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

Docket No. 21-05-15RE01, PURA Investigation Into Revenue Adjustment Mechanisms For A Performance-Based Regulation Framework

Dear Mr. Gaudiosi:

Acadia Center appreciates the opportunity to submit written comments in response to the revised straw proposal issued in Public Utilities Regulatory Authority (PURA) Docket 21-05-15RE01, "Investigation Into Revenue Adjustment Mechanisms for a Performance Based Regulation Framework." Acadia Center has participated in this proceeding and its companion dockets since their inception, both as an individual commenter and in partnership with other stakeholders, including comments submitted in August of 2023.

Acadia Center Feedback in Response to the Notice of Request for Written Comments

Acadia Center provides the following feedback in response to the questions and prompts included by PURA in the Notice of Request for Written Comments.

Question 1: Statement of Support on the Revised Straw Proposal Recommendations

Acadia Center generally supports the recommendations advanced by PURA in the Revised Straw Proposal, as detailed and qualified further in the responses below. Our support for the overall RAM framework has remained strong since the initiation of the proceeding, and the salience of energy affordability issues and utility revenue requirements in the last 1-2 years have only increased the urgency and importance of adopting an updated RAM framework tailored to the current-day needs and priorities of Connecticut. As a general matter, notwithstanding limited items noted below, we feel the Authority's revisions to the Straw Proposal serve to strengthen and improve the framework.

As we learn more about how Connecticut's grid and the broader regional grid must evolve in the coming twenty-plus years, it is increasingly important that proceedings like this put in place effective new regimes to guide the investment decisions of electric distribution companies (EDCs). Today's grid must be modernized, strengthened, and made more intelligent. Resources like Grid Enhancing Technologies (GETs) and solutions serving as Non-Wires Alternatives (NWA) will undoubtedly play a major role in limiting the build-out of the grid that might otherwise need to take place. Nonetheless, the imperative of electrification and phasing out reliance on combustion-based resources will likely mean that our grid, both transmission and distribution, will need to grow in the coming decades. So, again, it is important for proceedings like this to solidify the path for utilities to make prudent system investments aligned with the state's public policy goals and customer needs.

Question 2: Modifications to the Revised Straw Proposal

Multi-Year Rate Plan (MRP) Off-Ramps: Acadia Center generally supports the Authority's recommendations to employ off-ramps and initiate a new rate proceeding under the circumstances listed in the Revised Straw Proposal, including relating to EDC Financial Condition, Windfall Profits, and Falling interest rates. Acadia Center suggests that the Authority also consider adding an explicit mention of changes to tax law that would also trigger an offramp above certain thresholds – either as a standalone category, or as an element within the Windfall Profits category. The federal Tax Cuts and Jobs Act (TCJA) tax cuts passed during the first Trump Administration in 2017/2018 led to relatively widespread adjustments in utility rates across the country, including in Connecticut and New England states.[1] Given the potential for Congress and the second Trump Administration to pursue extended TCJA tax cuts in the coming years, it may be beneficial for PURA to pre-emptively plan around how changing tax treatment conditions would play into any applicable off-ramp options.

Exclusion of Tiered ESMs: On page 51 and 52 of the Revised Straw Proposal, PURA recommends that tiers be excluded from the Earnings Sharing Mechanism(s) (ESM). As noted, this recommendation is contrary to support for tiers previously expressed by Acadia Center and other remaining Participants. Acadia Center understands PURA's desire for the exclusion of tiers to help achieve priority outcomes for Business Operations and Investment Efficiency and Affordable Service – namely, by providing the EDCs with the incentive to keep a portion of over-earnings, thereby driving motivation for the companies to seek cost efficiencies. However, as articulated in our August 2023 comments, Acadia Center still feels that a tiered ESM framework would do an effective job – and likely more so than the existing and proposed 50%-50% split – at balancing two other important desires to: 1) disincentivize EDCs' pursuit of capital expenditures that offer the highest returns, rather than investments that may be most beneficial for ratepayers but not the most lucrative for shareholders, and 2) reduce the risk that an EDC will overestimate future costs and therefore result in ratepayers overpaying. We do acknowledge that the exclusion of dead bands, as proposed by PURA, may mitigate to some extent the relative value of a tiered framework.

Nonetheless, if the Authority moves ahead with its recommendation in the Revised Straw Proposal, Acadia Center recommends that one or more illustrative tiered ESM options be tracked carefully by PURA during the first four-year MRP for each EDC, to allow stakeholders the chance to transparently evaluate the impact and benefit of the 50-50 split in the real world vs. what a counterfactual tiered approach would have yielded. Tracking a "shadow" tiered ESM framework may not reveal all the behavioral and investment shifts that the utilities might adopt under a fully adopted tiered ESM framework, but it would at least allow for an evaluation of what savings might have been passed on to ratepayers under an alternative sharing scenario.

Clarity Around Timing of Going-In Rates: Acadia Center is generally supportive of PURA's recommendations around the process of establishing Going-In Rates. However, greater clarity should be provided if possible regarding what PURA defines as the end of the evidentiary record, and how exactly this ties back to plant-in-service additions. Page 13 of the revised straw proposal indicates the use of a '9-months-post-rate-application-filing' proxy for the close of the evidentiary record, but it is not immediately clear if that proxy is meant to assist in current planning/forecasting activity, or if that specific proxy will actually be utilized in the first MRP filing. Clarity on this point will of course benefit stakeholders' understanding of the treatment of plant-in-service additions that do not arrive in time for the evidentiary record cut-off, a point addressed further below under Question 7.

Question 3: Implementation Considerations

Acadia Center has one small note on implementation considerations for the Shared Savings Mechanism (SSM). PURA notes in the Revised Straw proposal that the SSM originating from Docket No. 17-12-03RE07 is relevant and would be

[1] https://apnews.com/article/business-eversource-energy-connecticut-utilities-bf90b98b99b447038b05d428e78b0451.

permitted in the context of CapEx/OpEx equalization efforts in the instant proceeding. Accordingly, savings would be shared 25% by EDC, 75% by ratepayers. We strongly support this role for the SSM as a tool to encourage and spur greater interactivity and partnership with third-party solution providers. Our implementation consideration may be most relevant for the above-cited RE07 proceeding and/or RE02 in Docket No. 21-05012, but it pertains to the calculation and sharing of savings that are realized from outside the distribution system – such as avoided transmission and wholesale market costs.

While the instant proceeding is primarily focused on distribution system investments and costs, many of the emerging NWAs and third-party solution opportunities promise significant savings for the distribution system but also for the transmission system and for wholesale markets. A recent study on grid flexibility potential in New York State,[2] for example, reviewed multiple grid flexibility tools – such as demand response, behind-the-meter storage, managed EV charging, water heater flexibility, etc. – that are poised to help both constrained distribution substations as well as mitigate transmission system net peak demand and marginal generation capacity costs. The study found that the portfolio of grid flexibility measures could avoid $2.9 billion annually in power system costs by 2040, of which $2.4 billion could be returned to consumers. For Connecticut, the implementation consideration relates to how such savings might be calculated and shared if any similar flexibility solutions were to be procured through a NWS/Third-Party Provider process, even if primarily geared toward distribution system benefit/relief. Acadia Center views this category of grid flexibility solutions as a key lynchpin of optimizing and containing power system costs in the years ahead, so we encourage PURA as well as DEEP and other parties to plan shared savings mechanisms proactively to fully embrace flexibility solutions and deliver maximal savings back to customers.

Question 4: Additional Evidence and Analysis

Acadia Center has no feedback on this question at this time.

Question 5: Timing of Annual PBR-Related Activity

Acadia Center has no major feedback at this time. We would, however, request that a comprehensive timeline diagram be produced to ideally (if possible) demonstrate how all the related moving pieces of annual PBR activity would play out during the course of an MRP period, to build on the information provided in Table 1 of the Revised Straw Proposal. Having a single diagram or flow-chart to convey the interaction of the many factors and mechanisms at play would be very helpful to allow stakeholders to fully digest the overall picture and any knock-on timing effects that may not be immediately apparent from a review of the Revised Straw Proposal narrative.

Question 6: How PIMs Would Be Incorporated within Revenue Requirements

In response to PURA's discussion on the nexus between return on equity (ROE) and performance incentive mechanisms (PIMs), we agree with PURA's recommendation in the Revised Straw Proposal that PIMs should be separate and should not impact the initial process for establishing an ROE. In other words, the traditional *sequencing* of first establishing a baseline ROE should be maintained, and any PIM that may be approved and adopted would be a later consideration, even if the effect of that PIM might be to adjust basis points above/below the baseline ROE. (This is not to say that the traditional *means of calculating* a baseline ROE should be maintained as-is, however – as PURA writes on page 40 of the revised straw proposal, for instance, an authorized baseline ROE may likely be lowered to reflect upside opportunities for earning additional basis points in PIM incentives).

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[2] https://www.brattle.com/wp-content/uploads/2025/02/New-Yorks-Grid-Flexibility-Potential-Volume-I-Summary-Report.pdf.

As for suggestions about how PIMs would be incorporated within the revenue requirements discussed in this proceeding, we would simply argue as a general matter that PIMs should be incorporated into revenue requirements wherever possible so as to allow them to exert maximal positive impact on EDC investment and decision-making and align those processes with the public/consumer-interest objectives embedded within the PIMs. Regarding timing of PIMs submissions, it is difficult to make a fully informed recommendation without a comprehensive timeline diagram (along the lines of what we request/suggest in Question 5 above), but as a general matter, we would obviously advocate for sufficiently early PIM submission timing to ensure that a fulsome prudency review can be conducted before investments are made, plant-additions go into service, and revenue is impacted.

Question 7: Proposed CT-Bar's Design

Acadia Center has outstanding questions about how the CT-Bar mechanism would work in practice. As a general matter, we agreed with the Authority's original straw proposal recommendation that the exclusion of an incremental capital funding mechanism can help avoid undue dilution or blunting of the cost containment power of the MRP. With that said, we also do agree with Save the Sound's subsequent comments in the proceeding stating that some level of capital investment – including presumably certain investments in between MRP periods – will be essential to ensuring safe, reliable service and achieving Connecticut's clean energy and climate goals. Our uncertainty about the CT-Bar mechanism as proposed relates to its precise interaction with the base MRP rate application process, other cost trackers, and the ARM (although we acknowledge that PURA states that a general capital funding mechanism would enable the EDC to recover supplementary capital costs outside of the ARM).

It is reassuring that PURA proposes the CT-Bar to be directly linked to and aligned with the IDSP process, although we note that timing and coordination of the two processes will be key, especially for the first MRP period. More information regarding the Authority's proposal to exclude any EDC return on investment from the CT-Bar revenue requirement would be helpful (e.g., whether part of the intent is to incentivize the EDCs to prioritize capital additions within the base MRP process, where a return is possible; or, whether the focus of the CT-Bar would be on certain incremental capital investments tied to the IDSP process not generally appropriate for the EDCs to earn on, such as DER/customer-funded interconnection upgrades). Any further information on the design and operation of the CT-Bar would be helpful in promoting stakeholder understanding and allowing us to provide much thorough feedback.

Conclusion

Thank you for the opportunity to respond with written comments to the Revised Straw Proposal issued in this proceeding. Acadia Center appreciates the Authority's continued focus and efforts to implement an updated, effective, performance-based paradigm to guide utility investments, earnings, and sharing of benefits. We look forward to continuing to contribute during the remainder of these proceedings and in their follow-on implementation steps.

Sincerely,

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