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December 30, 2024

Jeffrey R. Gaudiosi, Esq.
Executive Secretary
Public Utilities Regulatory Authority
10 Franklin Square
New Britain, CT 06051

Re: Docket No. 19-03-01, PURA Annual Review of the Rate Adjustment Mechanisms of The Connecticut Light and Power Company – (Supplemental Compliance with Order No. 2)

Dear Mr. Gaudiosi:

On December 2, 2024, the Connecticut Light and Power Company d/b/a Eversource Energy ("CL&P" or the "Company") submitted a filing to the Public Utilities Regulatory Authority ("PURA") in compliance with Order No. 2 of the final decision in the annual revenue adjustment mechanism ("RAM") proceeding conducted for CL&P in Docket No. 19-03-01 (the "2019 RAM Decision"), dated December 4, 2019. By this filing, CL&P is revising the capital forecast previously submitted in the December 2 Filing to reflect a downward adjustment.

I. Reduction of 2025 Capital Budget

Order No. 2 of the 2019 RAM Decision directed the Company to submit the budget for its Core Capital and System Reliability/Resiliency programs to PURA on an annual basis.[1] The Company's December 2 Filing in compliance with Order No. 2 reported that the Company planned to invest approximately $469.1 million in 2025 for Core Capital programs and an additional $88.8 million for System Reliability/Resiliency programs, resulting in a total of approximately $557.9 million of planned overall capital expenditures on the CL&P system.[2] As revised, CL&P now expects to invest approximately $411.9 million in 2025 for Core Capital programs and $63.1 million for System Reliability/Resiliency, totaling approximately $475 million in 2025. This is a 15 percent reduction to the previous budget.

II. Cause for the Budget Reduction

On November 18, 2024, PURA issued its final decisions in Docket No. 23-11-02, *Application of Connecticut Natural Gas Corporation and Southern Connecticut Gas Company to Amend Their Rate Schedules*, reducing distribution rates for the Connecticut Natural Gas

[1] Docket No. 19-03-01, Final Decision, Order No. 2 states "No later than November 30, 2020 and continuing until the Company's next general rate case, CL&P shall provide capital program budgets as described in Section II.F.1.a., System Resiliency."

[2] December 2 Filing at Attachment A.

Corporation ("CNG") and Southern Connecticut Gas Company ("SCG"), through PURA-directed disallowances for depreciation expense and rate year plant additions – both of which are funding mechanisms for ongoing capital investment on the distribution system. Numerous other unsubstantiated disallowances are encompassed in the final decisions, as well.

On December 9, 2024, following the issuance of the Avangrid rate decisions, Standard & Poor's Global Ratings ("S&P") downgraded CL&P's credit rating by one notch and, for Yankee Gas Services Company, downgraded the credit rating by two notches. A copy of S&P's downgrade report pertaining to Eversource is provided herewith for informational purposes.[3]

S&P's ratings guidance singles out the Connecticut regulatory environment as the impetus for the downgrade, as most recently reflected in the CNG/SCG rate decisions. Specifically, S&P stated that it has:

> [A]ssessed PURA's rate orders over the past two years, which were materially lower than … assumed under our base-case forecasts, as not credit supportive. In general, we expect utilities to operate in a regulatory jurisdiction that is supportive of their credit quality by allowing for the full recovery of their operating and capital costs in a timely manner. We also expect the regulatory jurisdiction to provide a consistent and predictable regulatory framework that results in cash flow stability. Given the current trend in Connecticut, we now expect that the PURA will continue to order less-than-credit supportive rate case orders over the longer-term.

There is no dispute that S&P's credit downgrades will increase the cost of financing capital investment for customers. However, what is notable about the S&P credit downgrades for Eversource and Avangrid, as well as the subsequent Moody's downgrade for Avangrid[4] and other public investor analysis, is the widespread market acknowledgement that the implausible revenue cuts that PURA has imposed on Aquarion, United Illuminating and now, CNG and SCG, are the product of an unpredictable, inadequate and *continuing* regulatory climate in Connecticut that is not credit or investment supportive.

The outcome of the recent Avangrid rate cases is a striking confirmation that PURA's rate decisions are a function of a pre-determined, politically motivated goal of reducing rates for customers, rather than adhering to law, utility finance principles or even plain economics, and without consideration of the consequences for system reliability and resilience. This stark reality raises concerns for capital cost recovery in the context of any future general distribution rate proceeding. In light of this setback, and combined with the continued constraints on the Company's cash flow associated with deferred storm costs, CL&P has made the difficult decision

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[3] This publication is also publicly available at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/type/HTML/id/3297352.

[4] Moody's Ratings, Ratings Action: *Moody's Ratings downgrades Southern Connecticut Gas to Baa1 and Connecticut Natural Gas to A3; outlooks remain negative*, December 17, 2024, https://www.moodys.com/researchandratings/region/north-america/connecticut/03F013.

to reduce planned capital expenditures for 2025 from its original estimate of $557.9 million to approximately $475 million, as shown in the revised Attachments included herewith.[5]

III. Impact of Reduced Capital Investment

In the past seven years, CL&P's total capital expenditures have averaged about $537 million annually, trending from approximately $470 million in 2018 to $678 million in 2023. At the reduced budget level, the Company's capital expenditures for electric system infrastructure are now approximately 35% below the level that would be optimal to maintain the high level of reliability that electric customers have come to rely on, given the age and condition of the electric system and ongoing capacity demands.[6] To achieve this reduction, the Company has had to shift away from programs that involve proactive replacement and system advancement. Accordingly, reductions to the CL&P capital budget will reduce proactive investments in areas including substation infrastructure upgrades, underground cable replacements, aging distribution line asset replacements and the installation of smart switches on the distribution system that enable the automatic rerouting of power and quick isolation and resolution of customer outages.

The impact of budget reductions over multiple years is expected to result in a drop in system reliability in the range of 12-15 percent over the next five years, after more than 10 years of steady improvement in CL&P's reliability metrics, including a 14% reduction in the average frequency of customer outages; a 17% reduction in the average duration of customer outages; and prolonging the months between interruptions by 17% to 19.3 months. Since 2016, these improvements enabled CL&P to maintain continuous top-tier reliability performance in comparison to its industry peer group. Over the Company's five-year planning horizon, CL&P's reliability performance is now expected to decline to levels not experienced since a decade ago. Customers will experience this decline in service levels through more frequent and longer outages, both during storms as well as on blue-sky days, although reliability will remain above baseline levels set by law.[7]

This expected drop in reliability is unfortunate. However, it is a direct result of PURA's decisions to defund infrastructure investment in distribution rates in its recent rate decisions, which also follow statements made by PURA in Docket No. 17-12-03RE08, *PURA Investigation into*

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[5] For PURA's convenience, the Company is providing redlined copies of the Attachments originally submitted as part of the December 2 Filing, identifying modifications to the CL&P capital plan for 2025.

[6] The budget reductions impact both the 2024 and 2025 investment years. For direct distribution infrastructure investment, CL&P's original 2024 capital budget was $488M for substation and distribution line projects (overhead and underground). For 2024, this budget was reduced to $406M and is now reduced to $370M for 2025, representing a 25% overall reduction in direct distribution infrastructure spending.

[7] SAIDI- and SAIFI-based reliability targets were established through Conn. Gen. Stat. § 16-244i(d), which requires that PURA "ensure that quality and reliability are the same or better than levels existing on July 1, 1998." Docket No. 17-12-03RE08, at 42. In the Decision dated December 22, 2004, in Docket Nos. 03-12-06 and 86-12-03 (Reliability Target Decision), PURA defined the reliability targets to mean the four-year average of SAIDI and SAIFI from 1995 to 1998 (Reliability Targets). Id., citing, Reliability Target Decision at 3. In Docket No. 17-12-03RE08, PURA stated that "state-specific performance standards have been established as well on a system-wide basis, which include a baseline of rolling four-year averages of SAIDI and SAIFI performance. These performance standards remain useful as a baseline minimum standard to evaluate acceptable performance." Id. PURA has acknowledged that the electric distribution companies' reliability performance has typically well exceeded this standard. Id.

Distribution System Planning of the Electric Distribution Companies -- Resilience and Reliability Standards and Programs, August 31, 2022. In the final decision in Docket No. 17-12-03RE08, PURA made a determination that, in a base-rate proceeding, the electric companies must overcome a "rebuttable presumption" that reliability investment above historical levels will constitute "unaffordable rates,"[8] stating as follows:

> [T]he Authority establishes that, for the initial iteration of the Reliability Framework, a rebuttable presumption is appropriate for purposes of determining the threshold for "unaffordable rates" and ultimately containing costs …. Specifically, each EDC's reliability program budget proposed under this Framework ***is unaffordable*** if it exceeds the Company's historic average annual reliability program budget, using a data set of the annual reliability program budgets from the 10 years preceding the chosen test year and factoring in reasonable escalation factors derived from Gross Domestic Product (GDP) Deflator index published by the U.S. Bureau of Economic Analysis.

Final Decision, Docket No. 17-12-03RE08, at 45 (emphasis added).

Accordingly, CL&P will prioritize the available capital resources in a manner that best serves the interests of safe and reliable service to CL&P's 1.3 million Connecticut customers. Available budget dollars will be allotted to projects needed to ensure customer interconnections and system capacity needs, as well as to handle system needs on an emergent basis.

IV. Service Levels Are Determined by the Distribution Rates Set by PURA

Customers pay for their service levels through distribution rates. Continuous, consistent infrastructure investment is needed to maintain existing and improving service levels. However, the Company can only support the level of infrastructure investment that is supported by the rates authorized by PURA. Instead, PURA is taking continued, deliberate steps to cut back on capital investment funding and other expenses when it sets rates. In fact, the only consistent outcome across PURA's five recent rate decisions for Aquarion Water Company of Connecticut, Connecticut Water Company, United Illuminating and now, CNG and SCG, is the reduction of capital funding and/or disallowance of capital cost recovery.

In combination with the increasing cost of capital due to the credit downgrades, PURA's decisions to defund and disallow capital investment for distribution infrastructure is a clear signal that the Company must acknowledge and incorporate into its system infrastructure plans, *i.e.*, PURA's decisions are finding that customers should not pay for the cost of service they are currently receiving and, further, that a reduced cost of service is more important to customers than maintaining and improving service reliability and resiliency or the quality of service. In this

[8] Eversource contested this "rebuttable presumption" in its written exceptions due to the fact that the "affordability cap" appeared for the first time in the Proposed Final Decision without any prior notice or evidence in the record, precluding any evaluation as to its impact or methodological integrity. Eversource Written Exceptions, August 10, 2022, at 11.

troubling and unpredictable regulatory environment, there is no other path for the utilities to take than to adjust their operating plans accordingly.

In addition to declining service levels, reductions in capital investment will have an impact on many other areas of the CL&P electric distribution business and the level of support provided by the Company to its community partners. For example, slightly greater than 50 percent of the work hours performed by the CL&P distribution workforce are devoted to capital work. Consequently, continued capital constraints have the potential to compel staffing reductions, both internal and external, whereas CL&P has already had to release external crews previously performing capital work on the system.

V. Attachments

In support of this filing, the Company has attached the following updated Attachments:

- Attachment A: Attachment A provides the Company's updated 2025 Capital Plan, which shows the changes from the Company's December 2 Filing.

- Attachment B: Attachment B compares the Company's updated 2025 budget for capital expenditures to the updated 2025 projected plant additions.

- Attachment C: The 2019 RAM Decision directed the Company to include an additional exhibit in this filing identifying "capital program budgets/forecasts for the following year and all subsequent years . . . projects in the same level of detail as provided in Response to Interrogatory AC-101, Attachment 1 in the 2017 Rate Case."[9] For informational purposes, Attachment C provides the requested information for 2025 in the same level of detail that was provided in data responses Q-AC-101 in the 2017 rate case. Attachment C shows changes to the December 2 Filing.

- Attachment D: To provide appropriate context for evaluation of the 2025 budget compared to recent annual capital expenditures, the Company has provided Attachment D showing actual capital expenditures in 2021 through 2024, plus updated planned capital expenditures for 2025. Attachment D shows changes to the December 2 Filing.

- Attachment E: December 9, 2024 S&P downgrade of CL&P's credit rating by one notch and, for Yankee Gas Services Company, a downgrade of its credit rating by two notches.

[9] Docket No. 19-03-01, Final Decision, Order No. 2 states "No later than November 30, 2020 and continuing until the Company's next general rate case, CL&P shall provide capital program budgets as described in Section II.F.1.a., System Resiliency." In addition, page 18 of the 2019 RAM Decision stated "In November of each year starting in 2020 and ending with the filing of the Company's next general rate case, the Company is directed to include capital program budgets/forecasts for the following year and all subsequent years up to 2022 for all core capital projects and system resiliency projects in the same level of detail as provided in Response to Interrogatory AC-101, Attachment 1 in the 2017 Rate Case."

If you have any questions in connection with this filing, please do not hesitate to contact Marisa Paruta, Director of Revenue Requirements, at marisa.paruta@eversource.com.

Sincerely,

Vincent P. Pace

Vincent P. Pace
Assistant General Counsel
On Behalf of CL&P dba Eversource Energy

Updated Attachments A through E

cc: Service List