STATE OF CONNECTICUT

PUBLIC UTILITIES REGULATORY AUTHORITY

2023 UNITED ILLUMINATING RATE CASE SUMMARY

I. RATE CASE FUNDAMENTALS

The Public Utilities Regulatory Authority (PURA or the Authority) regulates the distribution rates of all investor-owned electric, natural gas, and water utilities (IOUs or companies) in Connecticut.[1] In order to change their distribution rates, a company must file an application to amend their rates (rate application) 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.

PURA is guided by Conn. Gen. Stat. §§ 16-19 and 16-19e, among other statutes, when conducting a rate case and reviewing a rate application. Conn. Gen. Stat. § 1619e provides particularly relevant guidance regarding PURA's review of a rate application:

> [PURA] shall examine … the expansion of the plant and equipment of existing public service companies, the operations and internal workings of public service companies and the establishment of the level and structure of rates in accordance with the following principles: … (4) that the level and structure of rates be sufficient, but no more than sufficient, to allow public service companies to cover their operating costs … and yet provide appropriate protection to the relevant public interests, both existing and foreseeable….(5) that the level and structure of rates charged customers shall reflect prudent and efficient management of the franchise operation.

Further, by law, the company has the burden to prove that its proposed rates are just and reasonable.[2] Notably, this burden requires the utility 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. 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 required by Conn. Gen. Stat. § 16-19e. The Authority applies these long-standing standards in conducting all rate cases.

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[1] Conn. Gen. Stat. § 16-19 statutorily charges PURA with regulating the rates of Connecticut's public service companies; otherwise known as investor-owned utilities.

[2] Conn. Gen. Stat. § 16-22.

II. UNITED ILLUMINATING RATE CASE PROCEEDING AND DECISION

A. Overview

On September 9, 2022, The United Illuminating Company (UI or Company) filed an application with PURA to amend its existing rates in accordance with Conn. Gen. Stat. § 16-19 (Application) in PURA Docket No. 22-08-08, Application of The United Illuminating Company to Amend its Rate Schedule.[3] The Company currently provides electric service to over 341,000 residential, commercial, and industrial customers in 17 towns and cities in the southwestern part of Connecticut. The Company's application included a requested return on equity (ROE) of 10.20%, and a base distribution revenue requirement increase of $131 million over the next three years.[4] If approved, the request would have increased base distribution rates by 26% (escalating to 35% by year three) and customer bills by 8% starting September 1, 2023, resulting in an average first year increase of more than $200 for the average residential customer.

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 $384.865 million for the rate year commencing on September 1, 2023, including a base distribution increase of $22.957 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 included in their application.

Beginning on September 1, 2023, customers can expect an increase in base distribution rates of 6.6% and overall bills by 2%, resulting in an average first year increase of approximately $65 for the average residential customer. This outcome protects the public interest by preventing customers from having to pay for costs that United Illuminating did not sufficiently justify.

B. Opportunities for Public Comment

Public input is an essential component in the Authority's review of a utility's rate application to ensure that the Authority reaches a fair and reasonable decision. The public hearing process offers the opportunity for customers, local government officials, industry

[3] 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.

[4] UI proposes $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 represents an increase over the currently allowed base distribution revenues of approximately 35%.

representatives, and others to bring their thoughts and concerns about a utility rate case to the attention of the three Commissioners.

The Authority issued a request for public comments encouraging public participation in the proceeding through attendance at one of four public comment hearings or by providing comments in writing. Notice of Request for Public Comments, Sep. 14, 2022. The Authority set a deadline of Thursday, March 23, 2023, i.e., the close of the evidentiary record, for such comments to be considered.

The Authority held four public comment hearings, two in person and two virtually. The Authority received oral and written comments from 23 entities during the noticed public comment period. Opposition to UI's application for a rate increase was unanimous. The most common theme of those objecting to the request was that the Company's proposed increase was excessive and/or unjustified. The Authority carefully weighed all comments received prior to March 23, 2023, and incorporated them into the Proposed Final Decision issued on July 21, 2023.

Following issuance of the Proposed Final Decision and after the deadline for comments to be considered for the Final Decision, the Authority received approximately 108 additional comments. Roughly half of the comments received supported modifications to the Proposed Final Decision. These comments were provided by individual UI employees, the Utility Workers Union of America, companies doing business with UI, an educational institution, cultural, arts, sports and community organizations, and an elected official. The other half of the comments were from residents in support of the Proposed Final Decision.

C. Key Decision Components

1. UI Failed to Meet its Evidentiary Burden

As stated above, it is UI's statutory burden to demonstrate that its proposed rates are just and reasonable. Specifically, to meet this burden, the utility must provide (or ensure the record contains) a preponderance of evidence that the requested rates are "sufficient, but no more than sufficient" and "reflect prudent and efficient management." See Tianti v. William Raveis Real Estate, Inc., 231 Conn. 690, 702, (1995) (finding that the preponderance of evidence standard is met when a fact is "more probable than not."). Notably, this burden requires the utility to provide more than mere declarations of fact. Connecticut Nat. Gas Corp. v. Pub. Utilities Comm'n, 29 Conn. Supp. 379, 394 (1971). Further, "[a]n administrative agency is not required to believe any witness, even an expert." Goldstar, 288 Conn. at 830 (citations omitted).

The Company submitted its rate application on September 9, 2022, of its own accord; thus, UI had as much time as it needed to gather and submit evidence for the Authority's consideration with its rate application. Further, the Company had over 150 days between submitting its rate application and the close of the record to provide evidence in support of its rate application. During that time, UI provided pre-filed testimony, rebuttal testimony, and surrebuttal testimony, responded to hundreds of

interrogatory requests, participated in 13 in-person days of evidentiary hearings and two days of late filed exhibit hearings, and provided 145 late filed exhibits. Despite these opportunities, the Company failed to meet its burden to demonstrate that its rate request was just and reasonable under the applicable standards articulated above.

The Authority declined to include in the approved revenue requirement several categories of expenses that UI failed to adequately demonstrate are prudent, reasonable, and in the best interest of ratepayers. Specifically, the Authority did not allow the following to be incorporated into rates: the loss on the sale of the Bridgeport Avenue property ($15.583 million); outside legal costs related to this rate case ($1.523 million); or industry membership dues ($0.293 million), among others.

Regarding the sale of the Bridgeport Avenue property, UI failed to justify and demonstrate that the sale of the property was an integral part of the lowest cost option for consolidating its operations and that the resulting net proceeds were negative, as the Company asserted at the time of the sale. Accordingly, the Authority denied the Company's requested recovery of $15,583,240 for the loss on the sale of the Bridgeport Avenue property.

Regarding outside legal costs, the Authority concludes that UI failed to sustain its burden that the outside labor expenses related to the rate case were reasonable and prudent. Similarly, the Company failed to demonstrate that memberships in industry organizations demonstrate a quantifiable benefit to ratepayers and are reasonable and necessary to provide service to ratepayers. Regardless of whether the Company met its burden, the requested rate case expenses are barred from recovery under Conn. Gen. Stat. § 16-243p(b).

2. Prospective Investments

a. Multi-Year Rate Plan

The Authority declined to approve the three-year rate plan requested by the Company primarily because of significant problems with the filed Cost of Service Study (COSS), which is a vital analytical tool used to ensure that rate increases are distributed fairly and equitably. Moreover, the Authority recently identified multi-year rate plans as a topic for reevaluation through Docket No. 21-05-15RE01, PURA Investigation into Revenue Adjustment Mechanisms for a Performance-Based Regulation Framework. Docket No. 21-05-15RE01 is scheduled for completion in May 2024. Thus, the newly approved multi-year rate plan framework will be in place when the Authority reviews UI's next rate application.

b. Capital Investments

The Authority allowed UI to recover over $500,000,000 of new plant additions completed since UI's last rate case. However, the Authority determined that UI failed to sufficiently demonstrate that certain capital investments purportedly made (or forecast to be made) in 2022 and continuing through the first rate plan year (i.e., September 1, 2023, through August 31, 2024) were, in fact, completed and in-service or prudent, which are

threshold determinations that are required before granting recovery. Specifically, UI offered limited supporting documentation to aid the Authority and stakeholders in evaluating the prudence of its past and projected investments, such as documents demonstrating the project needs, potential project alternatives, initial or detailed project engineering estimates, project scope changes (cost or timing), and internal approvals related to the above materials. Although the Company claimed that it has such information within its control and uses such information at least monthly as part of its capital investment planning and execution process, it did not submit a comprehensive breakdown of plant additions that would enable the Authority to scrutinize each project and make an appropriate prudency determination. Instead, the Company submitted only basic planning documents that described its own internal capital planning processes. Accordingly, the Authority declined to allow the Company to begin earning a return on approximately $222 million of additional capital expenditures.[5]

c. Opportunity for Future Recovery

Importantly, the Authority declining to incorporate a multi-year rate plan or analysis on the $222.402 million in investments in this Decision is not a determination on or a disallowance of any future capital investments. The Company may seek recovery in a future rate case for any capital additions already incurred or incurred in the future, which are not incorporated into rate base or reflected in rates in this Decision. As such, the Company continues to have the opportunity to earn a reasonable return on all prudent and useful investments.[6]

3. Shareholder Return on Equity (ROE)

a. Approve ROE and Performance Reductions

Investor-owned utilities, such as UI, are allowed an opportunity to earn a reasonable return on their investments, as afforded by Supreme Court precedent.[7] As part of PURA's ratemaking requirements, the Authority examines several factors to determine a just and reasonable ROE, including widely-accepted financial models, comparable utilities' approved ROEs, current economic and market conditions, and the impact on the Company's creditworthiness. The Authority must determine the ROE that is "sufficient, but no more than sufficient" for the Company to "cover [its] capital costs, to attract needed capital and to maintain [its] financial integrity."[8] In this Decision, the Authority determined that an ROE of 9.10% is sufficient.

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[5] Importantly, while the Authority could have reached a finding of imprudence and disallowed such costs, which would have barred future cost recovery attempts, PURA did not take such an action in this Decision. As such, the Company has the opportunity to seek recovery in a future rate case of investments not included in rate base in this Decision.

[6] Indeed, this approach to providing an opportunity for a return on investment is, overwhelmingly, the most common approach used by regulators over the more than 100-year history of public utility regulation.

[7] Fed. Power Comm'n v. Hope Nat. Gas Co., 320 U.S. 591, 603 (1944) (Hope); Bluefield Waterworks & Imp. Co. v. Pub. Serv. Comm'n of W. Va., 262 U.S. 679, 690 (1923) (Bluefield).

[8] Conn. Gen. Stat. § 16-19e(a)(4)

However, the Authority may also make adjustments to the ROE to incent management of a utility to improve their performance in a specific area. In this Decision, the Authority included downward ROE adjustments of 0.47% due to several deficiencies, resulting in an effective ROE of 8.63%. Key issues contributing to these ROE adjustments are discussed below.

b. Customer Service Deficiencies

A utility's customer service and relations are critical parts of prudent and reasonable operations. Without high-quality and effective customer service, programs, and policies, utilities cannot meet their objectives and can potentially harm ratepayers. In this proceeding, PURA found that the Company continues to misinform or provide incomplete information to customers. The Authority's Office of Education, Outreach & Enforcement (EOE) contributed significantly to this evaluation, focusing much of its participation in this docket on UI's customer service performance and conducting audits on UI's customer service calls.

According to EOE, despite extensive Authority guidance, its audits of UI's customer service calls still show a lack of compliance with Authority orders. For example, EOE noted that UI still fails to ask hardship prequalification questions in every call, leading to customers being placed in incorrect assistance programs, or no program at all, substantially harming the customer. Based on this work, as well as analysis presented by the Center for Children's Advocacy, the Authority concluded that the methods previously used to address UI's deficient customer service practices, such as explicit guidance, multiple Notices of Violation, and an adopted settlement agreement, have been insufficient. As such, the Authority reduced UI's ROE by 20 basis points (0.2%) to incentivize improved customer service performance.

c. English Station Remediation

Under Conn. Gen. Stat. § 16-19e(a)(3), the Authority is broadly responsible for ensuring that the Company is performing its public responsibilities with economy, efficiency, and care for public safety and energy security while also, in relevant part, reflecting prudent management of the natural environment. The Authority is also responsible for ensuring compliance with its previously adopted orders.

In December 2015, the Authority approved the merger of UI and Iberdrola based on a settlement agreement.[9] Under the settlement agreement, UI had executed a partial consent order (PCO) that "requires UI to investigate and remediate . . . the English Station site." Importantly, the settlement agreement further stated that the remediation of English Station "will benefit the City of New Haven, . . . further the State's broader goals of revitalizing contaminated sites . . . . [and] provide a public interest benefit estimated at $30 million." In approving the settlement agreement and merger, the Authority noted that the "commitment to clean up English Station [under the PCO]."

[9] Decision, Dec. 9, 2015, Docket No. 15-07-38, Joint Application of Iberdrola, S.A., Iberdrola USA, Inc., Iberdrola USA Networks, Inc. Green Merger, Sub. Inc. and UIL Holdings Corporation for Approval of a Change of Control (Merger Decision), p. 21.

The PCO contained two provisions relevant to the merger. First, the PCO required the Company to commit at least $30 million towards investigating and remediating English Station. Second, the PCO required the remediation to "be completed within 3 years . . . , unless a later completion date is specified in writing by the Commissioner." However, during this proceeding, the Company acknowledged that it had only spent half of its committed budget and was several years past the agreed upon date for project completion.

The testimony elicited through this proceeding shows the Company's alarming disregard for the Company's commitment to remediate and maintain security around English Station, which is located in an environmental justice community as defined by Conn. Gen. Stat. § 22a-20a. Thus, PURA imposed a 20 basis point (0.20%) ROE reduction to incentivize the Company to rectify its unfulfilled remediation responsibilities at the English Station property in compliance with the conditions of the Merger Decision.

4. Authorized Incremental Employees

In its application, the Company requested the equivalent of 570 total employees or full-time equivalents (FTEs), which is comprised of a starting headcount of 519 plus 89 incremental new hires. However, the Company did not have 519 employees during the evidentiary portion of this proceeding; in fact, as of the date of its application the Company had 498 FTEs and as of February 28, 2023, the Company had 485 employees. More significantly, the Company has a history of not filling approved FTEs to the detriment of ratepayers, since the fully loaded labor costs associated with the approved FTEs are reflected in rates. Specifically, in the Company's 2016 rate case, the Authority approved a revenue requirement starting in 2017 that included compensation for 704 FTEs. Despite this, UI's actual FTEs in 2018 were 551 and in 2022 were 493, or 153 and 211 FTEs below the authorized amount, respectively. As a result of these substantial vacancies for FTEs that were included in rates being charged to customers over this period, and through September 1, 2023, UI will have collected more than $55 million from customers for employees that the Company could have but did not hire. Given this history and the downward trajectory of UI's actual employee count, the Authority adjusted the starting headcount to the number of FTEs, i.e., 485, employed by UI as of February 28, 2023.

Further, based on its review of the requested FTEs, the Authority approved an incremental 47 FTEs, including 13 customer service FTEs, two FTEs in the Projects group to support the uptake of distributed energy resources, and all 21 Electric Field Operations FTEs requested as these resources support vital blue- and gray-sky system operations functions. Notably, for the 21 Electric Field Operations FTEs, this includes approval of incremental revenue for employee compensation in the range of $1.7 million, which does not include a calculation of the benefits included in rates for these positions.

5. Training

The Company requests $589,000 for travel, education, and training expenses. In support of its travel, education, and training expense, the Company provided invoices and only a general explanation of possible benefits that the travel, education, and training expenses provide to UI and its customers. Notwithstanding this, the Authority authorized the entire travel, education, and training expense budget in the Final Decision; however, to ensure UI's employees receive this benefit, the Company is being required to provide detailed supporting documentation and annual reporting moving forward.

6. Commitment to Innovation and Clean Energy

In its application, UI included several clean energy transition proposals spanning EV charging infrastructure, pilot programs, energy storage projects, load forecasting, co-located solar and storage, and research and development investments. The Authority is committed to the modernization and decarbonization of Connecticut's grid in accordance with Connecticut's state policies, which it has demonstrated through the implementation of its Grid Modernization Framework, the creation of multiple clean energy deployment programs, and other ongoing innovative program designs.

However, the Authority found that because there are multiple, ongoing investigations, as well as already approved program frameworks, that specifically focus on deploying the very technologies proposed by the Company, it would be inappropriate to discuss and approve such projects outside of the programs and processes already established for those programs as it undercuts the objectives of ensuring complementary program design and fulsome stakeholder engagement. Specifically, if PURA were to approve the proposed (unvetted) projects in this rate case, it would be excluding a number of key stakeholders and important discussions that lead to effective project and program design. Stakeholders must be provided with substantial notice of proposed program or project development in order to provide meaningful feedback. It would also lead to the asymmetrical application of these programs in Connecticut; namely, only in UI's service territory, and not Eversource's. As a result, the Authority denied UI's requests to recover the costs of implementing its proposed clean energy transition proposals and directed the Company to instead submit the projects into their relevant active proceeding or program. Ultimately, the Authority made no determination on these proposals in the Decision, and simply directed their submission for evaluation and implementation through already established and mature venues.

Most importantly, nothing in the Decision will hinder the effectiveness of the state's existing clean energy and innovative energy programs, as the existing programs have ratepayer funding mechanisms that are separate and apart from the base distribution rates at question in a rate case. Notably, PURA's design and authorization of the Residential Renewable Energy Program has resulted in the highest residential solar development in the state's history over 2022 and 2023, with 106 megawatts (MW) approved in 2022 and 101 MW already approved as of August 1 in 2023. This is compared to the historical average of 50-60 MW per year. Further, the authorization of the Energy Storage Solutions Program has resulted in more than 76 MW of approved storage

facilities and PURA's creation of the Light-Duty Electric Vehicle (EV) Charging program has resulted in the deployment of more than 850 EV chargers in UI's service territory since January 1, 2022. Lastly, the Innovative Energy Solutions program is currently evaluating 21 innovative energy solutions for funding through Docket No. 22-08-07, Innovative Energy Solutions Program Cycle 01, many of which will partner directly with UI if selected.

7. Continued Obligations

Importantly, the Company is, at all times, obligated by law to provide safe, adequate, and reliable service to all customers regardless of the outcome of a given rate case.[10] The requirement to serve the public need for safe and reliable utility service, and being subject to PURA's review of any rate applications, are requirements of the monopoly franchise granted by the state to the utility to provide utility service in its exclusive service territory.

The Company is also obligated to implement solutions in compliance with the Authority's direction, decisions, and rulings in the furtherance of the regulatory goals and priority public outcomes identified in the April 26, 2023 Decision in Docket No. 21-05-15, PURA Investigation into a Performance-Based Regulation Framework for the Electric Distribution Companies.

Regulatory Goals and Priority Outcomes of Electric Utility Service

Regulatory Goals	Priority Outcomes
Excellent Operational Performance	1. Business Operations and Investment Efficiency 2. Comprehensive and Transparent System Planning 3. Distribution System Utilization 4. Reliable and Resilient Electric Service
Public Policy Achievement	5. Social Equity 6. GHG Reduction
Customer Empowerment and Satisfaction	7. Customer Empowerment 8. Quality Customer Service
Reasonable, Equitable, and Affordable Rates	9. Affordable Service

[10] Conn. Gen. Stat. §§ 16-244i and 16-10a.