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Witness: Douglas P. Horton and Jared A. Lawrence
Request from: Public Utilities Regulatory Authority

Question:

(AMI) Application, Lawerence and Horton PFT, pp. 33-34. The Company identifies a baseline of $8.4 million currently built into base rates for traditional meter reading and maintenance.

a. Provide a schedule showing how baseline costs by category will be reduced each year as AMR and bridge meters are removed and automated systems take over.

b. Detail the specific accounting steps the Company will take to ensure that the new operating costs the Company will track separately do not double-count costs already covered by the $8.4 million base rate amount.

Response:

a. Please refer to RSR-007, Attachment 1, for a listing of annual benefits assumed in the AMI Benefit-Cost Analysis ("BCA") associated with the Company's AMI meter implementation. The benefits shown in the BCA reflect benefits that will accrue in many different ways to customers. For instance, certain of the benefits represent avoidance of future costs (e.g., avoided meter capital, system costs avoidance) while others reflect savings for customers that would accrue predominantly in non-distribution components of a customer's utility bill (e.g. volt-var optimization). Neither of those types of benefits reduce costs versus the $8.4 million baseline referenced in this question. In fact, while there will be some cost reductions experienced by CL&P distribution operations, the net impact is expected to be an increase, rather than a decrease to the distribution cost of service, since the majority of the benefits that will be enabled by AMI will not reduce distribution costs. Please refer to lines 1-20 of RSR-007, Attachment 1, for a listing of AMI-related benefits underlying the BCA, which can be found within OCC-397, Attachment 1 CONFIDENTIAL, Tab 1.3. The Company has also provided the projected balance of meter population by meter type on lines 21 and 22, which can be found within OCC-397, Attachment 1 CONFIDENTIAL, on Tab 1.2 lines 146 and 132 respectively.

b. In the event PURA supports and authorizes the AMI cost recovery framework, the Company will establish the Test Year meter-related expense recovered in base distribution rates in FERC Accounts 586, 587, 902 and 903 as the baseline level of costs that will offset the incremental AMI-related O&M costs to reflect a net incremental AMI-related O&M

costs that would later recovered through securitization. As described in Part A of this response, only certain of the benefits enabled by AMI will yield savings to the Company's distribution operations and its cost of service. The Company's cost recovery proposal related to incremental AMI operating and maintenances expenses is designed to ensure that the Company will only recover costs that are (i) associated with and caused by the implementation of AMI and (ii) are incremental to amounts recovered in base rates in order to ensure that the Company is not recovering the same costs in two places (i.e., in base rates and in the AMI cost recovery proposal). As noted in the Company's testimony at Exhibit CLP-AMI-1, pages 34 through 35, "[f]irst, the Company will track all AMI-related costs in a separate accounting line of business and work order which will be specific to the deployment of AMI only. This process will isolate all AMI-related costs that are recorded to the identified FERC accounts. Additionally, the Company will propose to defer for future recovery in rates the lesser of the specific AMI costs identified in a particular annual period or the net change to the non-tracked distribution component (Line of Business 11100) of FERC Accounts 586, 597, 902 and 905 from the test year amount of $8.4 million, adjusted each year under the approved PBMRP. In this way the Company will account for savings that offset the cost of AMI implementation and ensure that costs outside of AMI implementation are not recovered as incremental."

To accomplish this objective the Company will track all AMI-related O&M expenses in a separate line of business so that they are isolated and distinct from non-AMI related meter reading expenses. It will then compare the total of the AMI-related O&M expenses and the non-AMI related O&M expenses (i.e., the amounts recorded to FERC Accounts 586, 597, 902 and 905) against the baseline amount collected in base rates to those same accounts ($8.4 million in the test year, as adjusted by the PBRMP annually, assuming PURA accepts the Company′s test year amounts in base rates and assuming PURA adopts the Company′s proposed PBMRP proposal both as proposed in this proceeding.

Please see below for an illustrative example assuming $10 million of incremental O&M AMI expenses under two different assumptions of baseline O&M expenses recorded to FERC Accounts 586, 597, 902 and 905

1. Scenario 1 Assumptions:
    a. $10 million AMI-related O&M expense
    b. actual O&M expense of $7 million recorded to FERC Accounts 586, 597, 902 and 905
    c. $8.4 million of baseline O&M established in base rates. NOTE that this amount will be adjusted (increased) due to the application of the PBR O&M adjustment, if adopted in this proceeding. For purposes of this illustrative example this adjustment has not been applied.

	Non-AMI-related O&M	AMI-Related O&M	Total Meter-Related O&M
Basline O&M	$8.4	$0.0	$8.4
Actual O&M	$7.0	$10.0	$17.0
Incremental AMI related O&M*			$8.6

In this scenario, under the Company's proposal, the Company would recover $8.6 million incremental AMI O&M, since its non-AMI related O&M is $1.4 million less than the amount in base rates. Therefore, the recoverable incremental AMI-related O&M is reduced by that delta ($10 million - $1.4 million = $8.6 million).

2. Scenario 2 Assumptions:
    a. $10 million AMI-related O&M expense
    b. actual O&M expense of $11 million recorded to FERC Accounts 586, 597, 902 and 905
    c. $8.4 million of baseline O&M established in base rates. NOTE that this amount will be adjusted (increased) due to the application of the PBR O&M adjustment, if adopted in this proceeding. For purposes of this illustrative example this adjustment has not been applied.

	Non-AMI-related O&M	AMI-Related O&M	Total Meter-Related O&M
Basline O&M	$8.4	$0.0	$8.4
Actual O&M	$11.0	$10.0	$21.0
Incremental AMI related O&M*			$10.0

In this scenario, under the Company's proposal, the Company would recover $10 million incremental AMI O&M. The Company's non-AMI related O&M is $2.6 million *more* than the amount in base rates. Therefore, the recoverable incremental AMI-related O&M is limited to the $10 million of incremental AMI related O&M. Non-AMI-related O&M cost increases are not eligible for separate cost recovery under the Company's proposal.

*Incremental AMI-related O&M is the lesser of the AMI-related O&M and the difference between total meter related O&M and the baseline amount.