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Witness: Donald J. Scacco Jr., Digaunto Chatterjee, Douglas P. Horton, Brendan J. O'Brien, Garrett J. Murray and Julia Frayer
Request from: Public Utilities Regulatory Authority

Question:

(UNIT COST) Application, Sch. G-2.14 and Ex. CLP-PBR-3; Interrog. Resp. EOE-123, Att. 1. Regarding the compensation and staffing levels measured on a unit cost basis:

a. For each calendar year from 2021 through 2025, the interim year and the Rate Year, provide, the number of customers, circuit miles, the year-end full-time equivalent count, total operating and maintenance expense, total compensation expense, and total payroll expense.

b. For each calendar year from 2021 through 2025, provide an exhibit that shows customers per full-time equivalent, circuit miles per full-time equivalent, total compensation per customer, operating and maintenance expense per customer, and payroll expense per customer.

c. Provide the average of each ratio for 2021 through 2025 and compare the Test Year and Rate Year values to that average. Explain each variance exceeding five percent.

d. Reconcile the Test Year and Rate Year operating and maintenance cost per customer to the finding in Exhibit CLP-PBR-3 that operating and maintenance cost per customer averaged 22.9% above the industry average.

Response:

a. Please refer to RRU-086, Attachment 1, for the requested data for historical years 2021-2025, and Rate Year data elements.

Historical data has been provided for:

- # of Customers (12-month Average) – Previously provided in response to CIEC-010[i];
- # of Line Miles (as of December 31st) – Data from Form 10-K, Item 2. Properties;
- Year-End Full Time Equivalent (FTE) Count – The FTE Count provided in this response is for CL&P Distribution; previously provided in OCC-042, Attachment 1;
- Core Operating Expenses ($K) – Core Operating Expenses excludes expenses recovered separately or not subject to management annual control; previously provided in OCC-432, Attachment 1;

- Total Compensation Expense ($K) – The Company defines Total Compensation Expense as Payroll Expense plus Variable Compensation plus Employee Benefits. Previously provided as part of Exhibit CLP-REVREQ-3, lines 21, 22, 23 and 28;

- Total Payroll Expense ($K) – Previously provided as part of Exhibit CLP-REVREQ-3, line 21.

Rate Year data has been provided for:

- # of Customers – Previously provided in OCC-514, Attachment 1.

- Year-End Full Time Equivalent (FTE) Count – Sum of 2025 YE plus CLP incremental FTEs as provided in OCC-333, Attachment 1;

- Total Compensation Expense ($K) and Total Payroll Expense ($K) – Previously provided in Exhibit CLP-REVREQ-2, lines 22, 23, 24, and 29 of Schedule C-3.0.

The Company does not have the requested data for the remaining Rate Year data elements and Interim Year data. The Company does not forecast these data points and does not necessarily agree that all of the computations and comparisons set forth herein are generally reliable indicators of performance or operational trending.

b. Please refer to RRU-086, Attachment 1, for the following ratios for 2021-2025: Customers per FTE; Line Miles per FTE; Core Operating Expenses per Customer (previously provided in OCC-432, Attachment 1); Total Compensation Expense per Customer; and Total Payroll Expense per Customer.

c. Please refer to RRU-086, Attachment 1, for the 5-year average of all data and ratios provided for subparts (a) and (b).

Regarding variances between the 5-year average ratios and the Test Year (2025 YE) ratios, those variances are provided in the referenced attachment and are generally within five percent. Total Compensation Expense per Customer and Total Payroll Expense per Customer are slightly outside the 5.0% variance at 5.1% and 5.6% respectively.

The primary driver for these variances is a function of the fact that the 5-year averages are lower due to variation in 2022 actuals for Total Payroll Expense and Total Compensation Expense. The 2022 Total Compensation Expense per Customer ratio is 26% lower than the 5-year average and the 2022 Total Payroll Expense per Customer ratio is 10% lower than the 5-year average. For Total Compensation Expense ($K), the primary driver is the Employee Benefits reported for 2022 (Line 28 of Exhibit CLP-REVREQ-3). The Company provided an explanation of the variances for expenses between 2022 and 2025 in OCC-069 Attachment 1.

Regarding Total Payroll Expense ($K) variance in 2022, there are a variety of drivers, including higher storm-related Employee Payroll in 2022, and the direct labor capital/expense split being higher to capital in 2022. Please refer to OCC-330, Attachment 1, for the percentage of payroll charged to capital and expense for each of the years, 2021 to 2025.

Ratios for the Rate Year are not available for two of the requested ratios, Line Miles per FTE and Core Operating Expenses per Customer. As discussed above in subpart (a), Rate Year data is not available for all components needed to calculate the ratios.

Regarding variances between the 5-year average ratios and available Rate Year ratios, those variances are provided in the referenced attachment. As noted with the comparison between the 5-year average and the Test Year, Total Compensation Expense per Customer and Total Payroll Expense per Customer are outside the 5.0% variance. Drivers for these variances include the same drivers noted above with relation to 2022 driving down the 5-year averages. Additionally, regarding Payroll Expense for the Rate Year, as discussed in Exhibit CLP-EMPLOYEE-1 testimony, the Company projects annualized increases of approximately 3% for union wage rates and merit increases for non-union employees through the Rate Year in order to maintain market-competitive compensation and support the attraction and retention of a skilled workforce, and has included a small number of incremental positions in the Rate Year, both direct and allocated.

Although the Company maintains salary increases of 3% into the Rate Year, staffing has increased between 2021 and 2025, which impacts overall salary and payroll increases. Total Compensation Expense, as noted in the referenced testimony, is influenced by growth in employee benefit costs, including continuing healthcare cost increases, as well as ongoing retirement benefit costs associated with maintaining competitive total rewards programs for employees. These increases in payroll and employee benefits contribute to the higher Total Compensation Expense in the Rate Year.

d. Exhibit CLP-PBR-3 explains that CL&P's OM&A cost per customer averaged 22.9% above the industry average represents the average annual percentage difference between CL&P's OM&A cost per customer and that of the 88 electric distribution companies included in LEI's Unit Cost Benchmarking Study over the 2015–2024 period. It is not a measure of the Company's Test Year or Rate Year O&M cost per customer.

As explained in Section 3.2 of Exhibit CLP-PBR-3, LEI's analysis used historical FERC Form 1 data to calculate distribution-related OM&A expenses, including distribution, customer accounts, customer service and informational expenses, sales, and the portion of administrative and general ("A&G") expenses allocated to distribution operations. LEI excluded FERC Account 908 (Customer Assistance Expenses) and expenses unrelated to electric distribution operations. These expenses were converted to real, inflation-adjusted dollars (using GDP-FSDP) and divided by the corresponding customer counts.

In contrast, the Company's calculations in RRU-086, Attachment 1, for Core Operating Expense per Customer, uses its definition of Core Operating Expenses, as noted in subpart (a), which differs from the OM&A expense definition used in LEI's study. For example, Core Operating Expenses exclude certain separately recovered or non-controllable costs, including vegetation management, storm costs, and pension expenses. The Company's calculations also use nominal dollars and twelve-month average customer counts.

Given the differences in cost definitions, measurement methodologies, and periods of analysis, LEI's historical unit cost benchmarking results are not directly comparable to the Test Year and Rate Year Core Operating Expense per customer figures. The 22.9% finding represents CL&P's historical cost performance relative to the industry average over the 2015–2024 period, rather than a measure of the Company's Test Year or Rate Year operating expenses.

Of the ratios presented in this response, the Company views Core Operating Expense per Customer as the more meaningful measure of operating efficiency and proposed this ratio as a metric in Exhibit CLP-ELP-3.

Unlike Customers per FTE, Line Miles per FTE, Total Compensation Expense per Customer, and Total Payroll Expense per Customer, Core Operating Expense per Customer captures a range of costs associated with operating and maintaining the distribution system and serving customers that are generally within the Company's control. As discussed in Exhibit CLP-ELP-1, at 95, measuring Core Operating Expense on a per-Customer basis accounts for customer growth and focuses on changes in operating efficiency rather than system size.

Staffing-based ratios do not consider the use of centralized functions and shared resources, while compensation- and payroll-based metrics may fluctuate due to changes in employee benefits, storm-related labor costs, labor capitalization rates, and other factors that are not necessarily indicative of changes in operating efficiency. Accordingly, Core Operating Expense per Customer provides a relatively better basis for evaluating efficiency and cost management trends over time.

Prior Referenced Response

[i] CIEC-010 Question:

(Capital Additions Panel) Specify the total number of customers served by Eversource during each of the last ten years.

CIEC-010 Response:

The table below reports the total number of customer accounts served by CL&P in the years 2015 through 2025.

Year	**Number of Customers**
2025	1,309,940
2024	1,290,879
2023	1,281,654
2022	1,276,313
2021	1,272,110
2020	1,264,653
2019	1,256,150
2018	1,251,053
2017	1,245,042
2016	1,238,337
2015	1,230,278

Source: FERC Form 1, at page 304.