Acadia Center
Advancing the Clean Energy Future
21 Oak Street • Suite 202
Hartford, CT 06106-8015
860.246.7121 • acadiacenter.org

December 15, 2022

Jeffrey R. Gaudiosi, Esq.
Executive Secretary
Public Utilities Regulatory Authority
10 Franklin Square
New Britain, CT 06051

Re: Docket No. 22-08-08, *Application of the United Illuminating Company to Amend Its Rate Schedules*

Acadia Center appreciates the opportunity to submit comments in response to Public Utilities Regulatory Authority (PURA or Authority) Docket No. 22-08-08, *Application of the United Illuminating Company to Amend Its Rate Schedules*. Acadia Center is a non-profit research and advocacy organization committed to advancing the clean energy future.

On September 9, 2022, United Illuminating (Company) applied to PURA for approval of a $136.5 million revenue increase. This equates to a 10.1% increase in total revenues, and an approximate rate increase of 15% for residential electric customers over the three-year rate period.[1]

The Company has proposed a series of investments to support grid modernization, electric vehicles, energy storage, and distributed energy resource (DER) interconnection, among other initiatives. These types of investments are important as Connecticut works to meet its climate and clean energy requirements, but Acadia Center is concerned that the proposal is unnecessarily expensive for ratepayers, particularly as a result of the Company's proposed return on equity (ROE). Acadia Center also has concerns about the proposed Performance-Based Metrics Demonstration Program.

The Proposed Return on Equity Rate is Unnecessarily High

The Company is requesting a return on equity of 10.20% and argues that the "reasonable" range is between 10.00% and 10.75%.[2] In arguing for this return on equity, the Company states that "UI faces relatively greater business and financial risk relative to the proxy group due to the regulatory environment in Connecticut, and the Company's significant capital investments plan."[3] However, the Company does not provide sufficient evidence to back up its claim of higher risks or why it should receive a higher return on equity than comparable electric distribution companies in the region.

---

[1] PURA Docket No. 22-08-08, Notice of Request for Public Comments.

[2] Exhibit UI-AEB-1, Executive Summary.

[3] Exhibit UI-AEB-1, Executive Summary.

A return on equity of 10.2% is well above regional and national averages; authorized returns for electric distribution companies in New England range from 9.10% to 9.8%, with a mean of 9.37% and a median of 9.29%.[4,5] Comparable companies in New England, operating at significantly lower ROEs than what the Company proposes, have had no issues attracting capital and have not undergone financial distress. An ROE of 10.2% would fail the Hope and Bluefield test of being comparable to earnings of companies of similar risk.

It is not reasonable for Connecticut ratepayers to pay greater returns to utility shareholders than their neighbors—especially not for the same type of investments in locations subject to the same capital markets and particularly when borrowing costs have been in decline over time.[6]

In a recent notable case, the Massachusetts Department of Public Utilities (DPU) rejected Eversource Energy's request to increase its ROE to 10.50% and instead approved an ROE of 9.80%.[7] Not only did the DPU approve an ROE lower than what was requested, it approved an ROE that was lower than Eversource's current ROE of 10%, which was approved in 2018 and was at the time already far above the region-wide average.

Determining a return on equity should be based on a utility's performance in providing a public service. Utilities that perform well in a public interest sense should receive authorized returns on equity higher than the estimated cost of equity, while those that underperform should receive returns on equity closer to the cost of equity.

While the Company describes the business risks that it faces, firm-specific risks are diversified away in investment portfolios and should not be considered when setting the return on equity. While firm-specific risks may affect a company's stock price, they do not affect its cost of capital. Expected returns on a stock are a product of the systemic, macroeconomic risks a company faces, not the expected return on equity.[8]

Performance-Based Metrics Demonstration Program

The Company proposes a Performance-Based Metrics Demonstration Program that includes five performance categories: (1) DER interconnection; (2) EV managed charging; (3) electric storage adoption; (4) Net Promoter Score ("NPS"); and (5) customer e-bill adoption. The Company proposes to establish metrics and targets for each metric and report the results to PURA quarterly during the rate period.

While Acadia Center appreciates the effort to collect data on these performance categories, the demonstration program seems preemptive given the ongoing Performance-Based Regulation docket (Docket No. 21-05-15). The

[4] See relevant commission orders for authorized return figures: Connecticut PURA Docket No. 21-01-04; Connecticut PURA Docket No. 16-06-04; Maine PUC Docket No. 2018-00194; Maine PUC 2020-00316; Massachusetts DPU 19-130; Massachusetts DPU 18-150; New Hampshire PUC DE 19-057; New Hampshire PUC DE 19-064; Rhode Island PUC Docket No. 4770; Massachusetts DPU 22-22.

[5] A 10.2% ROE is significantly higher than the 9.275% approved in National Grid's 2018 rate case in Rhode Island; the 9.7% approved for National Grid in Massachusetts in 2021; the 9% approved in National Grid's 2018 New York rate case and reaffirmed in a 2021 settlement; and the 9.25% that PURA approved in a 2018 Eversource rate case and reaffirmed in a 2021 settlement.

[6] Meredith Fowlie, "Gearing Up for Grid Modernization." Energy Institute at Haas, UC Berkeley. https://energyathaas.wordpress.com/2021/05/10/gearing-up-for-grid-modernization/

[7] DPU 22-22. Petition of NSTAR Electric Company, doing business as Eversource Energy, pursuant to G.L. c. 164, § 94 and 220 CMR 5.00, for Approval of a General Increase in Base Distribution Rates for Electric Service and a Performance Based Ratemaking Plan.

[8] For more information, see joint Acadia Center and Pearl St. Station Finance Lab comments in DPU 22-22, May 2022.

proposed performance categories, metrics, and targets were not the result of the kind of stakeholder engagement process that the PBR proceeding is undertaking.

The Company is not incorrect to say that these performance categories are important. Collecting data on the five metrics will certainly provide more useful information compared to not tracking performance data at all. However, without a more transparent process to develop metrics and targets, we are left to wonder: Why were just these five metrics chosen? How were the performance targets determined? Will the performance targets result in any changes in performance compared to what would have occurred anyway, even without specific targets?

While the data collected on the five performance categories may be useful and may inform the future development of performance metrics and targets, Acadia Center recommends that the Authority consider any results in the broader context of the Performance-Based Regulation proceeding and fairly evaluate them alongside all of the metrics and/or targets that come out of the PBR stakeholder process.

Acadia Center recommends that the Company provide performance data from relevant peer companies to provide a benchmark for comparison but urges the Authority and other stakeholders not to assume that peer companies themselves are performing well or that they should serve as a primary factor when choosing specific targets.

Finally, Acadia Center agrees with the Company's proposals not to attach financial incentives or penalties to the five metrics at this time.

Sincerely,

Oliver Tully
Director, Utility Innovation Initiative
otully@acadiacenter.org
860-246-7121 x 202