STATE OF CONNECTICUT
PUBLIC UTILITIES REGULATORY AUTHORITY

APPLICATION OF THE CONNECTICUT	:	Docket No. 23-11-02
NATURAL GAS CORPORATION AND	:	
THE SOUTHERN CONNECTICUT GAS	:	
COMPANY TO AMEND THEIR RATE	:	
SCHEDULES - SCG	:	June 20, 2024

BRIEF OF WILLIAM TONG, ATTORNEY GENERAL FOR THE STATE OF CONNECTICUT

William Tong, Attorney General for the State of Connecticut ("Attorney General"), hereby submits his brief regarding the Southern Connecticut Gas Company's ("SCG" or the "Company") Application to Amend its Rate Schedule ("Application") filed on November 3, 2023. In its Application, SCG proposes to increase its rates by $40.2 million. Late Filed Exhibit ("LF") 211, Schedule A-1.0. SCG's proposed rate hike would increase its distribution revenues by about 19 percent and overall bills by more than 9 percent. Application, 2.

For the reasons stated herein, the Attorney General respectfully urges the Public Utilities Regulatory Authority ("PURA" or "Authority") to reject SCG's rate hike request in its entirety as unjustified and unwarranted, resulting in rates that are higher than just and reasonable levels. Instead, the Authority should *decrease* rates and provide much needed rate relief for SCG's customers.

The Attorney General has identified a number of adjustments to the Company's cost of capital and has documented multiple unnecessary expense items that the Authority should disallow. These adjustments – together with those identified by the Office of

Consumer Counsel[1] and other parties - would reduce SCG's proposed revenue requirement by $7 million to $13 million per year from current levels, ensuring that rates are no more than just and reasonable and providing substantial rate relief for its customers. This rate adjustment would result in a modest overall bill decrease of about 1.6 to 3 percent.

I. SCG'S APPLICATION

SCG is a gas distribution company in the State of Connecticut, serving more than 208,000 customers in 24 municipalities along the southern Connecticut coast. Application, 7. In its Application, SCG sought to increase its rates by nearly $40.2 million above what is currently authorized. LF-211, Schedule A-1.0. The Company further proposed that the Authority authorize SCG to earn a return on equity ("ROE") of 10.2 percent. Application, 2; Bulkley pre-filed testimony ("PFT"), 6. This proposed ROE is 94 basis points higher than the Authority approved for SCG in its last rate case seven years ago. Final Decision, Docket No. 17-05-42, *Application of the Southern Connecticut Gas To Increase its Rates and Charges*, at 8. SCG claims to have an overall revenue deficiency that is caused principally by its "capital investments that are needed to maintain safe and reliable service, including the replacement of leak-prone pipe, and associated increases in rate base, depreciation and property tax." Application, 3.

The rates proposed by SCG exceed levels that could be considered just and reasonable for the following reasons. First, SCG's proposed ROE is too high. It is based

[1] The OCC has already identified an overall revenue sufficiency for SCG of $7.2 for the rate year, all of which should be returned to ratepayers in the form of lower rates. Larkin PFT, 4. The EOE's cost of capital expert has provided testimony supporting a lower return on equity ("ROE") that could save customers up to an additional $4 million. The AG and the EOE propose reducing the Company's equity ratio, which could save customers an additional $2 million.

upon a flawed analysis and is substantially higher than recent Authority decisions. Second, the Company's proposed capital structure is uneconomic and burdensome. SCG's proposed equity level of 53 percent is higher than the gas distribution company average of 43 percent, thereby unnecessarily increasing costs to ratepayers. Rothschild PFT, 76. Third, the record in this proceeding shows that SCG has overstated numerous expense items. These expense items include depreciation expense, board of directors' costs, fees and dues, investor relations costs and incentive compensation.

Many of Connecticut's residents face difficult economic circumstances. High inflation has increased costs for core necessities like food, housing and energy, and the Federal Reserve's inflation fighting measures have increased the costs of borrowing for everything, including home mortgages, car payments, and credit card debt. Many consumers – especially those on fixed or limited incomes – are simply unable to absorb any further increases in their cost of living. These customers are entitled to expect that the Authority and all the participants in this proceeding will work to ensure that the gas distribution rates approved will be no higher than absolutely necessary.

II DISCUSSION

A. The Authority Should Reject SCG's Proposed ROE and Capital Structure

In its Application, SCG proposed that the Authority approve a ROE for the Company's shareholders of 10.2 percent. Application, 2; Bulkley PFT, 6. This ROE, if approved, would be the highest authorized return for any of the State's principal regulated public service companies. Moreover, it is 94 basis points higher than SCG's current authorized ROE of 9.26 percent. Final Decision, Docket No. 17-05-42, *Application of the Southern Connecticut Gas To Increase its Rates and Charges*, at 8.

The Authority's most recent rate case decisions have indicated the true cost of equity is far lower than that proposed by SCG. On May 29, 2024, the Authority issued a proposed final decision in Docket No. 22-08-32, *Application of the Connecticut Water Company to Amend its Rate Schedules* preliminarily awarding the Company an ROE of 9.2 percent. Proposed Final Decision, 1. PURA also recently authorized the United Illuminating Company a base return of 8.8 percent, less 52 basis points in penalties for an effective return to 8.28 percent. See Final Decision, Docket No. 22-08-08, *Application of the United Illuminating Company to Increase its Rates and Charges*, 1. The Aquarion Water Company received a return of 8.7 percent. Final Decision, Docket No. 22-07-01, *Application of Aquarion Water Company of Connecticut to Amend its Rate Schedule*, at 1. The Connecticut Light and Power is currently authorized an ROE of 9.25 percent. Docket No. 17-10-46, *Application of the Connecticut Light and Power Company d/b/a/ Eversource Energy to Amend its Rate Schedules*, Decision, dated Apr. 18, 2018, at 18. The Connecticut Natural Gas Corporation is authorized to earn a 9.3 percent ROE. Final Decision, Docket No. 18-05-16, *Application of Connecticut Natural Gas Corporation To Increase its Rates and Charges*, Decision, dated Dec. 19, 2018, at 10-11. The Yankee Gas Services Company has an authorized ROE of 9.3 percent. *See* Docket No. 18-05-10, *Application of the Yankee Gas Services Company d/b/a/ Eversource Energy to Amend Its Rate Schedules*, Decision, dated Dec. 12, 2018, at 11.

SCG's requested ROE is 90 basis points higher than the next highest ROE among the state's regulated utilities and 150 basis points higher than the last two final rate case decisions issued by the Authority. The Company's requested ROE is simply out of touch with current financial markets, investor expectations and Authority precedent. This is especially true where, as here, gas distribution utilities present the lowest risk profile

among regulated industries. As noted by the Office of Consumer Counsel's cost of capital expert:

> [a]s shown in Table 5, the gas distribution industry is among the lowest risk industries in the U.S. as measured by beta. As such, the cost of equity capital for this industry is amongst the lowest in the U.S., according to the CAPM.

Woolridge PFT, 72.

SCG's ROE request is further based upon a flawed and unreliable cost of capital analysis. First, SCG proposed a capital structure that includes a relatively high level of equity as compared with industry standards and the proxy group. In addition, SCG's testimony in support of its proposed ROE of 10.20 percent contains errors that have distorted the Company's discounted cash flow ("DCF"), capital asset pricing model ("CAPM") and risk premium ("RP") analyses and inflated its proposed ROE. As a result, the Company's proposed ROE is higher than other similarly situated gas distribution companies and substantially higher than the levels recently approved for Connecticut's other public service companies.

The Attorney General generally supports the OCC's cost of capital testimony as well as the Authority's Education, Outreach and Enforcement ("EOE) testimony. The EOE recommends an ROE of 8.28 percent[2] and the OCC recommends an ROE of 9.125 percent, Rothschild PFT, 8-10; Woolridge PFT, 72. Adjusting SCG's proposed ROE from 10.2 percent to the 9.125 percent would result in a rate reduction of approximately

[2] Assuming Rothschild's recommended capital structure with 47.2 percent equity. In the event the Authority used SCG's proposed equity level if 53 percent equity, Rothschild would reduce SCG's authorized ROE to 8.05 percent to account for the lower risk profile. Rothschild PFT, 9-10.

$6.9 million per year.[3] Adjusting SCG's proposed ROE from 10.2 percent to the 8.28 percent would result in a rate reduction of approximately $12.3 million per year.[4] The Attorney General believes that these two estimates provide the reasonable range for the Authority to determine an appropriate ROE.

1. The Authority Should Reject SCG's Proposed Capital Structure

In its Application, SCG proposed a capital structure of 53 percent common equity and 46.13 percent long-term debt, 0.87 percent short-term debt. Bulkley PFT, 60; LF-211, Attachment A-1.0. The Authority should reject the Company's proposed capital structure because it is economically inefficient and does not effectively balance the interests of the Company and its ratepayers. The cost of equity is much higher than the cost of debt. The Company projects its cost of equity as 10.2 percent, its cost of long-term debt as 4.54 percent. Woolridge PFT, 4. Moreover, because of the income tax responsibility associated with the use of common equity in the capital structure, that form of capital is nearly three times more costly than debt capital. Increasing the Company's equity component relative to less expensive debt raises the overall cost of capital and, therefore, is more expensive for ratepayers. Woolridge PFT, 28-30. "If the proportion of equity is too high, rates will be higher than they need to be." *Id.*, 29.

In the present case, SCG's proposed capital structure "has a significantly higher common equity ratio[s] (53%) than the average common equity ratio used by other gas utility companies in the country (47.2%)." Rothschild PFT, 76.

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[3] This $6,893,975 represents 107.5 basis points difference in ROE times SCG's pretax revenue requirement of $6,413,000 for each 100 basis points. LF-211, Schedule A-1.0 A.
[4] This $12,312,960 represents 192 basis points difference in ROE times SCG's pretax revenue requirement of $6,413,000 for each 100 basis points. LF-211, Schedule A-1.0 A.

> When a regulated gas utility's actual capital structure contains a high equity ratio, the regulator's options are: (1) to impute a more reasonable capital structure and to reflect the imputed capital structure in revenue requirements; or (2) to recognize the downward impact that an unusually high equity ratio will have on the financial risk of a utility and authorize a lower common equity cost rate than that for the proxy group.

Woolridge PFT, 30.

The Attorney General recommends that the Authority impute a capital structure with a lower equity to debt ratio. The EOE's witness proposes an equity ratio of 47.22 percent and 51.91 percent debt. Rothschild PFT, 76.

> Absent evidence from SCG in support of the need for a different capital structure, using the average capital structure of the proxy group is consistent with the PURA's duty to set reasonable rates []. Authorizing a regulatory capital structure for SCG with a common equity ratio higher than other comparable utility companies without justification will result in unreasonably high rates.

Id. The OCC's witness made no adjustments to SCG's proposed capital structure. Woolridge PFT, 31. Nonetheless, "[w]hile I am adopting the proposed capital structure, I will take this higher common equity ratio and lower financial risk in adopting an ROE in this case." *Id*.

The Attorney General recommends that the Authority impute a lower equity level in SCG's capital structure to ensure SCG's customers are not paying more than they should. The Authority has consistently imputed more reasonable capital structures on utilities when their proposed structure has become unduly burdensome for ratepayers, both as a means to reduce costs and to guide and encourage companies to adjust their debt-to-equity levels appropriately. The Authority should make a similar adjustment here. Reducing the Company's proposed capital structure from 53 percent equity to 50 percent equity will reduce the proposed weighted cost of capital from 7.56 percent to 7.39

percent. This reduces SCG's revenue requirement by an additional $2,054,324 a year.[5] In the alternative, if the Authority accepts the 53 percent equity levels the Authority should adjust the authorized ROE downward to reflect the decreased risk associated with the lower debt levels. Rothschild PFT, 76. Rothschild recommends this downward adjustment to be about 23 basis points. Rothschild PFT, 9-10.

2. The Authority Should Reject SCG's Discounted Cash Flow Analysis and Risk Premium / Capital Asset Pricing Model Analysis of the Cost of Equity

The Authority should reject the Company's ROE analysis as it is as it is upwardly biased in its DCF growth forecasts and because it posits a highly inflated CAPM risk premium of 8.8 percent. Overall, the Company's analysis is less persuasive than those presented by the OCC or the EOE.

A. DCF

The Attorney General generally supports the principal reliance upon the DCF analysis as opposed to determinations of market risk premium. The EOE and the Company used the same proxy group consisting of five natural gas distribution companies. Buckley PFT, 28-29; Rothschild PFT, 48-49. The OCC used this same proxy group, but also conducted its analysis with an additional combination proxy group of eleven companies on the basis that a proxy group of only five companies could be an

[5] The $2.054 million represents a 17 basis points reduction in the Company's weighted cost of capital from 7.56 percent to 7.39 percent. Based upon the Company's Rate Year rate base of $875.925 million, a 17 basis point reduction reduces utility operating income by $1.489 million. Using a revenue conversion factor of 1.3796 to estimate the revenue requirement for the 50 percent equity component yields an additional $565,000 for a total revenue requirement reduction of $2.054million. Schedule A-1.0 and Schedule D-1.0.

insufficiently robust data set. Woolridge PFT, 23-25. The OCC, EOE and the Company employed the constant-growth DCF and the capital asset pricing models ("CAPM"). Woolridge PFT, 5; Rothschild PFT, 10; Bulkley PFT, 4. The company further employed an empirical CAPM ("ECAPM") model and a Bond Yield Plus Risk Premium analysis. Bulkley, 4.

OCC's witness identified a number of distortions to the Company's testimony and cost of capital analysis generating an upward bias in the results. Specifically, with respect to its DCF analysis, the OCC's witness concluded that:

> The primary issues in Ms. Bulkley's DCF analyses are: (1) she relies exclusively on the overly-optimistic and upwardly-biased earnings per share ("EPS"), growth-rate forecasts of Wall Street analysts and *Value Line*; and (2) she has combined the abnormally high *Value Line* projected EPSs for her proxy companies, computed from a three-year base period, with three-to-five-year projected growth rates of First Call and Zack's.

Woolridge PFT, 75.

For example, the Company's discounted cash flow analysis used a growth rate exclusively based upon projected earnings per share forecasts by historically optimistic Wall Street analysts and without consideration of the dividend growth rate. Woolridge PFT, 75.

> [N]ot only are those forecasts inaccurate, but they are also overly optimistic and upwardly biased. I have provided a full discussion of this issue on pages 46-51 of this testimony and report on a study I conducted in Figure 11. Using the electric utilities and gas-distribution companies covered by *Value Line*, this study demonstrates that the mean forecasted EPS growth rates are consistently greater than the achieved actual EPS growth rates over the 1985-2022 time period. Over the entire period, the mean forecasted EPS growth rate is over 200 basis points above the actual EPS growth rate. As such, the projected EPS growth rates for utilities are overly optimistic and upwardly based. Hence, exclusively using these growth rates as a DCF growth rate produces an overstated equity-cost rate.

Woolridge PFT, 76-77.

Similarly, the Company's witness relied upon unreliable Value Line earnings per share ("EPS") forecasts. These results are unreliable because they cover only a three (as opposed to five) year base period for future EPS estimates. The shortened base period can be particularly unreliable and/or volatile where one of the years has an abnormally high or low earnings. In the present case the Value Line EPS estimates were skewed two hundred basis points higher than Yahoo or Zachs EPS forecasts, a full 36 percent higher. Woolridge PFT, 77-78.

The more appropriate metric to forecast growth rates are dividend per share rates. This reflects the retained earnings that flow back to shareholders, and therefore provides a more accurate reflection of what an investor's expectations are for the future. As EOE's witness described it:

> Using an earnings per share growth forecast as the growth component in a DCF model is like measuring how much money you will have in your bank account by simply adding up your paychecks. This only works if you spend no money. If you do not consider what percentage of your paycheck you will retain in your account and what percentage you will spend, your calculations will be wildly optimistic and inaccurate, similar to using earnings per share growth in a DCF.

Rothschild PFT, 85. Because companies continually reinvest their earnings into new plant, EPS inflates what an investor will actually realize on their investment. In short, as SCG selectively used an unsustainably high expected growth rate, its DCF model overestimates the true cost of capital and, therefore, its recommended return on equity.

B. <u>CAPM/ECAPM</u>

Similarly, in its CAPM analysis, the Company may have substantially overestimated the risk premium ("RP") to be applied in this case. The RP, in short, represents the investors' expected value for the increased risk associated with a stock offering as compared to a more secure bond instrument such as United States Treasury

bills. The problem in any RP analysis, however, concerns the inherent uncertainty of measuring that investor's future expectation. Moreover, the most used measures of RP, average projected growth rate for equities is unreasonably high.

The Company's calculated growth rate was 12.3 percent. As the OCC witness stated:

> Simply put, the assumption of a 12.72% expected stock market return is excessive and unrealistic. The compounded annual return in the U.S. stock market is about 10% (9.80% according to Damodaran between 1928–2023). Ms. Bulkley's CAPM results assume that the return on the U.S. stock market will be more than 20 percent higher in the future than it has been in the past. Her inflated expected stock market return, and the resulting market risk premium and equity cost rate, results from computing the expected stock market return as the sum of the adjusted dividend yield plus the expected EPS growth rate of 11.03%.

Woolridge PFT, 83. Put another way, it is simply unreasonable to postulate a future growth rate of 12 percent in a 4 percent economy. The Company's true cost of capital is simply much lower than presented by the Company's witness.

B. The Authority Should Reject SCG's Depreciation Recommendations

Ratepayers pay regulated utilities for the return of and on capital investments that are used and useful for providing utility service. Depreciation expense represents a utility company's recovery of its investment in plant over the useful service life of that plant. Depreciation expense also includes the "salvage" value of that plant once it has been removed from service. In the event the salvage plant has a positive value, the depreciation expense is reduced by that value. In the event the salvage value is negative (i.e., the costs to remove the plant are higher than its value), then the depreciation expense is increased by that cost. Depreciation rates are intended to provide the company with a revenue stream to pay the return of the capital investment to coincide with the actual expected service life of the particular investment to be recovered. Essentially,

depreciation accounting seeks to distribute the cost of capital assets, less salvage, over the estimated useful life of the asset.

SCG submitted a depreciation study of the Company's gas distribution plant assets as of December 31, 2022. Allis PFT, 3-4. The study purportedly determined the remaining lives of the Company's plant assets, then utilized the resulting remaining lives, the result of a salvage study, the Company's vintage plant in service investment and depreciation reserve to develop a recommended average remaining life depreciation rates and depreciation expense related to that plant in service. Allis PFT, 3. SCG's depreciation study was developed using the Straight-Line Remaining Life Method. Allis PFT, 5.

SCG has identified a total of $42,778,294 of annual depreciation expense that it seeks to recover from its ratepayers. Allis PFT, 2. This proposed expense rate represents roughly a $1.8 million increase in depreciation expense over current rates. Allis PFT, 2. The Company, however, overstates its future negative net salvage costs. Negative net salvage refers to the future costs of retiring an asset, which means the scrap value of the asset less any costs of removal. The practical effect of these calculations is to accelerate the Company's recovery of its investment and to raise the overall annual expense to ratepayers. It also forces today's customers to pay disproportionately for distribution infrastructure that will service customers for many decades to come.

1. **Account 376: Mains**

The OCC's witness William W. Dunkel, identified two major accounts where SCG has overstated the costs of retirement of physical assets. In Account 376: Mains, SCG has proposed an annual net salvage cost of $6,928,942 to retire the assets identified in the account. Dunkel, PFT 9. The OCC's expert witness analyzed SCG's net salvage

costs for 2018-22 and determined that SCG's actual annual cost for that period was $1,843,728. SCG's new proposal thus amounts to four times SCG's average annual cost it actual incurred during the previous five years.

2. **Account 380: Services**

SCG's net salvage proposal for Account 380: Services is similarly flawed. SCG seeks an annual accrual of $4,224,503, a figure that is three times its average actual costs for the years 2018-22. Dunkel, PFT 16-18. Like its proposal for Account 380, SCG does not purport to explain why it needs such a significant increase in ratepayer expense.

3. **SCG's Request is Excessive and Unnecessary**

Without question, SCG is entitled to charge ratepayers a reasonable amount to ensure that its Depreciation Reserves are sufficiently funded. The OCC's proposal accomplishes this in two ways and with a much smaller burden on ratepayers. First, the OCC's proposal will direct $7,149,640 to SCG's Depreciation Reserves, which is more than sufficient to net salvage costs, as demonstrated by SCG's actual costs over the past several years in Accounts 376 and 380. Dunkel, PFT 16. Second, the OCC proposes that PURA adopt a rate sufficient to ensure that further net salvage accruals will adjust, depending on the value of SCG's plant in service. Dunkel, PFT, 17-19.

The Attorney General supports the recommendations of the OCC's witness William W. Dunkel as a reasonable estimate of the Company's actually incurred depreciation expense. Indeed, in its most recent rate case decision, the Authority fully adopted Dunkle's recommendations. See Final Decision, Docket No. 22-08-08, *Application of the United Illuminating Company to Increase its Rates and Charges*, 189; Dunkle PFT, 1.

Adopting The OCC's recommended depreciation concerning depreciation which would reduce depreciation expense, and therefore costs to ratepayers, by $13.246 million a year. Defever PFT, 27; Exhibit JD-1, Schedule C-11.

C. The Authority Should Reject SCG's Proposed Revenue Requirements

In its Application, SCG overstated a number of revenue and expense items. PURA's standard for allowing operating expenses is clear: only those expenses that are reasonable and necessary to provide service to the public may be included. *See* Final Decision, Docket No. 22-07-01, *Application of Aquarion Water Company of Connecticut to Amend its Rate Schedule*, at 59. Allowable operating expenses must "reflect prudent and efficient management of the franchise operation." Conn. Gen. Stat. § 16-19e(a)(5). PURA should reduce many of the Company's proposed Operations and Maintenance ("O&M") expenses, as it has in SCG's previous rate cases, to ensure that the Company's rates are no more than just and reasonable.

Taken together with the Attorney General's recommended changes to the Company's proposed cost of capital and depreciation, these revenue and expense adjustments eliminate the need for the entirety of the Company's requested rate increase and would allow for a substantial rate decrease. The following discussion addresses a few of the adjustments to larger revenue and expense items that the Authority should impose. In addition to addressing the merits of these particular proposals, these adjustments are intended to provide examples of the many revenue requirement adjustments that are warranted in this case and are not intended to represent an exhaustive list.

1. The Authority Should Reject Ratepayer Funding of Employee <u>Incentive Compensation</u>

PURA should reject half, or $293,500, of the Company's request for $587,000 for Incentive Compensation to be fully funded in rates. SCG has not met its burden to demonstrate that its proposed Incentive Compensation is a prudent and efficient use of ratepayer funds. *See* Final Decision, Docket No. 22-07-01, *Application of Aquarion Water Company of Connecticut to Amend its Rate Schedule*, at 63. There is no evidence to show that SCG's Incentive Compensation plan is designed in a way that provides little, if any, benefit to ratepayers. *See Larkin PFT*, 18-20.

Likewise, SCG's request for $29,000 for Employee Recognition Awards must be disallowed. This will be consistent with Docket Nos. 20-12-30, *Application of The Connecticut Water Company To Amend Its Rate Schedule,* pp. 8-9; and 13-02-20, *Application of Aquarion Water Company of Connecticut To Amend Its Rates,* pp. 67-68, and 22-08-08, *Application of The United Illuminating Company To Amend Its Rate Schedule,* pp. 134-136. *Larkin PFT*, pp.23-25. SCG may of course elect to fund Incentive Compensation using shareholder funds.

2. The Authority Should Reject Ratepayer Funding of <u>Industry Dues</u>

PURA should reject SCG's proposal to recover $192,170 in industry dues *Application,* Schedule C-6, *Larkin PFT,* pp. 16-17. These costs are not permitted to be recovered under Connecticut law. Public Act No. 23-102 Sec. 3(a) expressly prohibits a public service company such as SCG from recovering through rates any direct or indirect costs associated with "membership, dues, sponsorships or contributions to a business or industry trade association or group or related entity incorporated under Section 501 of the

Internal Revenue Code of 1986, or any subsequent corresponding internal revenue code of the United States, as amended from time to time." *See also*, Final Decision, Docket No. 22-08-08, *Application of The United Illuminating Company to Amend its Rate,*142-43.

3. The Authority Should Reject or Restrict Ratepayer Funding of Board of Directors Fees

SCG has requested $188,000 in costs associated with the Board of Directors in its Application. Larkin PFT, 12; OCC-227. SCG claims that these fees are recoverable from ratepayers as a prudent and necessary expense. The Authority has previously determined that the Board of Directors act primarily to benefit the Company's shareholders and thus those shareholders should bear most of its costs. Final Decision, Docket No. 22-08-08, *Application of The United Illuminating Company to Amend its Rates, 145*. The Authority disallowed 75 percent of these costs. Moreover, Public Act 23-102, section 3d explicitly disallows recovery of "travel, lodging, or food and beverage costs for the Company or its parent company's officers or boards of directors." The Authority should disallow at least $145,000 from recovery from ratepayers. Larkin PFT, 13.

4. The Authority Should Reject Ratepayer Funding of Investor Relations

SCG is requesting $105,000 in costs for "investor relations." Larkin PFT, 14; OCC -176. The Authority has previously disallowed recovery of the costs on the basis that "investor relations expenses primarily benefit shareholders," and are specifically disallowed from recovery by Public Act 23-102. Final Decision, Docket No. 22-08-08, *Application of The United Illuminating Company to Amend its Rates, 148*. The Authority should disallow recovery of the $105,000 here as well.

5. The Authority Should Reject the Company's Proposed 10 Year Amortization of its Accumulated Deferred Income Taxes

As a result of the 2017 Tax Cuts and Jobs Act, corporate income tax rates were slashed from 35 percent to 21 percent. Because SCG's last rate case was concluded before the impact of the tax cuts, SCG has been overcollecting income taxes by substantial amounts. These overcollections, currently over $76.5 million, are known as accumulated deferred income taxes ("ADITS") and must be returned to ratepayers. The Company proposes to return those overcollections over a period of ten years.

The Authority should reject the Company's proposed 10 year amortization of these ADITs and should instead return the overcollections over 5 years. The Company has presented no valid reason to hold onto customers' money for ten full years. Instead, the Authority should amortize the return of the ADITs over 5 years, providing significant rate relief for customers while at the same time providing rate stability. Amortizing this return over 5 years would increase the annual amount returned to ratepayers from the Company's proposed $6.796 million to $13.593 million. Larkin PFT, 26-27.

6. The Attorney General Supports the Many Adjustments Proposed by the OCC in this Matter

The Attorney General's O&M recommendations are not intended to provide an exhaustive list of items the Company has requested that are inappropriate to be included in rates. In addition to the foregoing, the Attorney General highlights that Company's Postage Expense and Caregiver Program as requests that are not a prudent and efficient use of ratepayer funds.

First, SCG seeks $958,614 in postage expense, which represents an increase of $236,956 over the test year. *Application*, Schedule C-1. This should be reduced by $205,581, which is consistent with the Company's 5-year average of $753,033. *Larkin PFT,* pp. 9-11.

Second, the Company's Caregiver Program expense of $22,514 is not necessary for the provision of utility service. Since SCG has not demonstrated that the Caregiver Program is a prudent and efficient use of ratepayer funds, thus PURA should reject the Company's request to fund the Caregiver Program from rates.

III. CONCLUSION

The Authority should approve a rate *reduction* of $7 million to $13 million for SCG's customers. The reasonable adjustments to the Company's authorized ROE and capital structure proposed herein would save ratepayers from $7 to $12 million per year and maintain rates at reasonable levels. In addition, the Attorney General has identified additional depreciation, expense and revenue adjustments that the Authority should approve, further reducing SCG's revenue requirement by more than $30 million per year. The itemization of adjustments discussed herein is by no means meant to provide an exhaustive list. The Attorney General concurs with the other adjustments recommended by the OCC in this case. The Attorney General urges the Authority to adopt these specific rate reduction recommendations as a first step to determining an appropriate revenue requirement for SCG. The Authority should strive to find ways to keep customers' bills as low as possible.

WHEREFORE, for the foregoing reasons, the Attorney General respectfully requests that the Authority reject SCG's rate Application. The Authority should instead approve rates as described herein.

Respectfully Submitted,

WILLIAM TONG
ATTORNEY GENERAL
STATE OF CONNECTICUT

BY: _*John S Wright*___________

John S. Wright
Brendan T. Flynn
Assistant Attorneys General
Casey Ryback
Paralegal Specialist
Attorney General's Office
10 Franklin Square
New Britain, CT 06051
Tel: (860) 827-2620
Fax: (860) 827-2893

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and interveners on this
agency's service list.

John S Wright
John S. Wright