To: Files

From: [redacted] and [redacted]

Re: Tropical Storm Isaias Capitalization

The purpose of this memo is to document the review and oversight of the storm capitalization process and specifically the review, oversight and approval of the capitalization of storm costs incurred during Tropical Storm Isaias.

As background, the Company follows a standardized process for the identification and calculation of storm costs to be capitalized. Following a storm event and prior to filing for storm cost recovery, the Company goes through a comprehensive review and reconciliation process of all storm costs. As part of this review, the storm team in the Finance Organization reviews all materials charged to the storm workorder to determine if any are units of property. This is critical as it is needed to determine what capital assets are being installed and therefore should be excluded from any deferred storm cost recovery and appropriately recorded in our Plant Accounting continuing property records and asset register. Once all the unit of property materials are identified, the Company uses a standardized spreadsheet to compute the labor costs to be removed from the storm costs that are attributed to the installation of these materials. The calculation is based on the work management system installation and removal time estimates grossed up for additional time due to the storm working conditions. This calculation is consistent with the Company's calculation reviewed and approved by PURA during the last storm filing in 2018 and also adds in a portion of food and lodging costs. (Reference docket 18-11-12)

Due to the magnitude of Tropical Storm Isaias, the Company, in accordance with PURA requests, provided extensive information supporting these storm costs and again provided these costs in the most recent storm filing review of 2018-2023 storm costs.

The capitalization of costs for Tropical Storm Isaias was initially booked in October 2020 and subsequently trued up in December 2020 as additional reviews were conducted and final scrubbing of all materials that are capital assets was completed.

All journal entries supporting the capitalization of costs went through the appropriate level of reviews throughout the storm accounting and review process with appropriate sign offs from Investment Planning, Budgeting, and Accounting.

Due the magnitude of the capitalization ($19.5M – total costs), the Company reviewed the detailed calculations with the Finance Directors and the Vice President, Financial Planning and Analysis who discussed with the Chief Financial Officer.

APPENDIX

Excerpt from 18-11-12 Overview of Capitalization Process (pages 6-7)

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 expenses4 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 property5 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.
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 $[redacted] hr. and the average external crew rate was $[redacted]/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.