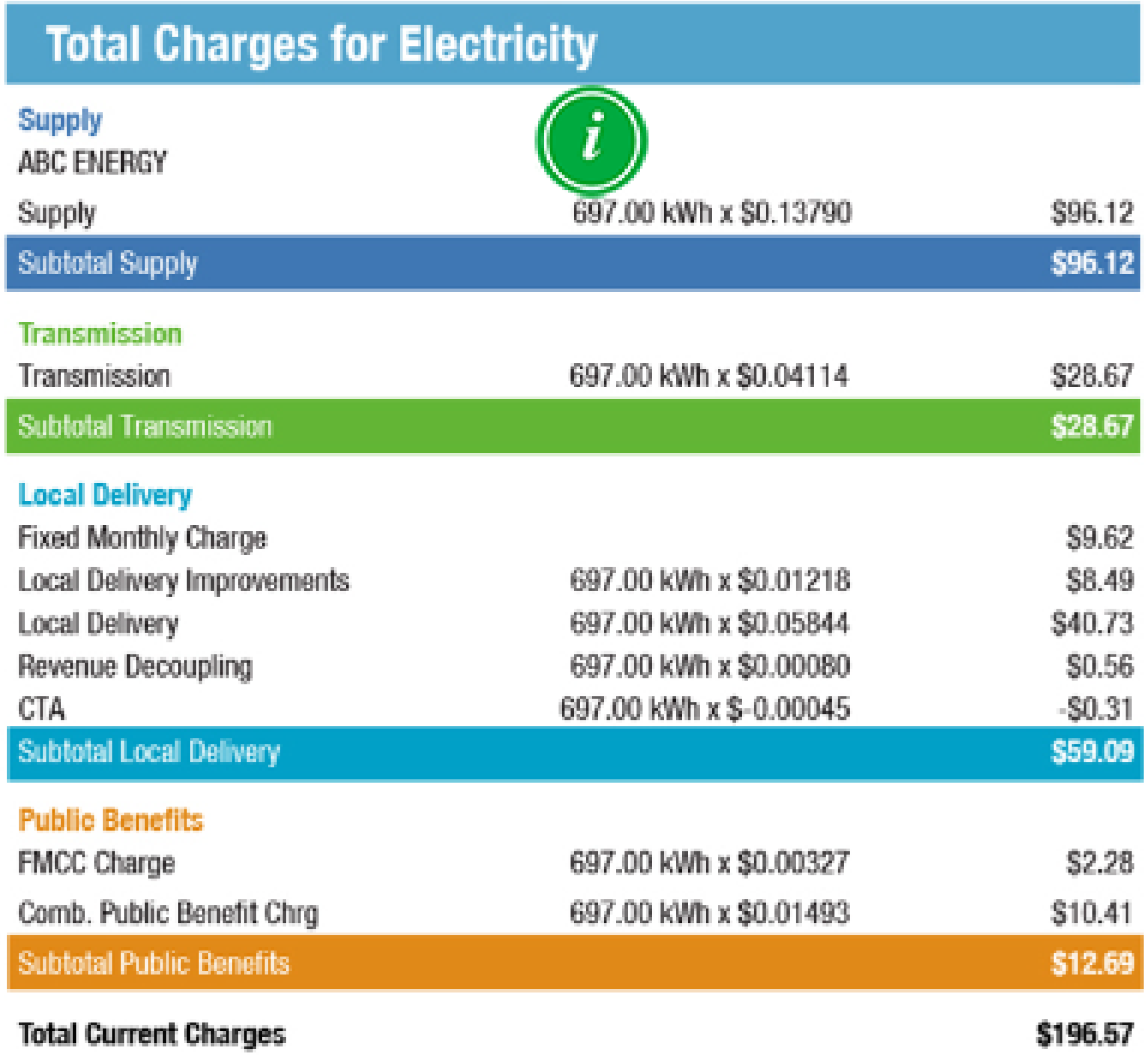
Overview of the Annual Rate Adjustment Mechanism ("RAM") Process & 2024 Costs

Office of Consumer Counsel (OCC)

September 3, 2024



Total Charges for Electricity

Supply		
ABC ENERGY		
Supply	697.00 kWh x $0.13790	$96.12
Subtotal Supply		$96.12
Transmission		
Transmission	697.00 kWh x $0.04114	$28.67
Subtotal Transmission		$28.67
Local Delivery		
Fixed Monthly Charge		$9.62
Local Delivery Improvements	697.00 kWh x $0.01218	$8.49
Local Delivery	697.00 kWh x $0.05844	$40.73
Revenue Decoupling	697.00 kWh x $0.00080	$0.56
CTA	697.00 kWh x $-0.00045	-$0.31
Subtotal Local Delivery		$59.09
Public Benefits		
FMCC Charge	697.00 kWh x $0.00327	$2.28
Comb. Public Benefit Chrg	697.00 kWh x $0.01493	$10.41
Subtotal Public Benefits		$12.69
Total Current Charges		**$196.57**

Which PURA proceedings recover which bill elements?

This is a sample bill for a residential customer of Eversource.

Supply (if Standard Service) is determined in the Procurement Dockets. ES: 2X-01-02, UI: 2X-01-01

Transmission rate is determined by FERC & recovered in the **RAM** ("TAC")

Fixed Charge ("Customer Charge") is set in a base distribution rate case

Local Delivery Improvements is set in the **RAM** ("ESI")

Local Delivery is set in a base distribution rate case

Revenue Decoupling is set in the **RAM** ("RDM")

Competitive Transition Assessment is set in the **RAM** ("CTA")

Most "Public Benefit" charges are set in the **RAM** ("FMCC", "NBFMCC," "SBC"). This section also includes CAM and C&LM charges which are now set in the CAM proceedings (2X-02-01)

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Explanations of RAM Elements

- **Transmission (“Transmission Adjustment Clause” or “TAC”)**
  - Connecticut’s share of revenue requirements for transmission infrastructure costs
  - Set by FERC, passed through to distribution ratepayers
  - PURA cannot determine these costs - only ensure that the rates are properly calculated to collect the FERC-authorized revenues.

Explanations of RAM Elements

- **ESI (“Electric System Improvements”)**
  - Eversource-only capital tracker set in last rate case settlement (17-10-46)
  - Designed for recovery of:
    - Plant additions for core capital projects up to $300m annually
    - New system resiliency projects
    - “any grid modernization Plant Additions and associated O&M approved by PURA”
  - Statutorily prohibited after next rate case
  - Revenue includes earnings for Eversource
  - PURA conducts a prudency review to evaluate necessity and reasonableness of investments

Explanations of RAM Elements

- **Revenue Decoupling (“Revenue Decoupling Mechanism” or “RDM”)**
  - Companies are only allowed to collect the exact amount of distribution revenue (so, “local delivery” and fixed charges) allowed in last rate case.
  - If company collects more revenue than allowed, RDM will be a credit to ratepayers
  - If company collects less revenue than allowed, RDM will be a charge
  - Designed to remove the throughput Incentive to support conservation, but also significantly reduces operational risk for company, as well as overrecovery risk for ratepayers.

Explanations of RAM Elements

- **Competitive Transition Assessment (“CTA”)**
  - Originally a mechanism for companies to recover stranded costs from restructuring
  - There are some lingering charges (or credits) attached to old PPAs
  - The CTA has diminished in scale over time
  - This is another pass-through cost that is reviewed for accuracy on an accounting level.

Explanations of RAM Elements

- **Public Benefits: NBFMCC (Nonbypassable Federally Mandated Congestion Charge)**
  - Designed to recover generation costs relating to reliability, rather than direct supply (which is recovered through the GSC/BFMCC).
  - This includes Nuclear Contracts as well as wholesale renewables
  - Also recovers costs of solar & SCEF programs (i.e. RECs and lost revenues)
  - Storage program incentives & administrative costs
  - Recovers incentives related to Fuel Cell projects
  - Recovers peaking generator contracts (GenConn/GBII)
  - DER Portal
  - Innovative pilot/"regulatory sandbox"

Explanations of RAM Elements

- **Public Benefits: SBC (“System Benefits Charge”)**
  - Affordability Programs (NewStart, Budget Billing, Matching Payment, etc)
  - Low Income Discount Rate
  - Hardship uncollectible debt
  - Operation Fuel
  - EnergizeCT Home Heating program
  - Data Dashboard
  - Customer Service Costs associated with RRES & NRES & LIDR

How does the RAM work?

- **Unlike the RAM, base distribution rates** are set with a forward-looking "budget" that is derived from costs incurred in the past, but those actual costs are not reconciled – if the company spends more than budgeted, it is the company's loss, and vice-versa.

- For example, if the Distribution revenue requirement is $100m, and the company actually spends $110m on distribution costs, the $10m overrun is taken from the company's bottom line

- Similarly, if the Distribution revenue requirement is $100m, and the company actually spends $90m, ratepayers overpay $10m (although the Earnings Sharing Mechanism acts as a partial check against this.)

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How does the RAM work?

- **For costs in the RAM,** the opposite is true – rates are reconciled to actual costs.
- This happens via a two-step process:
- <u>Step 1:</u>
  - In the **Year 1** RAM filing, the Company tells PURA what costs it expects to incur next year. For instance, the Company might say "we think we will have to spend $20m on solar incentives next year."
  - The basis for this estimate is supposed to be "known and measurable" – it can't just be a guess. But the point is to try to estimate as accurately as possible.
  - If PURA is satisfied with the estimate, they will set rates so that the company collects its estimate over the next year.
  - For example, PURA might set the NBFMCC rate so that the company can recover $20m for those solar incentives within Year 1.

How does the RAM work?

- Step 2:
  - In the **Year 2** RAM filing, the Company returns and shows PURA how much it actually spent on each RAM element back in Year 1.
  - For example, PURA set rates for Year 1 for the Company to recover $20m in solar incentives, but they now return to report that they actually spent $22.4m.
  - PURA and OCC first evaluate whether the overspend was appropriate,
  - And if so, rates for Year 2 are set for the company to collect both its expected Year 2 solar incentive costs, AND $2.4m more, to reconcile the Year 1 revenues, plus interest.
  - The opposite is also true – if actual solar costs were only $15m, rates would be reduced such that ratepayers would be credited the $5m difference, + interest.

What about the Procedural Process?

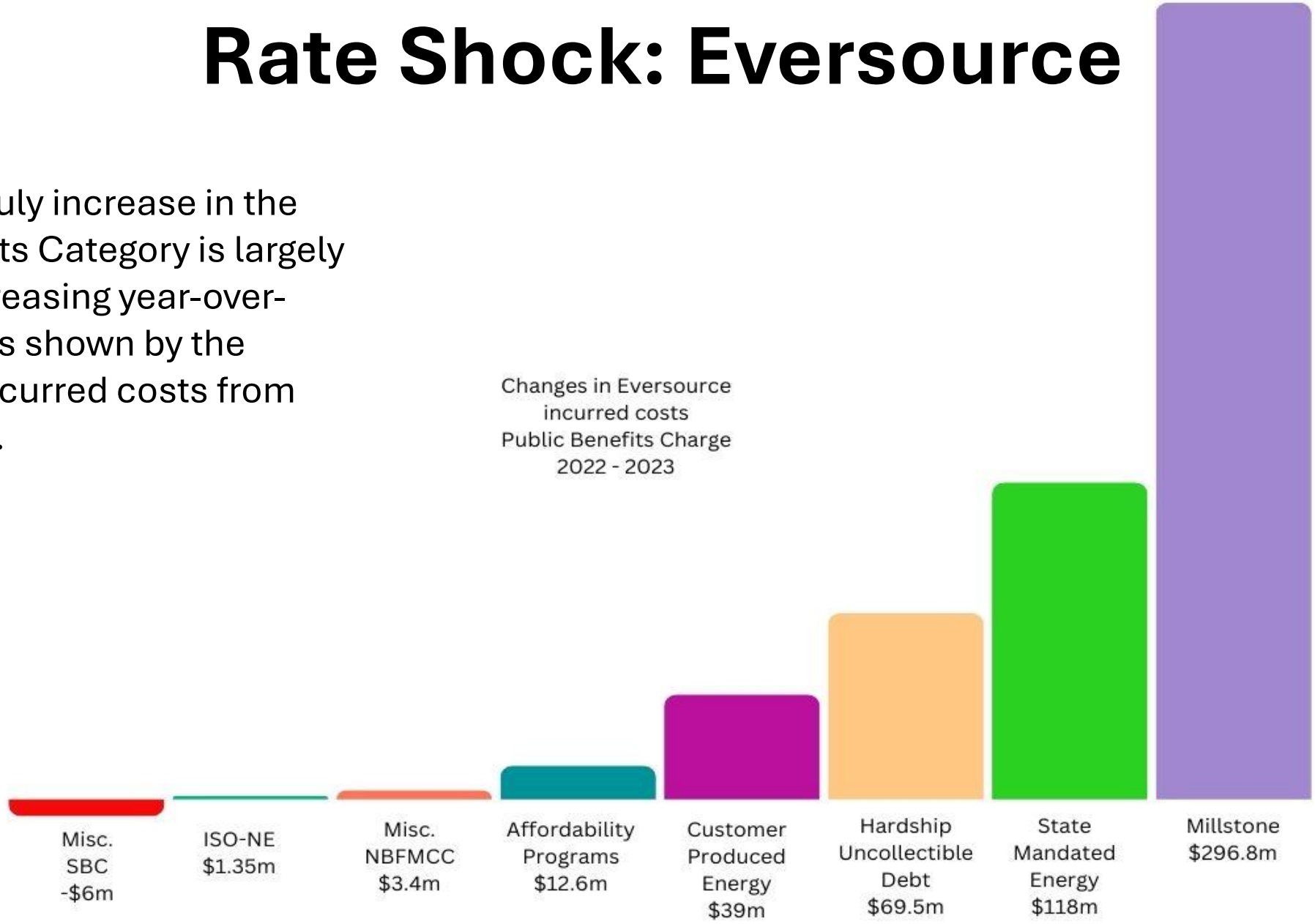
- **In 2021 PURA established a new procedural framework involving two phases:**
- **The "Phase I" review evaluates the "known and measurable" (forward-looking) expectations for budgets in the next year's RAM**
  - **Phase I typically results in a preliminary rate adjustment to take effect in May**
- **"Phase II" evaluates the prudency of spend in the prior year (particularly where over-budget)**
  - **Phase II typically results in a finalized adjustment to take effect in July**
- **The effective dates of adjustments, as well as the number of adjustments, has changed in some years due to circumstances particular to a given year or filing.**

Background on July Rate Increases

- Requested by EDCs to recover costs, effective July 2024 through April 2025
- The RAM is both reconciling (paying what is owed from last year) and forward looking, anticipating future higher costs – a double whammy.
- Increases the usage-dependent components of the bill by up to 30% for customers on third party suppliers, as compared to up to 4% for standard service customers. Because summer month usage is higher due to cooling, and the record breaking heat this summer increased usage by 30-50%, bill increases have been particularly dramatic for some customers.
- RAM rate increases offset by lower supply rates in 2H24
- Conservation efforts can mitigate these rate increases as electricity consumption

Rate Shock: Eversource

The sudden July increase in the Public Benefits Category is largely driven by increasing year-over-year costs, as shown by the changes in incurred costs from 2022 to 2023.



Rate Shock: UI

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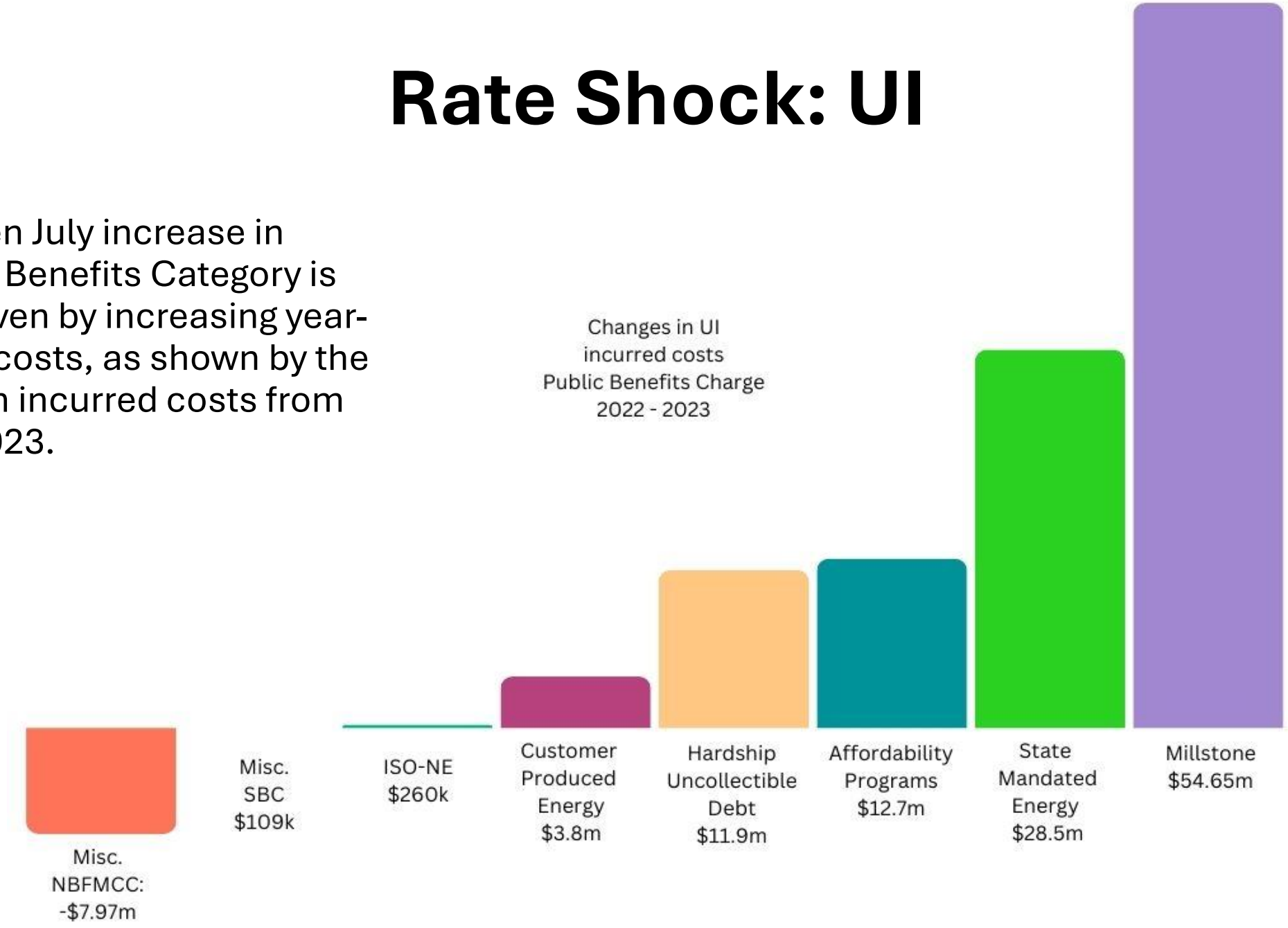
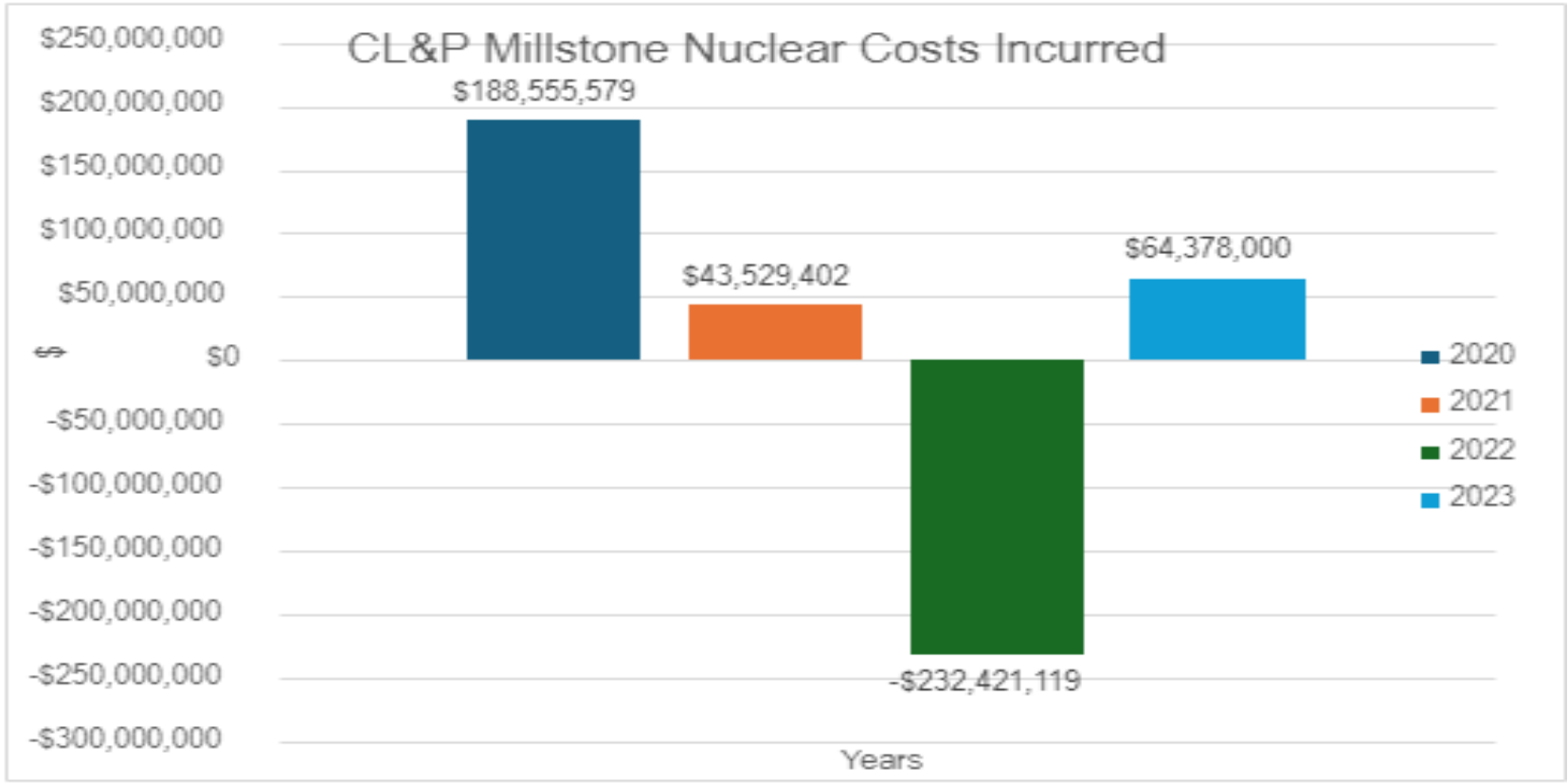


Public Benefits Charge

- These are preexisting charges which are now displayed in a separate category due to PURA and legislative initiatives to redesign electric bills to support transparency
- Includes affordability and clean energy programs along with core energy reliability investments such as Millstone nuclear plant and gas peaker plants
  - Utilities required to purchase a set amount of power from Millstone at a set price, which turns into either a charge or credit to customers, depending on how it compares to the wholesale market.
- Costs rapidly increased this year as a result of several factors: 1) energy market volatility; 2) COVID pandemic-related debt; 3) increased participation in clean energy and affordability programs; and 4) utilities demanding immediate repayment for these costs incurred over prior years
- Extreme heat has increased electricity usage and bills.

Millstone Costs for Eversource Customers Since Contract Inception



Since October 2019 to December 31, 2023: Millstone has been a net cost of $101.8 million for Eversource.