

SECTION 1: RATE CASE UPDATES

One of the core functions of PURA is regulating the distribution rates of Connecticut's investor-owned electric, natural gas, and water utility companies. These companies are granted monopoly franchise rights over the distribution and delivery infrastructure of their respective services because they are considered to have the characteristics of a natural monopoly; in other words, it is more efficient and cost-effective to grant an exclusive retail franchise to one company rather than many. As a result, the role of the regulator is to serve as a proxy for the forces of competition to balance this monopoly control and to ensure that the companies provide safe, adequate, and reliable service to customers at affordable rates. Specifically, PURA regulates the rates utilities charge customers to recover the costs of owning and maintaining distribution infrastructure only, while the cost of energy supply is instead a product of the New England regional wholesale market, which is regulated by the Federal Energy Regulatory Commission.

In order to change their distribution rates, a utility company must file a detailed application to amend its rates with the Authority. PURA is statutorily charged with conducting an adjudicated proceeding to investigate any rate application. This investigation is called a "rate case" and is one of the core functions of the Authority. Connecticut law requires PURA to conduct a rate case for public service companies at certain intervals and within a certain amount of time. After receiving a rate application, PURA has 270 days to complete a rate case proceeding for water companies, and 350 days for electric and gas companies, otherwise the rates proposed by a company automatically take effect.[1]

During each rate case, PURA's objective is to determine whether the rates proposed by the utility are just, necessary, and reasonable, though, by law, it is the company's responsibility to prove that its proposed rates are just and

reasonable.[2] Notably, this responsibility requires the company to provide more than mere assertions or documentation of expenses. Rather, the company must provide credible and sufficient evidence and clear explanations that demonstrate that the proposed rate change is just and reasonable and that the costs arise from prudent and efficient management of the utility. The Authority is obligated to deny any portion of the company's request that is not proven to be just and reasonable or is more than sufficient. Indeed, it is only in demonstrating that a requested rate is just and reasonable that the Authority can ensure that the public interest is protected as is required by Conn. Gen. Stat. § 16-19e.

Authority staff with expertise in accounting, finance, utility regulation, engineering, economics, and policy scrutinize the evidence provided by the company, starting with its proposed rate base. A utility's rate base includes the facilities, infrastructure, and other capital investments made by the utilities to supply safe, reliable, and cost-effective service to customers. Utilities finance these investments through a mixture of debt and equity, and then seek to recover these investments through rates paid by ratepayers. The Authority conducts a prudence review by analyzing the evidence provided by the utility and other Parties to the rate case proceeding to ensure that all costs included in the rate base are reasonable. Specifically, Authority staff carefully review all relevant filings, conduct public cross-examination of the utilities' technical experts and other witnesses in hearings, issue interrogatories (i.e., written questions directed at specific parties) in advance of those hearings, audit the financial reports filed by the companies, and review public comment.

In addition to recovering their rate base, utilities are also afforded the opportunity to earn a specified rate of return (ROE) on prudent investments through rates, as dictated by centuries-old U.S. Supreme Court precedent.[3] The ROE is set by examining several factors including current economic and market conditions, analytical models and cost of equity capital methodologies, ROEs of similar companies in other jurisdictions, and the company's financial risk and credit rating.

The Authority then multiplies the rate base by the ROE and adds in any pass-through operations and maintenance expenses to determine the annual revenue for the utility (called the revenue requirement). The revenue requirement is what the utility is allowed to recover through various charges on customer bills. These charges can take various forms, including fixed customer charges (e.g., \$/customer), demand charges (e.g., \$/kW measured in a particular period), and volumetric charges (e.g. \$/kWh).

Revenue Decoupling

Any under- or over-collection of a utilities' approved annual revenue requirement is subject to reconciliation pursuant to the state's revenue decoupling law.[4] Decoupling ensures that the utility receives its annual revenue requirement, regardless of its annual sales. Ultimately, decoupling is intended to address the disincentive to support

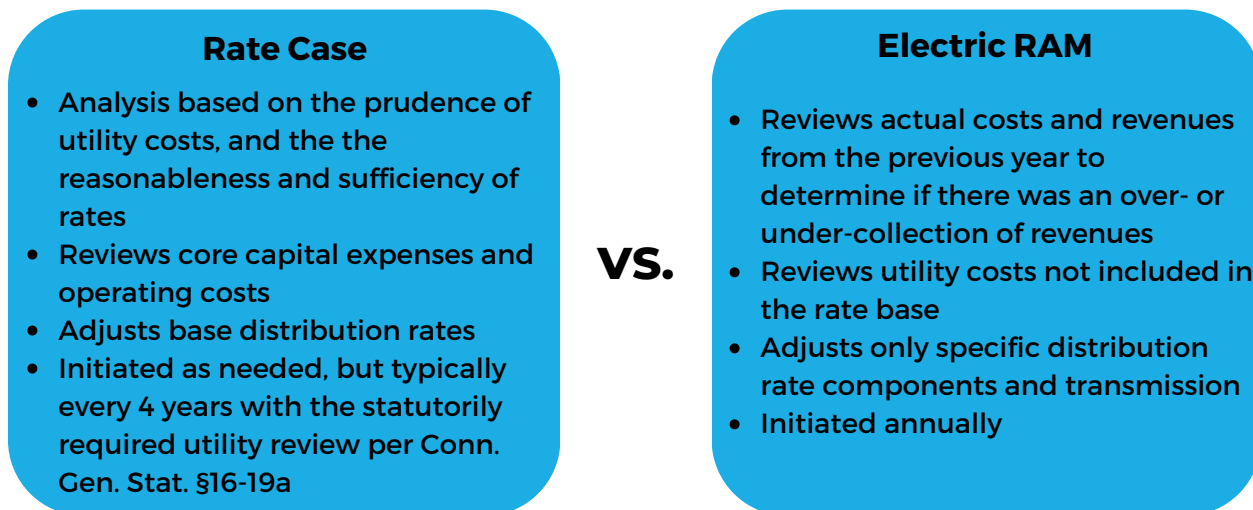
conservation efforts, such as energy efficiency measures, and other measures that reduce sales, such as distributed energy resources, that exists for the utilities when their revenue is tied to their sales.

For electric and gas utilities, the reconciling rate component is known as the revenue decoupling mechanism (RDM). For water utilities, the reconciling rate component is known as the revenue adjustment mechanism (RAM). The Authority reviews and compares a utilities revenue each year with its approved revenue requirement and authorizes a charge or credit, as appropriate, through the RDM or RAM, as applicable, to reconcile any difference from the preceding year. The charge or credit is applied for one year.

Rate Cases vs. Electric Rate Adjustment Mechanisms (RAM)

The Authority also reviews rates through additional mechanisms. For electric and gas utilities, this includes a review of the charges related to the supply through the standard service and last resort offer for electric customers and the purchased gas adjustment for gas customers. For electric utilities, this also includes a review of transmission and additional distribution-related charges through the annual rate adjustment mechanisms (RAM). Whereas a rate case is used to determine the expected revenue requirement a utility needs to recover the cost of providing safe and reliable distribution service, the electric RAM is used to recover and reconcile any costs not included in base distribution rates. Included in the electric RAM are any costs or revenues associated with clean energy programs directed by statute, arrearage management programs, and transmission costs incurred by the EDC, among other costs. These costs cannot be charged through base distribution rates and are instead reconciled on an annual basis and charged to customers through separate rate components that are included on the delivery side of customers' monthly bills. Figure 2 below summarizes these distinctions.

Figure 2: Understanding Rate Cases vs. Electric RAM Proceedings



Ultimately, rate cases and rate adjustments are some of the most important tools that the Authority yields because their outcomes affect all residents, businesses, critical infrastructure, and industries within a utility's service territory. For more information on the EDCs' 2023 RAM decisions, and how differences in expected and actual revenues are reconciled each year, see the discussion of the Rate Adjustment Mechanism in Section 4 below in this Report.

COMPLETED RATE CASES

In 2023, the Authority completed full prudency reviews and issued decisions in both the Aquarion Water Company (Aquarion) and The United Illuminating Company (UI) rate cases. Both decisions are the result of rigorous discovery and analysis described above, which also included hundreds of interrogatories, weeks of hearings including hours of cross examination and testimony by topical experts, detailed audits of financial statements, and multiple public comment hearings. The Authority's decisions present the fulfilment of its duties to ensure that approved rates are sufficient to cover the companies' prudently incurred costs, plus a reasonable rate of return, while protecting the public interest. Summaries of the decision dated March 15, 2023, in Docket No. 22-07-01, Application of Aquarion Water Company of Connecticut to Amend Its Rate Schedule, (Aquarion Decision), and the decision dated August 25, 2023, in Docket No 22-08-08, Application of The United Illuminating Company to Amend Its Rate Schedule, (UI Decision) are provided below.

2023 Rate Case Quick Facts

Aquarion (Docket No. 22-07-01)

- 207,000 Customers
- Requested Revenue Requirement: \$236 million annually
- Requested ROE: 10.35%
- Approved Revenue Requirement: \$196 million annually
- Approved ROE: 8.70%

United Illuminating (Docket No. 22-08-08)

- 341,000 Customers
- Requested Revenue Requirement Increase: \$332 million over three years
- Requested Year 1 Revenue Requirement: \$460 million
- Requested ROE: 10.20%
- Approved Revenue Requirement: \$385 million annually (i.e., the multi-year rate request was denied)
- Approved ROE: 9.1% with a 0.47% conditional reduction

2023 Aquarion Rate Case (Docket No. 22-07-01)

On August 26, 2022, the Aquarion Water Company of Connecticut (Aquarion or Company) filed a rate application with PURA in accordance with Conn. Gen. Stat. § 16-19 in Docket No. 22-07-01, Application of Aquarion Water Company of Connecticut to Amend its Rate Schedule (Aquarion Application).[5] Aquarion currently provides water

service, including fire protection service, to approximately 207,000 customers in 56 Connecticut municipalities. Initially, Aquarion requested an ROE of 10.35%^[6] and an annual revenue requirement of \$226 million, but later increased its request to \$236 million. The Authority conducted an extensive investigatory process involving four public comment hearings, several days of field audits and inspections, seven in-person days of evidentiary hearings, two days of late filed exhibit hearings, oral arguments, and the issuance of several hundred discovery requests (i.e., requests for further information). At the conclusion of that process, on March 15, 2023, the Authority issued a Decision approving an ROE of 8.70% and an annual revenue requirement of \$196 million for the rate year commencing on March 15, 2023. The authorized revenue requirement is an approximately \$40 million reduction from Aquarion's request, as the Authority found that the Company failed to meet its burden of demonstrating that the requested revenue requirement and return on equity were just and reasonable. This outcome protects the public interest by preventing customers from having to pay for costs that Aquarion did not sufficiently justify. Key components of the Aquarion Decision are further summarized [here](#).

Additional Aquarion Rate Case Decision Resources

- [Decision Summary Document](#)
- [Final Decision](#)
- [Regular Meeting Recording](#)
- [Aquarion service territory map](#)

2023 United Illuminating Rate Case (Docket No. 22-08-08)

On September 9, 2022, UI filed an application with PURA to amend its existing rates in accordance with Conn. Gen. Stat. § 16-19 (UI Application) in PURA Docket No. 22-08-08, [Application of The United Illuminating Company to Amend its Rate Schedule](#).^[7] UI currently provides electric service to over 341,000 residential, commercial, and industrial customers in 17 towns and cities in the southwestern part of Connecticut. UI's application included a requested ROE of 10.20%, and a base distribution revenue requirement increase of \$131 million over the next three years.^[8]

The Authority conducted an extensive investigatory process involving multiple rounds of pre-filed testimony, several days of field audits and inspections, 13 in-person days of evidentiary hearings, two days of late filed exhibit hearings, legal briefings and reply briefs, a draft decision, exceptions to the draft decisions and oral arguments, and the issuance of several hundred discovery requests (i.e., requests for further information). At the conclusion of that process, on August 25, 2023, the Authority issued a Final Decision, approving an ROE of 9.10%, subject to an aggregate forty-seven (47) basis point reduction, and an annual revenue requirement of \$384.87 million for the rate year commencing on September 1, 2023, including a base distribution increase of \$22.96 million. The reduced ROE and revenue requirement were found to be appropriate as the Authority determined

that UI did not meet its burden of justifying the requested revenue requirement and ROE requested in the company's application. This outcome protects the public interest by preventing customers from having to pay for costs that United Illuminating did not sufficiently justify. Key components of the Decision in Docket No. 22-08-08 are further summarized [here](#).

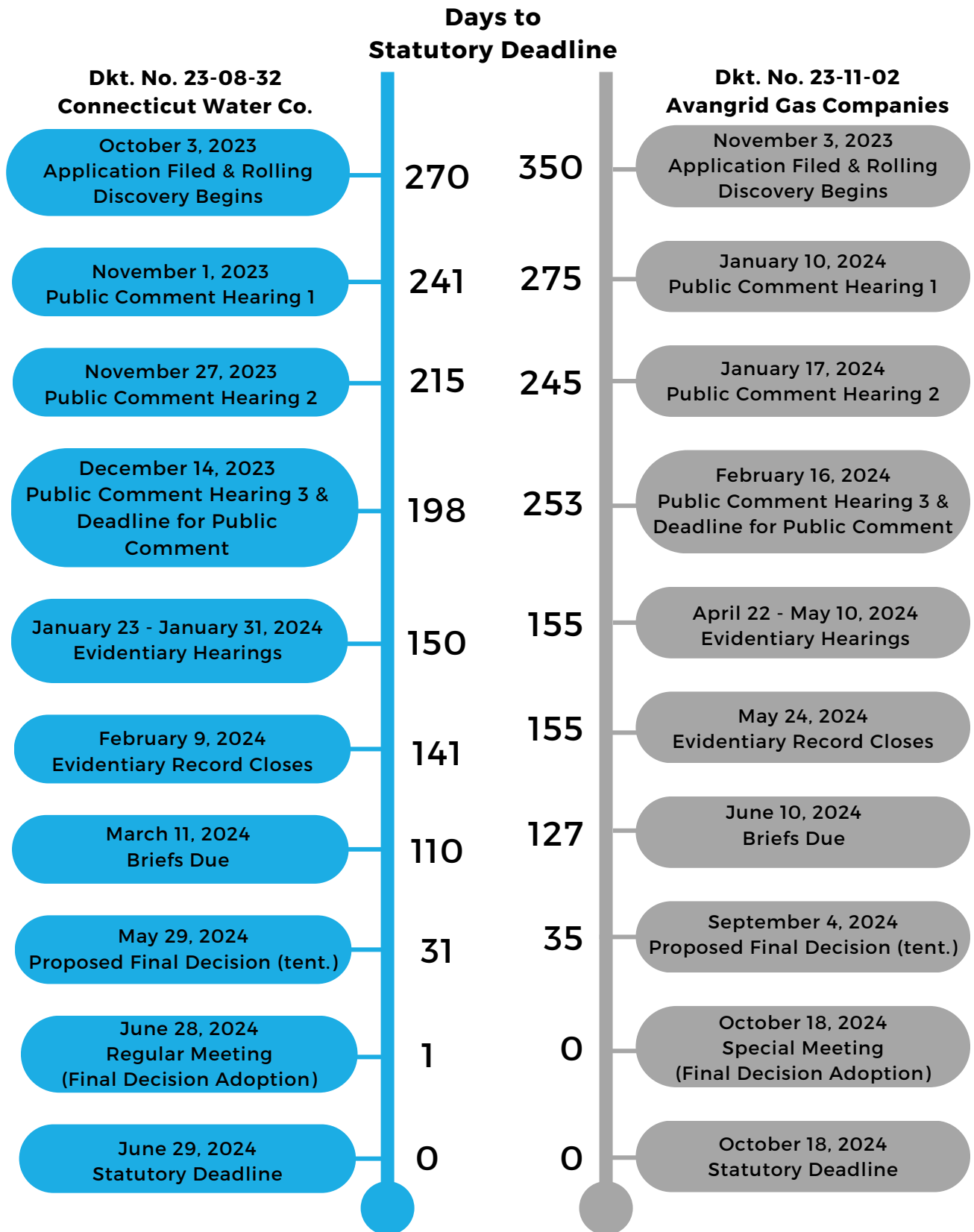
Additional United Illuminating Rate Case Decision Resources

- [Decision Summary Document](#)
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- [United Illuminating service territory map](#)

ACTIVE RATE CASES

In 2023, PURA received rate case applications from Connecticut Water Company (CWC), as well as from Connecticut Natural Gas Corporation (CNG) and the Southern Connecticut Gas Company (SCG) (together, Avangrid Gas Companies), jointly. Robust public engagement and comment have been priorities in both proceedings, as demonstrated by the multiple opportunities for public comment offered through live sessions conducted in the communities and held virtually, during lunchtime and evening hours, and the opportunity to submit comments in writing at any time. Until a decision is reached in each docket, PURA is unable to comment substantively outside of the formal noticed proceedings; however, the procedural progress of each case is provided in the timelines in Figure 3 below. Differences between schedules result from the difference in the statutory deadlines (270 days for water and 350 for gas), other docket schedule conflicts, and/or needs of the individual rate case.

Figure 3: Active Rate Case Progress and Next Steps



ADDITIONAL RATE CASES ON THE HORIZON

In the next 12 months, there is the potential for PURA to adjudicate additional rate amendment proceedings, incremental to the CWC and Avangrid Gas Companies' cases. As described above, rate cases are a key regulatory mechanism for improving utility service and affordability. While they may result in rate increases to account for incremental investment in infrastructure, inflationary pressures, and other cost drivers, rate cases also remain the best tool that regulators have to ensure utility costs are contained from a long-term perspective and that the utilities are being managed with efficiency and care. They provide an opportunity to both regulators and other stakeholders for careful scrutiny of all parts of a utility's business operation, which also helps improve transparency and accountability.

Though formal opportunities for public comment and participation will not be available until these rate cases are officially filed, PURA continues to emphasize the importance of proactive and transparent public engagement. Members of the public, legislators, representatives of various companies or industries, municipalities, and all other interested stakeholders are encouraged to view the [PURA rate case page](#) and to familiarize themselves with related resources on the various components of a rate case.

PURA Video Tutorials About Rate Cases

Click the links in each circle to learn more.

[Overview of Rate Cases & Why They Matter to You](#)

[Ways to Get Involved In a Rate Case](#)

[The Why and How of Setting Utility Rates](#)

[Parties in a Rate Case](#)

[How is my bill affected by a rate case?](#)

[Review of Storm Costs in a Rate Case](#)

[1] Conn. Gen. Stat. § 16-19(a).

[2] Conn. Gen. Stat. § 16-22.

[3] The utility is also allowed to recover, without an additional return, certain operation and maintenance costs, such as labor.

[4] Conn. Gen. Stat. § 16-19tt.

[5] Aquarion's last rate application was submitted on March 28, 2013, in Docket No. 13-02-20, Application of Aquarion Water Company of Connecticut to Amend Its Rates.

[6] The September 24, 2013 Decision in Docket No. 13-02-20 previously set Aquarion's ROE at 9.63%.

[7] UI's last rate application was submitted on July 1, 2016, in Docket No. 16-06-04, Application of The United Illuminating Company to Increase its Rates and Charges.

[8] UI proposed \$91.055 million in additional revenues in the initial rate year, \$20.120 million in rate year 2, and \$19.466 million in rate year 3. In total, this represented an increase over the currently allowed base distribution revenues of approximately 35%.