



JOINT PRE-FILED TESTIMONY OF  
EVERSOURCE ENERGY

Before the Energy & Technology Committee

March 3, 2022

**RE: H.B. 5203, An Act Concerning Utility Company Cost-Sharing Mechanisms.**

This testimony is jointly sponsored by Stephen T. Sullivan, President, Connecticut Light and Power Company; Douglas P. Horton, Vice President-Distribution Rates and Regulatory Requirements for Eversource; and Vincent P. Pace, Assistant General Counsel for Eversource. Eversource thanks the Committee for this opportunity to submit written testimony on H.B. 5203 (the “Bill” or “H.B. 5203”). Thank you for providing Eversource with this opportunity to submit written testimony to the Energy and Technology Committee on this Bill.

**BACKGROUND ON EVERSOURCE**

Eversource transmits and delivers electricity to approximately 1.27 million customers in 149 municipalities in Connecticut; provides natural gas to approximately 246,000 customers in 74 towns in Connecticut; and provides water service to approximately 216,000 customers in 52 towns in Connecticut through Aquarion Water Company. Eversource relies heavily on the skill and dedication of approximately 3,500 employees in Connecticut to deliver safe and reliable electric, natural gas and water service to customers, along with superior customer service.

**SUMMARY OF COMMENTS ON H.B. 5203**

To facilitate the Committee’s review of Eversource’s comments on this Bill, we are providing the following matrix that summarizes our response to Sections 1 through 7 of the Bill.

Bill Sec.	Summary of Provision	Eversource View
1.	<p>Converts revenue decoupling for electric and gas utilities from a mandatory requirement to an optional requirement.</p> <p>If PURA decides to implement decoupling in a future rate case, then PURA controls the methodology for doing so.</p>	<p><b>We look forward to working with the Committee and other stakeholders to evaluate these changes.</b></p> <p>This mechanism collects the utility’s <u>approved revenue level</u>. Utility revenues may go up or down due to weather, energy efficiency, or economic trends.</p> <p>If PURA has approved rates to generate \$100 of <u>revenue</u> through rates, then this mechanism makes sure that the utility collects no more and no less than \$100.</p> <p>If <u>costs</u> have risen to \$110, or reduced to \$90, this mechanism does not make any adjustment. It always just recovers the authorized revenue</p>

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		<p>level, no more no less.</p> <p><b>Needs Safeguards:</b> Statutory provision should at least state the objective sought to be achieved by the mechanism to ground implementation.</p>
2.	<p>Materially changes the current standard for evaluating if a utility company is over-earning its allowed ROE, warranting an interim rate decrease.</p> <ul style="list-style-type: none"> <li>• Current standard is: Was the utility over-earning its allowed ROE by <u>100 basis points for the last 12 months</u>?</li> <li>• New standard: Was the utility over-earning its allowed ROE by at least <u>50 basis points during any two of the past four quarters</u>?</li> </ul>	<p><b>Eversource understands the attraction of this change, but it will materially reduce the incentive for utilities to cut costs between rate cases.</b></p> <p>This may appear customer friendly, but it diminishes the best tool PURA has to promote cost-control incentives between rate cases.</p> <p>Utilities cannot ever over-earn unless they reduce actual costs below what is included in current rates. Where the utility is allowed to keep a margin over the authorized rate of return between rate cases, there is a strong incentive for utilities to strive to control costs and increase profit. This is the essence of performance-based ratemaking. If utilities have reduced costs between rates cases, those reduced costs are beneficial to customers when rates are next set (i.e., rates are lower than they would otherwise be).</p>
2.	<p>Eliminates requirement for PURA to allow for due process to “find” that there is a basis for opening an interim rate proceeding. Instead, PURA can unilaterally issue a notice to open a proceeding without taking evidence or comment from others.</p>	<p><b>Eversource recommends against this change because it eliminates an important due process step that is designed to protect customers, as well as utilities.</b></p> <p>As currently written, PURA conducts full rate reviews on a rolling 4-year cycle. If PURA believes that there is a reason that rates should be reduced <u>between rate cases</u>, PURA must conduct a process to “find” that there is a possible basis for an interim rate reduction. Under the Uniform Administrative Procedures Act, PURA must allow participation of other parties (AG, DEEP, OCC); have evidence; and issue a written statement of reasons supporting the decision to open the interim rate reduction proceeding. This protects customers from false starts.</p> <p>Utilities are allowed to <u>claw back</u> rate reductions from customers, if erroneously granted. Therefore, this due process <u>protects customers</u> by making sure that the rate reduction has a strong foundation with comment from other important stakeholders.</p>
2.	<p>Adds language allowing PURA to reduce rates to lower the authorized rate of return, without a full rate-review.</p>	<p><b>Eversource recommends against this change because the rate of return is a cost of service and it is not possible for PURA to set “just, reasonable and adequate” rates while changing only the rate of return, outside of a full cost review.</b></p> <p>The standard for setting rates to be “just, reasonable and adequate” is established in § 16-19a and requires PURA to look at the utility’s cost of service as a whole (i.e., to determine rates are “adequate”). The</p>

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		<p>proposed change to this language does not remove these legal, statutory terms. Therefore, language allowing an interim rate reduction to change only the rate of return is inconsistent with other parts of CT law and likely violates the constitutional requirements for setting the rate of return.</p> <p><b>Lacks symmetry.</b> PURA would never allow utilities to file with PURA for an <u>increase</u> in the authorized rate of return without a full base-rate filing. Because PURA needs to look at all cost components to set just, reasonable and adequate rates.</p>
2.	<p>Adds language allowing PURA to require any earnings in excess of the authorized rate of return to be shared at least 80% with customers (20% for utility).</p> <p>Current sharing is 50/50.</p>	<p><b>Eversource recommends against this change because it will materially reduce the incentive for utility cost cutting between rate cases.</b></p> <p>This may appear customer friendly, but it diminishes the best tool PURA has to promote cost-control incentives between rate cases.</p> <p>Utilities cannot ever over-earn unless they reduce actual costs below what is included in current rates. Where the utility is allowed to keep a margin over the authorized return between rate cases, there is a strong incentive for utilities to strive to control costs and increase profit. This is the essence of performance-based ratemaking. If utilities have reduced costs between rates cases, those reduced costs are beneficial to customers when rates are next set (i.e., rates are lower than they would otherwise be).</p>
3.	<p>Changes existing law to state, if an electric utility is holding funds that are owed to customers, PURA can direct funds to be returned to customers immediately and in whatever format PURA deems appropriate.</p>	<p><b>We look forward to working with the Committee and other stakeholders to evaluate these changes.</b></p>
4.	<p>Imposes a new requirement that electric and gas companies must file annually with PURA a detailed report on any advertising that is paid for by ratepayers. Failure to provide complete and accurate data will result in fines.</p>	<p><b>We look forward to working with the Committee and other stakeholders to evaluate these changes.</b></p> <p>Penalty provisions require specificity as a matter of law. There is not sufficient definition as to what “data” has to be complete and accurate.</p>
5.	<p>Requires PURA to take into consideration “macroeconomic” conditions – i.e., what’s going on in the larger economy and with consumers – when PURA decides how to allocate the cost of running</p>	<p><b>We look forward to working with the Committee and other stakeholders to evaluate these changes.</b></p> <p>What is the definition of “macroeconomic” conditions for purposes of this statute? This term is unclear and lacks direction as to how to be applied, and therefore, should be clarified.</p>

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	the utility business among different classes of customers.	
6.	<p>Amends the 2018 CL&amp;P rate case settlement agreement by ending CL&amp;P’s ability to recover \$300M annually in a tracking rate called the “ESI” until the time of CL&amp;P’s next rate case.</p> <p>It also appears to amend an on-billing reconciling mechanism for capital investments to replace leak-prone pipes approved for Yankee Gas in a 2018 rate case settlement.</p>	<p><b>Eversource recommends against this change. This change would not only eliminate timely regulatory support for important electric work projects in CT by deleting an existing rate mechanism, but also appears to eliminate a Yankee Gas rate mechanism allowing for timely recovery for the removal of leak-prone pipes.</b></p> <p>This section runs afoul of the Contracts Clause to the U.S. Constitution because it deletes an indispensable element of a PURA-approved 2018 settlement agreement between CL&amp;P, OCC and PURA’s Prosectuorial Unit in Docket 17-10-46; and it appears to delete a rate mechanism allowing for the timely recovery of the replacement of old and leak-prone pipes in a PURA-approved 2018 settlement agreement between Yankee Gas, OCC and PURA’s Prosectuorial Unit in Docket 18-05-10.</p>
7.	Prevents all utilities from recovering in rates any membership dues or fees to any non-profit trade or business organization, group or entity.	<p><b>We look forward to working with the Committee and other stakeholders to evaluate these changes.</b></p> <p>This change prevents Eversource affiliates from recovering in rates any dues paid to: (1) Connecticut-based trade, commerce and community groups such as chambers of commerce, the CBIA, and the MetroHartford Alliance; and (2) industry organizations that provide necessary expertise and knowledge to utilities such as EEI and AGA. In particular, EEI manages the deployment of mutual aid crews for storm restoration.</p> <p>Lobbying costs associated with lobbying activities undertaken by these entities are already barred from recovery in rates.</p>