STATE OF CONNECTICUT
PUBLIC UTILITIES REGULATORY AUTHORITY

APPLICATION OF YANKEE GAS	:	DOCKET NO. 24-12-01
COMPANY D/B/A EVERSOURCE	:	
ENERGY TO AMEND ITS RATE	:	
SCHEDULE	:	JULY 28, 2025

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 Yankee Gas Company's d/b/a Eversource Energy ("Yankee" or "Eversource" or the "Company") Application to Amend its Rate Schedule ("Application") filed on November 12, 2024. In its Application, Yankee proposed an increase of its rates by $209 million, hiking its residential heating bills by 43 percent, or an average monthly increase of $46.74. Application, 2. The Company subsequently adjusted its proposed increased to $193 million during this proceeding. LFE-01-SP03, A-1.0 (issued June 2, 2025).

For the reasons stated below, the Attorney General respectfully urges the Public Utilities Regulatory Authority ("PURA" or "Authority") to reject Yankee's rate hike request in its entirety as unjustified and unwarranted, resulting in rates that are substantially higher than just and reasonable levels. Instead, the Authority should carefully evaluate the Company's proposed costs and revenue requirements to ensure the Company's ratepayers pay no more for this necessary service than necessary.

The Attorney General has identified a number of adjustments to the Company's proposed 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 ("OCC") and other parties—would reduce Yankee's proposed revenue requirement substantially, ensuring that rates are no more than just and reasonable and providing substantial rate relief for its customers.

I. YANKEE'S APPLICATION

Yankee is a gas distribution company in the State of Connecticut, currently providing retail service to customers in 85 towns, serving approximately 252,300 customers. Application, 9. As noted above, Yankee sought to increase by nearly $209 million above what it is currently authorized. Application, 2. The Company further proposed that the Authority authorize Yankee to earn a return on equity ("ROE") of 10.30 percent. Application, 3; Nowak pre-filed testimony ("PFT"), 5. This proposed ROE is 100 basis points higher than the Authority approved for Yankee in its last rate case. Final Decision, Docket No. 18-05-10, *Application of the Yankee Gas Services Company d/b/a Eversource Energy to Amend Its Rate Schedules*, dated Dec. 12, 2018, at 11. This additional 100 basis point profit margin would cost ratepayers an additional $18,613,000 per year. See LFE-01, Schedule A-1.0.[1] Yankee further proposes to add a novel concept of a "regulatory risk" premium of 50 basis points. Makholm PFT, 10, 83. This 50 basis point profit adder amounts to an additional $9.31 million in unnecessary and gratuitous additional charges for ratepayers. *Id*.

The rates proposed by Yankee exceed levels that could be considered just and reasonable for the following reasons. First, Yankee's proposed ROE is too high. It is based upon a flawed analysis and is substantially higher than recent Authority decisions. Second, the Company's proposed capital structure is uneconomic and burdensome. Yankee's proposed equity level of 53.81 percent is significantly higher than the average common equity ratio used by other gas

[1] Assuming an ROE of 9.3 as opposed to 10.3 means 100 basis points multiplied by Yankee's pre-tax revenue requirement of $18,613,000 for each 100 basis points, or a $18,613,000 rate decrease. *See* LFE-01, Revised Schedule A-1.0 A.

utilities across the country. Rothschild PFT, 76. Third, the record in this proceeding shows that Yankee has overstated numerous expense items. These expense items include depreciation expense, incentive compensation, investor relations expenses, and board of trustee expenses.

Many of Connecticut's residents continue to face difficult economic circumstances. Year over year of high inflation has led to 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 necessary.

II. DISCUSSION

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

In its Application, Yankee proposed that the Authority approve a ROE for the Company's shareholders of 10.3 percent. Application, 3; Nowak PFT, 5. This ROE, if approved, would be the highest authorized return for any of the State's principal regulated public service companies. Moreover, it is 100 basis points higher than Yankee's current authorized ROE of 9.30 percent. Final Decision, Docket No. 18-05-10, *Application of the Yankee Gas Services Company d/b/a Eversource Energy to Amend Its Rate Schedules*, dated Dec. 12, 2018, at 11.

The Authority's most recent rate case decisions have indicated the true cost of equity is far lower than that proposed by Yankee. On November 18, 2024, the Authority approved both the Connecticut Natural Gas Corporation and the Southern Connecticut Gas Corporation to earn authorized ROEs of 9.15 percent. Final Decision, Docket No. 23-11-02, *Application of the Connecticut Natural Gas Corporation To Amend its Rate Schedule*, Decision, at 1; Final

Decision, Docket No. 23-11-02, *Application of the Southern Connecticut Gas Corporation To Amend its Rate Schedule*, Decision, at 1. On June 28, 2024, the Authority issued a final decision in Docket No. 22-08-32, *Application of the Connecticut Water Company to Amend its Rate Schedules* awarding the Company a ROE of 9.1 percent. Final Decision, 1. On March 15, 2023, the Aquarion Water Company of Connecticut 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*, dated Mar. 15, 2023, at 1, *aff'd*, *Aquarion Water Co. of Conn. v. Pub. Utils. Regul. Auth.*, 2025 Conn. LEXIS 161, *53 2025 LX 262467. The Connecticut Light and Power Company is currently authorized a 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*, Final Decision, dated Apr. 18, 2018, at 18.

Yankee's requested ROE is 105 basis points higher than the next highest ROE among the state's regulated utilities and 115 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 Table 7 (page 38) shows, the gas distribution industry is among the lowest risk industries in the U.S. as measured by beta. As such, according to CAPM, the cost of equity capital for this industry is among the lowest in the U.S.

Woolridge PFT, 73.

Yankee's ROE request is further based upon a flawed and unreliable cost of capital analysis. First, Yankee proposed a capital structure that includes a relatively high level of equity as compared with industry standards and the proxy group. In addition, Yankee's testimony in support of its proposed ROE of 10.30 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 8.19 percent[2] and the OCC recommends an ROE of 9.375 percent.[3] Rothschild PFT, 8-10; Woolridge PFT, 4-5. Adjusting Yankee's proposed ROE from 10.3 percent to 9.375 percent would result in a rate reduction of approximately $17 million per year. Adjusting Yankee's proposed ROE from 10.3 percent to 8.19 percent would result in a rate reduction of approximately $40 million per year.[4] The Attorney General believes these two estimates provide a reasonable range for the Authority to determine an appropriate ROE.

1. The Authority Should Reject Yankee's Discounted Cash Flow Analysis and Risk Premium / Capital Asset Pricing Model Analysis of the Cost of <u>Equity</u>

The most reliable estimate of a Company's cost of equity is generally derived from the DCF analysis. The DCF model attempts to replicate a market valuation of what investors would pay for a share of the Company's stock. The DCF model employs a "proxy group" of companies similarly situated in business risk, cash flow, and investment return to determine a level of

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[2] Assuming Rothschild's recommended capital structure with 48.43 percent equity. In the event the Authority used Yankee's proposed equity level of 53.81 percent equity and 46.19 percent debt instead of his recommended capital structure, Rothschild would reduce Yankee's authorized ROE to 7.97 percent to account for the lower financial risk of a capital structure with more equity. Rothschild PFT, 9-10, 106. This would reduce Rothschild's projected revenue requirements by an additional $4 million a year.

[3] Assuming Woolridge's recommended capital structure with 52.13 percent equity. In the event the Authority uses the Company's proposed equity level of 53.81 percent equity, Woolridge would propose a ROE of no more than 9.25%. Woolridge PFT, 4-5.

[4] Assuming an ROE of 8.19 percent as opposed to 10.3 percent means 211 basis points multiplied by Yankee's pre-tax revenue requirement of $18,613,000 for each 100 basis points, or an $39.273 rate decrease. *See* LFE 1, Revised Schedule A-1.0 A.

earnings necessary to attract needed capital at a reasonable cost to provide safe and adequate utility service. The DCF also needs to make assumptions about long term interest rates and expected growth rates of the proxy companies.

As noted above, the principal goal of setting an appropriate ROE is to match investor expectations of a fair return comparable to the returns investors can expect to earn on investments with similar risk, that are sufficient to assure confidence in the company's financial integrity, and adequate to maintain the company's credit and attract capital. *See* Woolridge PFT, 2-3. The return must be sufficient, but not more than sufficient to attract investors so the utility can raise sufficient capital to provide safe and efficient utility service.

The OCC's witness highlighted that "[t]he primary issue with Mr. Nowak's DCF analyses is his exclusive use of the overly optimistic and upwardly biased EPS growth rate forecasts of Wall Street analysts and *Value Line*." Woolridge PFT, 75. Specifically, the Company's discounted cash flow analysis used a growth rate based upon projected earnings per share forecasts by historically optimistic Wall Street analysts and without consideration of the dividend growth rate. As OCC's witness stated:

> it is well known that the long-term EPS growth-rate forecasts of Wall Street securities analysts are overly optimistic and upwardly biased. This has been demonstrated in a number of academic studies over the years. Hence, using these growth rates as a DCF growth rate will provide an overstated equity cost rate. On this issue, a study by Easton and Sommers (2007) found that optimism in analysts' growth rate forecasts leads to an upward bias in estimates of the cost of equity capital of almost 3.0 percentage points.

Woolridge PFT, 49-50. Stated otherwise, not all earnings are paid out in dividends—some of the earnings must be reinvested in the company to ensure future growth. Considering earnings per share exclusively creates a false and unsustainable high growth rate. Because Yankee selectively used an unsustainably high expected growth rate, its DCF model overestimates the true cost of capital, and therefore, its recommended ROE.

EOE's Rothschild identifies the same structural flaws in Yankee's analysis. Specifically, Rothschild agrees:

> [Novak's] constant growth DCF method is unreliable because it mechanically uses analyst 5-year EPS growth rates as a proxy for growth without considering the mathematical relationship between retention rates, dividend payments, and growth. A company cannot invest and growth with money it has paid out to investors as a dividend.

Rothschild PFT, 82.

The Authority should similarly reject Yankee's Empirical CAPM analysis ("ECAPM"), a variation of the traditional CAPM methodology for determining an appropriate ROE. As OCC's expert stated:

> ECAPM has not been theoretically or empirically validated in refereed journals. ECAPM provides for weights that are used to adjust the risk free rate and market risk premium in applying ECAPM. Mr. Nowak uses 0.25 and 0.75 factors to boost the equity risk premium measure, but provides no empirical justification for those figures.
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> Beyond the lack of any theoretical or empirical validation of ECAPM, there are two errors in Mr. Nowak's version of ECAPM: (1) I am not aware of any tests of the CAPM that use adjusted betas such as those used by Mr. Nowak; and (2) adjusted betas, which were previously discussed, address the empirical issues with CAPM.

Woolridge PFT, 79. Because investors provide the capital, their own expectations are the relevant point to compare.

The Company's true cost of capital is simply much lower than presented by the Company's witness. OCC's cost of capital expert concluded:

> (1) [D]espite the higher inflation of the past two years, long-term inflation expectations are in the 2.25%-2.50% range; (2) the yield curve is once again positively sloped (which is normal) but is relatively flat suggesting that investors require similar returns for short-term and longer-term Treasuries; (3) I showed that authorized ROEs have not increased or decreased as much as interest rates in recent years, and so the increases in rates in the last two years does not mean that authorized ROEs need to increase as much; and (4) during 2025, as President Trump has introduced new economic policies including tariffs, inflationary fears and economic uncertainty have increased financial market volatility and the stock market has declined. However, utility stocks have proved to be a safe h[]aven for investors, for while the S&P 500 has decreased 10%, utility stocks are up 5%.

Woolridge Surrebuttal, 5. For these reasons, as well as those more fully explained in the testimony of Woolridge[5] on behalf of the OCC, and Rothschild[6] on behalf of EOE, the Attorney General supports a recommended ROE in the range of 6.73 to 9.00 percent. These amounts will provide a revenue reduction of between $24.2 and $66.45 million.

2. The Authority Should Reject Yankee's Proposed Capital Structure

In its Application, Yankee proposed a capital structure consisting of 0.0% short-term debt, 46.19 percent long-term debt, and 53.81 percent common equity. Woolridge PFT, 3. 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 10.3 percent, its cost of long-term debt as 4.50 percent. Woolridge PFT, 3. 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, 30. "If the proportion of equity is too high, rates will be higher than they need to be." *Id.*

In the present case, Yankee's proposed capital structure has a "significantly higher [common equity ratio of 53.81 percent] than the average common equity ratio used by other gas utilities across the country 48.43 percent." Rothschild PFT, 8, 76.

> When a regulated utility's actual capital structure contains a high equity ratio, the 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.

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[5] Woolridge recommends an ROE range of 9.00 percent to 9.75 percent. Woolridge PFT, 72.
[6] Rothschild recommends an ROE range of 6.73 percent to 8.19 percent. Rothschild PFT, 10.

Woolridge PFT, 31.

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 48.43 percent and 51.57 percent debt. Rothschild PFT, 77.

> Absent evidence from Yankee justifying a different capital structure, using the proxy group average aligns with PURA's duty to set reasonable rates. Allowing a higher common equity ratio than comparable utilities creates unjustifiably higher costs for ratepayers without demonstrated need.

Id. The OCC's witness adopted a capital structure with a common equity ratio of 52.13 percent rather than that proposed by the Company, which included a common equity ratio of 53.18 percent. Woolridge PFT, 6. "This proposed capital structure still includes a higher common equity ratio and lower financial risk than the average common equity ratio of the companies in the Gas Proxy Group." *Id.*

The Attorney General recommends that the Authority impute a lower equity level in Yankee's capital structure to ensure Yankee's customers are not paying more than they should. The Authority has consistently imputed more reasonable capital structures on the 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 53.81 percent equity to 50 percent equity will reduce the proposed weighted cost of capital from 7.40 percent to 7.01 percent. This reduces Yankee's revenue requirement by an additional $14 million a year. In the alternative, if the Authority accepts the 53.81 percent equity levels, the Authority should adjust the authorized ROE downward to account for the lower financial risk of the capital structure with more equity.

Rothschild PFT, 106. Rothschild recommends the downward adjustment to be about 133 basis points, or $25 million a year. *Id.*

3. The Authority Should Reject Yankee's Proposed Connecticut Regulatory Risk Premium

The Authority should reject the Company's proposal for a 50 basis point Connecticut regulatory risk premium because it "remains speculative, [is] unsupported by capital market data, and [is] inconsistent with how investors and credit rating agencies actually evaluate Yankee Gas and the Connecticut regulatory environment." Rothschild Surrebuttal, 13.

Yankee's Connecticut regulatory risk premium was riddled with flaws in its reasoning. The Company's expert failed to provide evidence that Connecticut public utilities are about to be downgraded to below investment grade, there are a myriad of empirical problems with using historical market returns to estimate the expected risk premium, as the Company's expert has done here,[7] and the expert did not adequately take into account the national average S&P and Moody's issuer credit ratings for publicly-traded electric and gas utilities at BBB+ and Baa2 when comparing the average S&P and Moody's issuer credit ratings for the five electric and gas utilities operating in Connecticut. Woolridge PFT, 10-11. The average S&P and Moody's issuer credit ratings for the five electric and gas utilities operating in Connecticut are BBB+ and A3/Baa1. *Id.* Thus, Connecticut's electric and gas utilities are rated at about the same level as publicly traded electric and gas utilities in the United States, obviating the need for a Connecticut regulatory risk premium. *Id.* Moreover, S&P's revision of Yankee Gas's business risk profile from "excellent" to "strong" keeps the business's status firmly within investment-grade territory. Rothschild Surrebuttal, 12.

[7] Some of the errors include the U.S. stock market survivorship bias, the measurement of cultural tendency (the arithmetic versus geometric mean), the company survivorship bias, the historical time horizon used, and the change in risk used over time. Woolridge PFT, 10-11.

Further, there is capital market evidence that demonstrates Makholm's 50 basis point regulatory risk premium is unjustified. Eversource announced in January 2025 that it entered into a definitive agreement to sell Aquarion at approximately $2.4 billion, which is 1.7 times its book value/rate base. Rothschild PFT, 102-103; Eversource Energy Year End 2024 Earnings Report, Feb. 12, 2025, 10. This premium valuation clearly demonstrates investors are willing to commit capital to regulated utilities in Connecticut without requiring an additional risk compensation. Rothschild PFT, 102-103.

Beyond those flaws, this regulatory risk premium fails to take into account the importance of regulation and regulatory processes for utilities. As highlighted by EOE's witness:

> Utilities are granted a monopoly by the government, and in exchange, they accept an obligation to serve customers at the lowest reasonable cost. The public interest is not solely about ensuring utilities maintain strong credit ratings and investor returns—it also requires that utilities operate efficiently and provide service at just and reasonable rates. The regulatory process exists to ensure that utilities do not use their monopoly power to overcharge consumers while still allowing them to earn a fair return on prudent investments.

Rothschild PFT, 18.

The Authority should reject the Company's unreasonable and unjustified 50 basis point regulatory risk premium. This risk premium is speculative at best, though the Attorney General sees it at its worst: a money-grab from Connecticut ratepayers who are doing their best to pay already-expensive utility bills. It is simple, it should not be the ratepayers' job to "absorb the consequences of a utility's own shortcomings." Rothschild Surrebuttal, 14.

B. <u>The Authority Should Reject Yankee's Depreciation Recommendations</u>

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.

Yankee submitted a depreciation study of the Company's gas distribution plant assets as of December 31, 2023. Allis PFT, 3-4. The study estimated the service life and net salvage characteristics for each depreciable property group, and then, calculated the composite remaining lives and annual depreciation accrual rates based on the service life and net salvage estimates determined in the first place. Allis PFT, 20. The Company used the straight line remaining life method of depreciation for the depreciation rates recommended in the study. Allis PFT, 20.

The Company has identified an increase of $35,500,000 of annual depreciation expense that it seeks to recover from its ratepayers. Allis PFT, 4. However, the Company 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 Company's expert is proposing the same net salvage method PURA has rejected, including a rejection in Docket 22-08-08 in which a ratio calculation is performed with the numerator measured in more recent dollars (recorded at the time of retirement) and the denominator being measured in earlier dollars (recorded at the time of installation). Dunkel PFT, 28; Final Decision, 22-08-08*, Application of the United Illuminating Company to Amend its Rates*, dated Aug. 25, 2023, at 188. 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. Taken together, the adjustments proposed by the OCC would reduce customer rates by tens of millions of dollars.

1. Account 376, Mains

The OCC's witness, William W. Dunkel, identified Account 376, Mains as by far the largest account, containing 57 percent of the total depreciable gas plant investment. Dunkel PFT, 7. In Account 376, Mains, Yankee has proposed an annual net salvage cost of $14,709,919. Dunkel PFT, 9. The OCC's expert witness analyzed Yankee's net salvage costs for 2019-2023 and determined that Yankee's new proposal thus amounts to **eleven times** Yankee's average annual cost it actually incurred during the previous five years. Dunkel PFT, 9. Furthermore, the $14,709,919 is a proposed annual depreciation expense that would be recovered from ratepayers **only** for net salvage in Account 376. Dunkel PFT, 9.

Allis admits that he is proposing to charge current ratepayers for future inflation. OCC-212; Dunkel PFT, 13. In fact, for the largest account, Allis testifies that the net salvage changes to current ratepayers, to be collected in current dollars, should be based upon the future inflation quantity of dollars determined including 56 years of inflation. Dunkel PFT, 18.

2. Yankee's Depreciation Request is Excessive and Unnecessary

Although Yankee is entitled to charge ratepayers a reasonable amount to ensure the Depreciation Reserves are sufficiently funded, this is not what Yankee is proposing. The Company's proposal violates the requirement of the National Association of Regulatory Utility Commissioners ("NARUC") that depreciation should "not be influenced by fair value estimates nor by what costs may be at some future date." Dunkel PFT, 18; OCC-WWD-3. The OCC's proposal will ensure ratepayers are charged a reasonable amount to ensure Depreciation Reserves are sufficiently funded in two ways. First, the OCC's proposal will direct a net salvage annual accrual of $4,685,608 will go to Yankee's Depreciation Reserves, which is more than sufficient to net salvage costs, as demonstrated by Yankee's actual costs over the past several years in Accounts 375, 376, 378, and 385. Dunkel PFT, 20. This will result in a cost savings of over $10.4 million to ratepayers. *Id.* Second, the OCC proposes PURA adopt a rate sufficient to ensure that further net salvage accruals will adjust, depending on the value of Yankee's plant in service. Dunkel PFT, 21-22.

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 the last two most recent rate case decisions, the Authority fully adopted Dunkel's recommendations. *See* Final Decision, Docket No. 23-11-02, *Application of Connecticut Natural Gas Corporation to Amend Their Rate Schedule*, dated Nov. 18, 2024, at 152; Final Decision, Docket No. 23-11-02, *Application of The Southern Connecticut Gas Company to Amend Their Rate Schedule*, dated Nov. 18, 2024, at 169; Dunkel PFT, 1-2.

C. <u>The Authority Should Reject Yankee's Proposed Revenue Requirements</u>

PURA's standard for allowing operating expenses is that only those expenses that are reasonable and necessary to provide service to the public may be included. *See* Final Decision, Docket No. 23-11-02, *Application of Connecticut Natural Gas Corporation to Amend Their Rate Schedule*, dated Nov. 18, 2024, at 113; Final Decision, Docket No. 23-11-02, *Application of The Southern Connecticut Gas Company to Amend Their Rate Schedule*, dated Nov. 18, 2024, at 129; Final Decision, Docket No. 22-07-01, *Application of Aquarion Water Company of Connecticut to Amend its Rate Schedule*, dated Mar. 15, 2023, 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 the most recent utility 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 revenue requirement 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 Incentive Compensation

The Company is requesting $4,332,655 of incentive compensation in the rate year. OCC-124. This is broken out into $3,169,701 employee cash incentives, $611,740 executive cash incentives, and $551,214 stock compensation. *Id.* Yankee 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. 23-11-02, *Application of Connecticut Natural Gas Corporation to Amend Their Rate Schedule*, dated Nov. 18, 2024, at 113, 119-120; Final Decision, Docket No. 23-11-02, *Application of The Southern Connecticut Gas Company to Amend Their Rate Schedule*, dated Nov. 18, 2024, at 129.

The Company rewarded over 99 percent of employees with incentive compensation from 2019 through 2023, resulting in the plan functioning as more of a bonus plan than as incentive compensation. Defever PFT, 17. OCC's witness Defever highlights that this is an issue because "[i]f employees are aware they will be rewarded regardless of effort, the level of effort will be affected." *Id.* Beyond the plan functioning as a bonus plan, the plan does not necessarily reward employees operating at the highest possible level and meeting all individual goals because the plan has a corporate operational and financial trigger. OCC-145; Defever PFT, 17-18. This trigger is pulled when the Company doesn't meet the corporate operating and financial goals set by the Board of Trustees, in which no employee, even those operating at the highest level, will receive incentive compensation. Defever PFT, 17-18 (citing OCC-135). This corporate operational and financial trigger is problematic as employees will not always be rewarded for their hard work.

The Authority should accordingly disallow the Company's request of $4,332,655 incentive compensation in the rate year. *See id.*, 17-18. However, the Company still has the option to elect to fund its incentive compensation plan using shareholder funds, who are the principal beneficiaries for the incentives.

2. The Authority Should Reject Ratepayer Funding of Investor Relations Expenses and Substantially Limit Other Public Company Costs

The Company is requesting $423,855 in the rate year for public company costs which include investor relations, SEC reporting, bank fees, and debt service charges. Defever PFT, 7-8; OCC-147, Attachment 1. The breakout of these charges is $153,013 for investor relations expenses and $270,842 for other public company costs. The Authority should accept OCC's recommendation of completely disallowing investor relations expenses and substantially limiting the recovery of other public company costs.

Investor relations expenses should be completely disallowed, consistent with Public Act 23-102 § 3 (d)(4) which states, "No public service company shall recover through rates any direct or indirect cost associated with… (4) investor relations." Defever PFT, 8. The Authority's decision in 22-08-08 disallowed all the direct and indirect costs associated with investor relations consistent with the statute. Defever PFT, 8; Final Decision, 22-08-08*, Application of the United Illuminating Company to Amend its Rates*, dated Aug. 25, 2023, at 148.

Next, for the remaining public company costs of $270,842, the Authority should adopt a disallowance of 75 percent of these costs, reducing the request by $203,132, as these public company costs primarily benefit the Company's shareholders and thus these costs should not be the sole responsibility of ratepayers. Defever PFT, 8-9. This recommendation is consistent with the Authority's decision in Docket 13-01-19 in which the Authority held that a "significant portion of these expenditures should be allocated below the line to equity owners" due to more benefits of these costs going to shareholders than ratepayers. Final Decision, Docket No. 13-01-19, *Application of the United Illuminating Company to Increase Rates and Charges*, dated Aug. 14, 2013, at 71.

Together these adjustments will result in a total reduction of $356,145 in the rate year for investor relations and public company costs.

3. The Authority Should Recalculate the Hardship Uncollectible Expense and the Non-Hardship Uncollectible Expense in the Rate Year

Yankee is requesting $34.510 million in the rate year for amortization expense of deferred hardship forgiveness, matching payment program, and hardship write-offs. Defever PFT, 3; WP C-3.33, page 3. The Company calculates these projected hardship accruals through using a three-year average of hardship costs from 2021-2023, inappropriately using only the three highest years for this expense. Defever PFT, 4-5. The more appropriate method of calculating these projected hardship accruals is through using a five-year average in order to use a variety of years as well as include more years to help smooth out any high or low years while being recent enough to be relevant. *Id.*; RRU-177 Attachment 3. Specifically, the Authority should accept the OCC's recommendation of a 5-year average from 2020-2024 to calculate the forecasted costs, resulting in a reduction of $5.034 million in the rate year for hardship uncollectibles amortization expense. Defever PFT, 5.

Additionally, the Authority should recalculate the non-hardship uncollectibles using a five-year average of net write-offs of revenues rather than the Company's calculation based of a 3-year average of uncollectible expense of 2021-2023 and applying that percentage to its requested rate year revenues. Defever PFT, 5-7. This will result in substantial cost savings for ratepayers, reducing the uncollectible expense by $1,490,879. *Id.*

4. The Authority Should Make Other Appropriate Adjustments for Recovery Requests That Are Not Prudent and Efficient

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 the Company's Board of Trustees request and employee volunteer programs as both imprudent and inefficient uses of ratepayer funds.

For example, the Authority should remove $160,669 to the Board of Trustees expense of retainer fees, restricted stock, and other expenses in the rate year. Defever PFT, 21-22; OCC-092. Ratepayers should not be fully responsible for these costs as the Company's shareholders are the primary beneficiaries of the Board of Trustee costs. Defever PFT, 21-22. Instead, a fairer split is a 75/25 sharing of costs between shareholders and ratepayers respectively. *Id.*

Next, the Authority should reject Yankee's request for $31,992 for employee volunteer expenses in rates. Defever PFT, 18; OCC-192. Ratepayers should have the freedom to donate to charity on their own rather than having it decided for them in their utility bills. This is consistent with PURA's prior decisions disallowing the recovery of charitable contributions. In Docket No. 22-07-01, the Authority noted that it "does not prohibit the Company from engaging in such activities, but rather directs the Company's shareholders to bear these costs should the shareholders support such continued donations." Final Decision, docket No. 22-07-01, *Application of Aquarion Water Company of Connecticut to Amend its Rate Schedule*, dated Mar. 15, 2023, at 20.

III. CONCLUSION

The Authority should reject the vast majority of proposed revenue requirement increases proposed by Yankee. The reasonable adjustments to the Company's authorized ROE and the capital structure proposed herein would alone save ratepayers from $40 to $50 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 Yankee's revenue requirement. 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 and EOE in this case. The Attorney General urges the Authority to adopt these specific recommendations as a first step to determining an appropriate revenue requirement for Yankee. The Attorney General appreciates the Authority's thorough examination of Yankee's Rate Application.

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

Respectfully Submitted,

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Service is certified to all Parties and Intervenors on this agency's service list.

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