3 million, as recommended by the OCC.

## I. CARRYING CHARGES AT WEIGHTED AVERAGE COST OF CAPITAL (WACC)

The Authority inquired as to whether the Company's allowed weighted average cost of capital (WACC) is the appropriate rate for determining the carrying cost on the storm regulatory asset allowed in this proceeding, and if the Authority has applied other carrying cost rates to regulatory assets previously. Tr., 02/02/19, pp. 111-113. Specifically, PURA's staff asked if the Company is aware that in its Decision dated June 29, 2011, in Docket No. Docket 10-12-02, Application of Yankee Gas Services Company for Amended Rate Schedules (2011 Yankee Rate Case Decision). In the 2011 Yankee Rate Case Decision, the Authority indicated that Yankee, a gas affiliate of the Company, should not be profiting from its environmental remediation costs and only allowed Yankee to calculate carrying costs at its cost of debt for the related regulatory asset. Id.

CL&P states that the 2011 Yankee Rate Case Decision is irrelevant and the determination therein that environmental remediation expense should accrue carrying charges at the cost of debt instead of WACC is an anomaly. CL&P Brief, p. 21. According to the Company, it is customary in Connecticut to include unamortized balances in rate base net of deferred taxes and to earn a return at the WACC and that calculating carrying charges at the WACC is not only applicable to approved regulatory assets, but also applies to numerous other types of rates approved by the Authority. Id., pp. 21 and 22. The Company cites the November 4, 2015 Decision in Docket No. 15-03-01, PURA Annual Review of the Rate Adjustment Mechanisms of The Connecticut Light and Power Company (2015 RAM Decision) as an example, in which the Authority concluded that carrying charges for utilities are generally calculated using the WACC and that the Authority must have compelling evidence of abuse to diverge from this methodology. Id. Also, CL&P indicated that in the April 21, 2005 Decision in Docket No. 03-11-01E01, DPUC Review Of CL&P And UI Conservation And Load Management Plan For Year 2004 - Interest Rate Modification Request (2004 CAM Interest Modification Decision), the Authority maintained that, for ratemaking policy, interest payments on the over- or under-recovery accounts shall be paid at the overall cost of capital of the utility companies. Also, CL&P states that the December 12, 2018 Decision in Docket No. 18-05-10, Application of Yankee Gas Services Company d/b/a Eversource Energy to Amended its Rate Schedules (2018 Yankee Rate Case Decision), where Yankee was allowed to calculate carrying charges on an environmental remediation regulatory asset at the WACC, superseded the 2011 Yankee Rate Case Decision's determination that carrying charges should be calculated at the cost of debt. Id., pp. 21 and 22.

Moreover, CL&P declares that allowing carrying charges to accrue at only the cost of debt would deny the Company the ability to recover the true cost of financing storm regulatory assets and the allowed carrying costs would not align with the actual costs incurred. CL&P indicated that these storm costs have already been paid by the Company and already funded the unrecovered balance at the WACC with the recovery to occur over six years. Id., pp. 22-24. Finally, CL&P avers that its Amended Settlement for the 2018 Decision shows that since December 31, 2016, the Company had accrued storm costs in excess of $60 million that were not reflected in the rates. The Company states the Amended Rate Case Settlement authorized CL&P to include $18.625 million of its Post-December 31, 2016 storm costs in rate base effective May 1, 2018, and that the total cost of recovering $18.625 million over three years was $22.794 million. According

to CL&P, the Amended Settlement already recognized that carrying charges that were calculated at WACC for the initial $18.625 million of the Post-December 31, 2016 storm costs, and demonstrates that continuing to calculate carrying charges at the WACC for Post-December 31, 2016 storm costs is consistent with the Amended Rate Case Settlement. Id.

The OCC objects to the application of carrying charges on the storm costs. OCC's Non-Proprietary Confidential Brief, pp. 8 and 9. According to the OCC, the rate of return applied to rate base is to allow the utility to earn a return on their investment and storm regulatory assets are not investments, but added costs being charged to ratepayers. Id. The OCC states that the Authority should not allow CL&P to earn a profit margin and equity return on these storm restoration costs. Id. However, if carrying charges are allowed, the OCC indicates that the Authority approve a lower rate, such as the Company's short-term debt rate. Id. Similarly, the OCC objects to CL&P's request that the Company be allowed carrying charges if the Authority does not issue a Decision in this proceeding before May 1, 2019. Id.

Furthermore, the OCC states that the capitalized storm costs were removed from the total storm costs, and a return of- and on- that capitalized portion will be recovered in rate base. OCC reply Brief, pp. 2 and 3. According to the OCC, using an equity return-embedded WACC would be inappropriate here because it would lead to a profit margin on these current storm expenses that are not capital investments. Id., p. 3. The OCC asserts that CL&P's recovery of non-capitalized storm costs does not require use of a long-term debt rate or an equity capital rate. Id. Also, the OCC maintains that the Company's attempts to support the application of the WACC to carrying charges by appealing to prior cases is misleading. Id. According to the OCC, in the 2015 RAM Decision, the Authority approved the WACC as the rate for determining carrying costs on over- or under-collections. Id. The OCC indicated that the Authority noted that the determination that WACC is the appropriate rate for calculating carrying charges would be reassessed if the Company is mostly in under-collection situations. Id. The OCC infers that because storm costs by their nature, unlike RAM expenses, are bound to be under-collection situations, the Authority is free to revisit whether a short-term debt rate would be more appropriate than the WACC for calculating carrying charges. Id. Finally, the OCC indicates that the 2018 Yankee Rate Case Decision approved a settlement agreement and the fact that carrying charges were allowed at the WACC was not precedent setting. Id., p. 4. The OCC concludes that there should be either no recovery for carrying charges, or at most, the carrying charges should be at a short-term debt rate. Id., pp. 3 and 4.

The Company indicates that its request for carrying charges if the Authority does not issue a Decision by May 1, 2019 is consistent with the carrying charges allowed on a $3 million storm reserve currently in base distribution rates. CL&P Reply Brief, p. 21. Additionally, CL&P states that based on the current procedural schedule, the Authority intends to issue a final decision by April 17, 2019. The Company claims it is therefore unnecessary for PURA to address OCC's recommendation to deny carrying charges if final Decision is issued before May 1, 2019. Id.

A Massachusetts affiliate of the Company does not earn equity returns on its storm regulatory asset. Response to Interrogatory EL-43, p. 1. The carrying charge rate

applicable to Nstar Electric Company's (NSTAR) storm cost recovery is prime rate of 5.50%. Id. CL&P's approved long-term debt (LTD) rates are 4.54% for rate year ending April 30, 2020, and 4.64% for rate year ending April 30, 2021. Exhibit TMD-1, p. 16. The Authority does not consider its ruling in the 2011 Yankee Rate Case that carrying charges be accrued at the cost of debt instead of WACC an anomaly. Each proceeding is reviewed based on the economic analysis of weighing myriad of interests. The Company's reference to other proceedings where the Authority has allowed WACC for determining carrying charges essentially means the Authority should remain consistent in all instances. That would essentially mean going forward, the Authority cannot review nor adjust assumptions upon which carrying costs are allowed. However, the Authority has the regulatory discretion to determine if costs to be borne by ratepayers are prudent and in the public interest.

The Authority finds that CL&P expended approximately $200 million on major storm restorations in 2017 and 2018. Response to Interrogatory EL-14. Until the Authority assesses the prudency of storm costs to be recoverable and determines the allowed storm regulatory asset amount, the Company bears the financing costs associated with the storm costs. Hence, in the interim between when storm costs are incurred and when the Authority makes its determination on the allowed regulatory asset amount, ratepayers are not paying for the financing costs incurred by the Company. Therefore, CL&P will only be allowed to accrue carrying charges as of the date the Authority issued its Decision for this proceeding. Finally, the Authority agrees with the OCC's position that the Company is not entitled to carrying costs if the Decision in this proceeding is not issued by May 1, 2019. While the Authority has aimed to meet the Company's proposed timeframe, there is no statutory time limit for this proceeding.

The Authority concludes that it is fair and reasonable in this instance to allow CL&P to calculate carrying charges on the allowed regulatory asset amount, net of the applicable deferred taxes, at the Company's allowed WACC, as of the date of this Decision.

## J. ANNUAL REVENUE REQUIREMENTS FOR THE STORM REGULATORY ASSET

In its Petition, CL&P proposed total incremental storm costs of $180.2 million, and a net incremental storm cost of $152.465 million. Petition Exhibit CLP-1. Based on discovery in instant proceeding, the Company reduced the net incremental storm cost it is seeking to $145.729 million. The Company proposed a six-year amortization period to recover the revenue requirements associated with the allowed storm regulatory asset. As a result, the updated annual amortization expense is $24.288 million. LFE No. 1 SP04, Attachment 1, p. 10 and Attachment 2, p. 2. In its Reply Brief, CL&P agreed to remove $164,519 from its proposed net incremental storm cost. CL&P Reply Brief, p. 25. Thus, the Authority determines that the Company's final proposed net incremental storm cost for this proceeding is approximately $145.564 ($145.729 - $0.165) million. Based on the six-year amortization period, the final annual amortization expense proposed by CL&P is approximately $24.261 million. CL&P proposed that the recovery of the incremental post-2016 storm costs begins as of May 1, 2019, which is the beginning of the second rate year for the three-year rate plan approved in the 2018 Decision.

The Company acknowledged that the post-April 30, 2021 annual amortization amounts determined in the 2018 Decision is $47.7 million. CL&P Brief, pp 27-29. At the end of the third rate year approved in the 2018 Decision, or April 30, 2021, the Company will have fully recovered all of its 2011 and 2012 storm regulatory assets approved and allowed in the 2014 Rate Case Decision. Tr. 02/25/19, pp. 222 and 223.

CL&P was asked if the allowed amortization expense associated with the 2011 and 2012 storm regulatory assets, post April 30, 2021, can be utilized to mitigate the Five Storms' costs for which it seeks recovery in the instant proceeding. Id. The Company indicated that once the 2011 and 2012 storm regulatory asset is recovered, it intends to apply future recoveries associated with the allowed amortization expense to storm reserve to offset additional future storm costs. Id. The Company indicated that Section 4(b)(i)(D) of the Amended Settlement approved in the 2018 Decision states that post-April 30, 2021 funds be applied to future costs of catastrophic storms up until the time the Company files its next application to amend distribution rates. CL&P Brief, pp 27-29.

The Authority summarizes in the table below the amortization expenses that the Company would recover from its ratepayers in each rate year beginning May 1, 2019, for the 2017 and 2018 storm costs proposed for this proceeding. The table also shows the excess amortization expenses associated with 2011 and 2012 storms during the six-year amortization period, occurring post-April 30, 2021.

| **Amortization Period** | **Proposed Annual Amortization Expense (Million)** | **Docket No. 17-10-46 Excess Amortization Expense (Million)** |
|---|---|---|
| May 1, 2019 – April 30, 2020 | 24.261 | Not Available |
| May 1, 2020 – April 30, 2021* | 24.261 | Not Available |
| May 1, 2021 – April 30, 2022 | 24.261 | 47.704 |
| May 1, 2022 – April 30, 2023 | 24.261 | 47.704 |
| May 1, 2023 – April 30, 2024 | 24.261 | 47.704 |
| May 1, 2023 – April 30, 2025 | 24.261 | 47.704 |

*Revenue effect of the $18.625 million allowed in Docket No. 17-10 -46 to reduce post 2016 storm costs total $22.794 million.

In the 2018 Decision, the Authority's determination to include excess amortization expense into the storm reserve to offset additional future storm costs was based on total post-2016 storm costs of approximately $60 million, not over $200 million as is proposed here. The Authority finds that it would not be in the public interest for CL&P to bill its ratepayers for a revenue requirement associated with the Five Storms' amortization expense while continuing to collect in base distribution rates an excess amortization expense after it has recovered all of its costs associated with the 2011 and 2012 storms, as CL&P is proposing to do. The revenue effect of the post-April 30, 2021 amortization expense credit alone, based on a combined gross earning tax and uncollectible rate of 7.6%, is $51.33 ($47.704 x 1.076) million. This amount does not include the return on the associated unamortized storm regulated asset amount included in rate base via the Settlement Amendment. The Authority estimates that the related return on average rate base is approximately $1.8 million for the expiring post-April 30, 2021 amortization

expense of $47.704 million creditable to customers. Based on its analysis, the Authority projected that the Company would be collecting in revenue approximately $53.13 ($51.33 + $1.8) million post-April 30, 2021, for fully-recovered 2011 and 2012 storm costs.

The Authority denies the Company's proposal to increase rates in order to recover a storm regulatory asset for the Five Storms while at the same time continuing to recover in base rates an excess revenue requirement associated with an expired amortization of expenses from past storms. Such excess recovery undermines the Authority's goal of just and reasonable rates. Further, it is unclear whether future storm costs will be incurred at a level that justifies an ongoing allowance of this magnitude. The Authority determines that, as of May 1, 2021, CL&P is directed to offset the revenue requirement for the post-2016 storm regulatory asset allowed herein with that of the regulatory liability for the expired accrued post-April 30, 2021 amortization expense. The net excess, after accounting for the revenue requirement for the post-2016 storm regulatory asset, which the Authority estimates is approximately $20 million annually, may accrue into a storm reserve.

## K. EMERGENCY RESPONSE PLAN AWARD PAYMENTS

The Company testified that it changed its Emergency Response Plan award (ERP Award) in October, 2013, and that the new policy no longer pays single time to any employees that are exempt from overtime. CL&P Brief, p. 29. The Company states that the employee's incentive compensation is different from ERP Awards. Id., p. 30. Additionally CL&P claimed that the services received from Eversource Energy Service Company (EESCO), and other employees exempt from overtime during a major storm event, are considerably in excess of the normal amount of support CL&P receives during typical day to day operations. Id. The Company determined that ERP Awards are a more cost-effective way of reimbursing employees for their "extraordinary efforts" during major storm event restorations, instead of paid overtime. Id. The one-time payments provided compensation for these salaried employees who are not normally compensated for overtime or storm duty, but who made time commitments above that expected for their normal duties. CL&P asserted that these costs directly benefited customers and should be allowed as storm regulatory asset. Id.

The OCC notes that the Company's response to inquiry shows that the same management-level employees awarded ERP bonuses are also eligible for incentive compensation payments for providing services beyond what one would expect from their normal, day-to-day activities. There is already an expectation that storm duties are a requirement of non-union employees' responsibilities. The OCC claims that the Company's request does not contain objective standards as to how these ERP awards were calculated, and that ratepayers should not to fund arbitrary and discretionary bonuses to already highly paid employees. OCC Non-Proprietary Brief, pp. 2 and 3. The OCC note that in the 2011-2012 Major Storms Decision, the Authority recognized that the Company already has an incentive compensation plan in place to reward high quality service of its non-union employees, disallowed 50% of these one-time payments, and cited the fact that both ratepayers and the Company benefit from high-quality storm-related service. The OCC states it recognizes that both customers and the Company benefit from high-quality storm service, however, there is no assurance that the ERP awards and incentive compensation awards are not double payments for one set of acts

of high-quality service. According to the OCC, even 50% of an entirely arbitrary number remains an arbitrary number. As a result, the OCC recommends that the entire ERP award amount be disallowed. Id., pp. 3 and 4

In the Authority's Proposed Final Decision, the Authority disallowed 50% of the proposed ERP award amount.

In Written Exceptions to the Proposed Final Decision, CL&P claims, as a result of a technical error, the Authority's adjustment to the Company's ERP payments should be $873,411, not the $876,000 reduction in the draft decision. CL&P Written Exceptions, pp. 3 and 4. The Company further stated that for reasons specified in its Written Exceptions, the Authority should allow CL&P to recover the entirety of its ERP payments in rates, including the proposed disallowed amount of $873,411. Id.

The Company states that the ERP payments were not made to management-level employees but to salaried manager level employees and below who are not eligible for overtime. CL&P Written Exceptions, pp. 5 and 6. These exempt employees worked substantial amounts of overtime during the storms and made important contributions to the restoration efforts. Id. The Company indicates that the employees' salaries do not compensate them for the around-the-clock support provided during catastrophic events and that only 18.5% of the total one-time payments were paid to employees with the title of manager and 81.5% of all ERP payments made were paid to non-officer employees below the title of manager. Id.

CL&P states that the 2011-2012 Major Storm Decision is irrelevant because payments were paid only to directors and managers for the 2012 Storm Sandy, and that in 2012, salaried employees, below the title of manager were paid 100% actual overtime and did not receive one-time payments. Id., pp. 6-9. Also, the Company indicated that the 2011-2012 Major Storm Decision allowed 100% of the overtime paid to employees below the manager level. Id. Moreover, the Company claimed that the restoration efforts by salaried employees substantially benefitted customers who were without power. Id. The Company reiterates its claim that its incentive compensation is not designed or intended to compensate non-union employees for their extraordinary, unanticipated contributions to support catastrophic storm restorations. Id., pp. 10 and 11.

The Company states it should be allowed to recover the $873,411 ERP Award payments in rates in order to continue to motivate salaried employees to continue to make extraordinary efforts during storm restorations. Id., pp. 11 and 12. Lastly, CL&P claims that the $873,411 is not currently recovered in base distribution rates and that the Company would not able to defer recovery of the unrecovered cost into a future rate case. Id.

For this proceeding, the Authority will allow CL&P to recover in rates the total cost of the ERP Awards paid to salaried employees. Nevertheless, the Authority recognizes that the criteria for allowing ERP Award payments can be improved. Therefore, the Authority directs the Company to work with the OCC to develop revised metrics for determining future ERP Awards. The Company should start with the premise that most of its salaried employees, as part of their normal job duties, are expected to work additional hours, as needed, in order to help the Company address foreseeable events

such as storms, outages, and any other types of large-scale disruptions to normal customer service. The revised ERP Award metrics may include variables currently to be applied by CL&P, such as storm severity and timing, as well as hours worked, but should also include factors to distinguish when employees' performance includes duties above and beyond their normally required storm duties or other duties coincident with their position. The metrics may include both objective and subjective factors, but the Authority encourages the use of as many objective factors as reasonably possible to allow for administratively efficient and transparent review of any future claims for ERP payments. In lieu of ERP Awards, the Company should also consider allowing salaried employees to bank the additional hours worked during extreme storm events for future use as earned leave time.

## L. EXCESS ADIT FROM THE 2017 TAX CHANGES

The Authority inquired as to whether CL&P considered reducing the proposed storm costs for this proceeding by the excess accumulated deferred income tax (EADIT) based on the rulings in the Decision dated April 5, 2019 in Docket No. 18-01-15, PURA Review of Rate Adjustments Related to the Federal Tax Cuts and Jobs Act (2017 Tax Act Decision). Tr., 02/25/19, pp. 243-45. The Company indicated that treatment of EADIT was dealt with in the Amended Settlement Agreement approved in the 2018 Decision. Specifically, CL&P testified that EADIT was going to be refunded to customers; either in the capital tracker or as part of the base rate increase for the second rate year starting on May 1, 2019. Id.

Additionally, CL&P stated that in the 2017 Tax Act Decision, the regulated utilities were directed to provide their EADIT balances and amortization schedules showing the level of EADIT each company would return to customers in their respective next rate case filing or their next step adjustments to base rates under an authorized multi-year rate plan. According to CL&P, its next step adjustment to base distribution rates under the settlement approved in the 2018 Decision is May 1, 2019. CL&P asserted that the 2017 Tax Act Decision did not state that its regulatory asset for the 2017 and 2018 catastrophic storms will be reduced by the annual EADIT credit to customers. CL&P Brief, pp. 24 and 25. Also, CL&P stated that the Amended Settlement Agreement approved in the 2018 Decision requires the Company to return the annual EADIT credit to customers beginning at the Company's next step adjustment to base distribution rates, which is May 1, 2019. As a result, once the Authority approves a regulatory asset for the Five Storms' costs in this proceeding, the approved amount will first be placed into rate base effective May 1, 2019 and the resulting distribution rate increase will then be offset by the annual EADIT credit. Id., p. 25.

Furthermore, CL&P indicated that the intentions of the parties to the Amended Settlement Agreement are unambiguous and consistent with the principles that courts use to interpret contracts.[7] According to CL&P, the parties to the Amended Settlement Agreement did not state that the annual EADIT credit will be directly offset against and reduce the amount of the Five Storms regulatory asset; but that the Five Storms regulatory asset will be placed into rate base, effective May 1, 2019, and the resulting

[7] Tallmadge Bros. v. Iroquois Gas Transmission Sys., L.P., 252 Conn. 479, 498, 746 A.2d 1277, 1288 (2000) (citations omitted).

distribution rate increase can be offset by the amount of the annual EADIT credit. Id., pp. 26 and 27.

The Authority clarifies that the intent of the parties to the Amended Settlement Agreement is not being reinterpreted by the suggestion that CL&P should offset the pre-grossed EADIT regulatory liability by the approved storm regulatory asset to be placed into rate base, effective May 1, 2019. The two items would be in the rate base as of this date; one as a regulatory asset (allowed storm costs) and the other as a regulatory liability (annual EADIT credit to customers). Based on the revenue requirement assumptions approved in the 2018 Decision, on a dollar-to-dollar basis, the revenue effect of the regulatory asset or liability should offset the other. The 2017 Tax Act was in effect as of January 1, 2018, for ratemaking purposes under the Amended Settlement Agreement approved in the 2018 Decision. As of May 1, 2019, sixteen months of EADIT credit would have accrued in addition to the EADIT credit to be accrued for the twelve months beginning on May 1, 2019. The Authority indicated that any additional impacts of the 2017 Tax Act, including the revenue effect of EADIT, should flow back to ratepayers through the traditional distribution rates. See 2018 Decision, p. 8. Nonetheless, the Authority will review the revenue that the Company will calculate as the EADIT credit that will offset the overall distribution rate increase resulting from placing the approved 2017 and 2018 storm regulatory asset into rate base effective May 1, 2019, and for subsequent rate years, until the effective date of CL&P's next general rate case.

## M. MISCELLANEOUS ADJUSTMENTS

### 1. Invoice from Par Electric

CL&P cites the OCC's recommendation that an invoice from Par Electric for $164,519 was for transmission work and should be disallowed as incremental storm cost. OCC Proprietary Brief, p. 9; CL&P Reply Brief, p. 25. The Company agreed to remove the amount from its proposed total storm cost. Id.

### 2. Storm Costs Audit

The OCC states that the Company provided copies of internal audit reports which indicate that CL&P's resources to review invoices would be constrained for a major storm. The OCC affirms that the Company testified that no audit was conducted since the 2013 finding, and none are planned, and that CL&P provided a list of lessons learned from the Five Storms. Also, the OCC states that the Company testified that its response did not include any of the specific items, such as vendor payment processing, and it does not have any current or planned audits to address storm costs. OCC Non-Proprietary Brief, p. 10. The OCC recommends that the Authority direct CL&P to conduct an external or internal audit of its storm costs dating back to 2013 and to consider a reopener proceeding to evaluate the audit results and some potential improvements to the cost control standards used by the Company. Id., p. 11.

The Company indicates that a retroactive audit is unnecessary. CL&P testified that it already has annual audits for payroll, payroll processing, payments to outside vendors, unvouchered liabilities, charging costs to work orders, and the capitalization of costs. Tr. 02/08/19, pp. 274 and 275; CL&P Reply Brief, p. 25. CL&P explains that such

transactions are subject to the oversight of its independent external auditors. Id. Also, CL&P indicates that the record demonstrates it has a robust, multi-step, multi-department storm invoice review process that cross-checked invoices against contractor time sheets, contract rates and other relevant documentation to ensure all payments were justified and any discrepancies were resolved before payments were issued. CL&P Reply Brief, p. 25 and 26. Furthermore, the Company testified that it had implemented specified recommendations from its internal audit department's last storm-related audit and those audit recommendations had been successfully incorporated into its procurement practices. Id.; Tr. 02/08/19, p. 197. Finally, CL&P states that it provided 177 discovery responses and testified during three hearing days and there were no concerns raised to indicate "a programmatic flaw or lack of oversight in the Company's storm cost control practices." Based on these reasons, CL&P concluded that there is no basis for a retroactive audit of the very same storm cost data that are reviewed in this proceeding. Id.

Based on its review of record evidence presented in this proceeding, the Authority finds that the Company has all necessary controls in place to prudently evaluate all storm costs incurred. The OCC failed to provide any significant lapses in the Company's cost control standards that would warrant additional audits of storm costs incurred since 2013. As a result, the Authority dismisses the OCC's recommendation for an internal or external audit of post-2013 storm costs.

### 3. Tolls from Out-of-State Contractor

CL&P cited the OCC's Proprietary Brief, in which the OCC recommends that the Authority disallows $558 of toll charges. According to the OCC, this amount represents fines for six vehicles using the EZ Pass lane without paying tolls and that the Company should not include these fines in the storm costs. CL&P Reply Brief, p. 24.

CL&P states that six of its contractor's vehicles passed through the Pennsylvania Turnpike E-Z Pass lane without a transponder, and were charged a total of $558 for the applicable tolls and administrative fees by the Pennsylvania Turnpike Commission. The administrative fee per-occurrence was $25 for a total of $150, not $558. CL&P Reply Brief, p. 24.

The Authority declines to make adjustments to the proposed storm costs to reflect fines incurred because a contractor's vehicles responding to a storm drove through EZ Pass lanes without paying tolls.

## N. SUMMARY OF AUTHORITY ADJUSTMENTS

The Authority summarizes its adjustments to the Company's proposed storm regulatory asset in the table below:

| Description | Amount ($000) |
|---|---|
| Transformer Capitalization | 1,876 |
| Appurtenance Capitalization | 1,193 |
| Materials | 191 |

| | |
|---|---|
| Pre-Staging Reserve Balance | 1,220 |
| Technical Correction | 58 |
| Total Adjustment | 4,538 |

## IV. FINDINGS OF FACT

1. Storm costs were predominantly for line crews and tree crews who respond to emergencies, clear fallen vegetation and repair the distribution system.

2. Storm costs incurred by crews are directly related to the number of damage locations caused by the storm.

3. Across the Five Storms, the Company responded to 19,442 outage-based trouble spots and 17,000 non-outage-based trouble spots.

4. The Company typically responds to 16,000 non–catastrophic storm-related trouble spots over a year.

5. The Company restored service to approximately 962,000 customers.

6. Response and Recovery related lessons learned included locating community liaison unit leaders in regional emergency operations centers (EOCs) to facilitate communications between communities and CL&P resources working in those communities at that time.

7. Response and Recovery related lessons learned included improved communications and field equipment management for its wires down guards and patrollers.

8. Response and Recovery related lessons learned included improvements to the resource tracking tool to better locate available line and tree resources and the damage assessment models in the outage management system in order to locate trouble spots.

9. Preparedness improvements included mitigating food and lodging challenges that the Company faced in responding to the May Storm, by signing agreements with state universities and better managing contractor rosters.

10. Preparedness improvements included improved coordination with town officials and communities regarding responding to emergencies and clearing blocked roads.

11. Some of the restoration work performed by CL&P during catastrophic storms involves replacement of capital units of property.

12. Under non-storm conditions, the Company tracks capital costs by establishing unique work orders for each capital project.

13. Under storm conditions the Company does not establish unique work orders for each capital project.

14. CL&P establishes a work order specific to each storm event and all restoration-related transactions are recorded under specific accounting codes within that work order.

15. The Company estimates the capital costs associated with that specific storm work order after restoration is complete.

16. CL&P uses information from its work management system to estimate the associated capitalized labor costs for each unit of property.

17. The Company estimates the man-hours to install a specific unit of property from its work management system historical data.

18. CL&P scales installation times for adverse conditions and set-up time.

19. CL&P estimates a weighted average of 2 FTE Crew rates per storm.

20. External 2 FTE crew rates are $450/hour.

21. Internal 2 FTE Crew Rates are $196/hour.

22. The weighted average 2 FTE crew rate is the proportion of internal line crew and external line crew hours for each storm.

23. CL&P adds a capitalized supervisory overhead to the labor cost.

24. CL&P adds a capitalized factor for labor overhead for incremental non-CL&P internal labor.

25. Only 93–96% of capitalized labor is incremental.

26. CL&P capitalized a portion of meals, lodging, and employee expenses, based on their relation to total storm costs.

27. CL&P replaced over 2,000 transformers as part of storm restoration for the Five Storms.

28. CL&P precapitalized the installation of replacement transformers and did so in a different manner than it had for other capital units of property.

29. The total amount precapitalized for the transformers across the Five Storms was $4,278,698, and this amount was not included in the incremental storm expense request.

30. The $4.3 million included the total installed transformer costs.

31. CL&P did not scale the labor component of installed transformers as it had for the other capitalized units of property.

32. The precapitalized transformer labor specific costs were $1,188,160.

33. The installation hourly rate provide by the Company represents the total weighted-average costs (between internal and external crews) to install a single transformer for a 2 FTE crew.

34. The percentage of internal and external line resources used by CL&P for the Five Storms was roughly 50% each.

35. The total time for a 2 FTE Crew to install a transformer is 1.56 hours per transformer and total man-hours is 3.12 hours.

36. Appurtenance costs include materials and associated labor for various utility pole attachments, notably crossarms and various hardware.

37. Appurtenance costs were tied directly to capitalized poles at a constant cost of $754.10.

38. The appurtenance value was scaled by the various labor-related scaling factors: supervision, internal incremental overhead, and non-incremental labor.

39. Only 75% of the appurtenance cost was scaled by those labor factors since the labor component roughly equates to 75% of the total cost.

40. Appurtenances are installed and attached in the field during storm restoration.

41. CL&P did not account for the scale-up factors for adverse conditions or set up time to determine the labor estimate.

42. CL&P factored in only installation costs as if internal crews had performed the installation.

43. Essential non-capital material expenses include PPE, tools, supplies, lobby stock, and stores.

44. Each storm event requires the acquisition of a certain amount of these types of items to replace breakage, inventory turnover, supply external crews, and meet specific needs of personnel who, during restoration, perform duties entirely unrelated to their everyday assignments.

45. Material acquisition was tied to storm work orders.

46. Materials issued to staff and external line crews were returned and credited to the storm work order.

47. Tools and durable goods can be used in future storms after restoration is complete.

48. Pre-staging costs are incurred in advance of potential catastrophic storms.

49. Pre-staging costs include securing external line and tree crews and performing other advance preparations so that the Company may comply with storm preparedness and restoration requirements.

50. CL&P had pre-staging credit balance of $579,452 at year end 2018.

51. Capitalization adjustments for reclosers, switches, and insulators for all storms provides a totaled $3.539 million.

52. CL&P reduced the proposed total incremental storm costs by $6.172 million for allocated storm-related vegetation management cost billable to Frontier.

53. The Company has not been reimbursed by Frontier and is actively seeking recovery.

54. Frontier is responsible for 30% of the total costs of vegetation management.

55. Tree crews charged a storm-specific work order by filling out weekly time sheets that were used to capture the hours worked for each laborer and equipment.

56. CL&P's vegetation management employees verified the timesheet data entered into the TWMS by contractors.

57. TWMS calculates the cost for each crew according to the negotiated contract as well as tolls, food, and lodging costs by storm work order.

58. CL&P submits invoices for vegetation management storm work on a quarterly basis.

59. The Company has an understanding with Frontier whereby neither reimburses the other for pole replacements during storm restoration.

60. The Company believes that Frontier does not employ external crews during storm response.

61. CL&P proposed to recover total direct labor costs of $31.357 million for the Five Storms in the instant proceeding. The Company's portion of the total direct labor cost is $20.373 million.

62. The Company's allowed non-storm payroll expenses in rates are $130.328 million in 2017 and $121.485 million in 2018.

63. The actual non-storm payroll expenses are $119.956 million in 2017 and $125.568 million in 2018.

64. The OCC recommends reducing the incremental direct labor storm costs by $6.289 million.

65. The Company states that its cost for non-storm overhead line contractors for 2017 was $35.542 million, which is excess of the $17.410 million allowed annually in base rates.

66. The Company states that its ROEs were 9.15% for the 12-month period ending December 31, 2017, versus the 9.17% allowed, and 9.21% for the 12-month period ending September 30, 2018, versus the 9.22% allowed.

67. CL&P indicates that its actual ROE was 8.98% for the 12-month period ending December 31, 2018, compared to the 9.22% allowed.

68. CL&P states that it incurred $13.2 million for non-catastrophic storm expenses during the eight-month period of May 1, 2018, to December 31, 2018, which significantly more than the $4.2 million allowed annually in base rates.

69. The 2018 Decision established that the prudency of CL&P's storm costs would be reviewed in this proceeding.

70. In the 2011 Yankee Rate Case Decision, the Authority directed Yankee to calculate carrying costs at its cost of debt for the related regulatory asset.

71. In the 2015 RAM Decision, the Authority concluded that carrying charges for utilities are generally calculated using WACC.

72. In the 2004 CAM Interest Modification Decision, the Authority maintained that interest payments be paid at the overall cost of capital of the utility companies.

73. For the 2018 Decision, the Company indicated that, since December 31, 2016, it had accrued storm costs in excess of $60 million that were not reflected in the rates.

74. The Amended Rate Case Settlement authorized CL&P to recover $18.625 million of Post-December 31, 2016 Storm Costs effective May 1, 2018.

75. The total revenue for recovering the $18.625 million over three years was $22.794 million.

76. The rate of return applied to rate base allows a utility to earn on its investments.

77. The 2018 Yankee Rate Case Decision was based on a settlement agreement.

78. The carrying charge rate applicable to NSTAR storm cost recovery is prime rate of 5.50%.

79. CL&P's approved LTD rates are 4.54% for rate year ending April 30, 2020, and 4.64% for rate year ending April 30, 2021.

80. CL&P expended approximately $236 million on major storm restorations in 2017 and 2018.

81. CL&P proposed total incremental storm costs of $180.2 million in its Petition, and net incremental storm costs of $152.465.

82. The Company reduced its total incremental storm cost request to $145.729 million.

83. The six-year amortization period proposed by Company for the allowed storm regulatory asset results in an annual amortization expense of $24.288 million.

84. CL&P agreed to remove $164,519 from its proposed total incremental storm cost.

85. CL&P's final proposed incremental storm cost for this proceeding is approximately $145.564 million and resulted in an annual amortization expense of approximately $24.261 million.

86. May 1, 2019, is the beginning of the second rate year of the three-year rate plan approved in the 2018 Decision.

87. By April 30, 2021, the Company would fully recovered all its 2011 and 2012 storm regulatory assets approved and allowed in the 2014 Rate Case Decision.

88. The post-April 30, 2021 annual amortization amounts determined in the 2018 Decision is $47.7 million.

89. In the 2018 Decision, the Authority determination was based on the total post-2016 storm costs being over $60 million, not over $200 million.

90. The Company changed its ERP Award in October 2013, and the new policy no longer pays single time to any employees exempt from overtime.

91. Management-level employees awarded ERP bonuses are also eligible for incentive compensation payments.

92. In the 2011–2012 Major Storms Decision, the Authority disallowed 50% of one-time payments to management-level employees.

93. Treatment of EADIT for ratemaking purposes was reviewed in the 2017 Tax Act Decision.

94. CL&P testified that EADIT is going to be refunded to customers in the second rate year starting on May 1, 2019.

95. In the 2017 Tax Act Decision, the regulated utilities were directed to provide the level of EADIT refundable to customers in their next rate case filing or their next step adjustments to base rates under an authorized multi-year rate plan.

96. For CL&P, the next step adjustment to its base distribution rates under the settlement approved in the 2018 Decision is May 1, 2019.

97. The 2017 Tax Act was effect as of January 1, 2018.

98. The Company's internal audit reports indicates resources to review invoices would be constrained for a major storm.

99. The Company testified that no audit was conducted since the 2013 finding and none are planned.

100. CL&P has annual audits for payroll, payroll processing, payments to outside vendors, unvouchered liabilities, charging costs to work orders, and the capitalization of costs.

101. CL&P's transactions are subject to the oversight of its independent external auditors.

102. CL&P provided 177 discovery responses and testified during three hearing days.

103. Six of the CL&P's contractor's vehicles were charged a total of $558 for the applicable tolls and administrative fees by the Pennsylvania Turnpike Commission.

104. The administrative fee per-occurrence was $25 for a total of $150.

## V. CONCLUSION AND ORDERS

### A. CONCLUSION

The Authority will allow CL&P to recover a total storm regulatory asset of $141.026 million, over six years, beginning on May 1, 2019. The allowed storm regulatory asset reflects $18.625 million for the post-2016 storm costs write down pursuant to the Settlement Agreement approved in the 2018 Decision, and $6.101 million for Frontier's share of the storm-related vegetation management costs. Additionally, the Authority reduces the proposed incremental storm costs by $4.538 million. The allowed storm regulatory asset of $141.026 ($145.564 – $4.538) million will be amortized over six years, beginning on May 1, 2019. The allowed annual amortization expense is $23.504 ($141.026 / 6 years) million.

### B. ORDERS

For the following Orders, the Applicant shall submit one original of the required documentation to the Executive Secretary, 10 Franklin Square, New Britain, Connecticut 06051 and file an electronic version through the Authority's website at www.ct.gov/pura. Submissions filed in compliance with the Authority's Orders must be identified by all three of the following: Docket Number, Title and Order Number. Compliance with orders shall commence and continue as indicated in each specific Order or until the Applicant requests and the Authority approves that the Applicant's compliance is no longer required after a certain date.

1. No later than April 24, 2019, CL&P shall file new electric distribution rates that will take effect on May 1, 2019, reflecting a total storm regulatory asset of $141.026 million, recoverable over six years. The new electric rates shall identify the EADIT used to offset overall distribution rates, and any adjustments previously proposed in the March 15, 2019 compliance filing from CL&P pursuant to Order No. 10 of the 2018 Decision. The filing shall calculate total bill impacts on customers resulting from the combined data.

2. No later than July 17, 2019, CL&P, in consultation with the OCC, shall submit for Authority review and approval a set of metrics to be used to determine ERP Awards for salaried employees.

3. No later than October 17, 2019, and every six months thereafter, ending with the Company's next rate case or full collection from Frontier, CL&P shall file with the Authority a summary of its efforts to collect vegetation management-related reimbursements from Frontier. The summary shall include at a minimum the following information: total costs allocated to Frontier for the Five Storms; total costs reimbursed by Frontier to date per storm; all efforts undertaken by CL&P to collect from Frontier; and a list of all communications from CL&P to Frontier over the prior six months related to the collection efforts.

4. No later than March 16, 2020, CL&P shall file new electric distribution rates that will take effect on May 1, 2020, reflecting a total storm regulatory asset of $141.026 million, recoverable over six years. The new electric rates shall identify the EADIT used to offset overall distribution rates, and any Rate Year 3 adjustments proposed pursuant to Order No. 12 of the 2018 Decision. The filing shall calculate total bill impacts on customers resulting from the combined data.

5. No later than March 26, 2021, the Company shall file shall file new electric distribution rates that will take effect on May 1, 2021, that reflect the application of the excess post-April 30, 2021 amortization expense from the 2011 and 2012 storm regulatory assets to offset the amortization expense approved herein for the Five Storms regulatory asset, and identify the EADIT refund to customers. The Company shall include in this filing an amortization schedule of the recovery of the remainder of the Five Storms regulatory asset under this proposed rate plan.

**DOCKET NO. 18-11-12 PETITION OF THE CONNECTICUT LIGHT AND POWER COMPANY D/B/A EVERSOURCE ENERGY FOR APPROVAL TO RECOVER ITS 2017-2018 CATASTROPHIC STORM COSTS**

This Decision is adopted by the following Commissioners:

John W. Betkoski, III

Michael A. Caron

CERTIFICATE OF SERVICE

The foregoing is a true and correct copy of the Decision issued by the Public Utilities Regulatory Authority, State of Connecticut, and was forwarded by Certified Mail to all parties of record in this proceeding on the date indicated.



April 17, 2019

Jeffrey R. Gaudiosi, Esq.
Executive Secretary
Public Utilities Regulatory Authority

Date