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|  | **STATE OF CONNECTICUT** |  |

**PUBLIC UTILITIES REGULATORY AUTHORITY**

**TEN FRANKLIN SQUARE**

**NEW BRITAIN, CT 06051**

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| **Docket No.** **17-01-1217-01-12** | **PURA ESTABLISHMENT OF THE MAXIMUM CUSTOMER CHARGE (MRCC) FORMULA FOR NON-HEATING RESIDENTIAL SERVICEPURA ESTABLISHMENT OF THE MAXIMUM CUSTOMER CHARGE (MRCC) FORMULA FOR NON-HEATING RESIDENTIAL SERVICE** |

December 20, 2017

By the following Commissioners:

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**DECISION**

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**DECISION**

# INTRODUCTION

## Summary

In this Decision, issued pursuant to §16-243bb of the General Statutes of Connecticut, the Public Utilities Regulatory Authority approves the methodology to be applied to determine the maximum customer charge for residential non-heating electricity customers of The United Illuminating Company and The Connecticut Light and Power Company d/b/a Eversource Energy.

## Background of the Proceeding

Section 16-243bb of the General Statutes of Connecticut (Conn. Gen. Stat.), enacted in 2015, required the Public Utilities Regulatory Authority (Authority or PURA) to adjust each electric distribution company’s (EDC's) residential non-heating customer charge to recover only certain costs and operation and maintenance (O&M) expenses associated with four specified functions: metering, billing, service connections and the provision of customer service (statutory functions) for residential customers.

In the Decision dated December 14, 2016, in Docket No. 16-06-04, Application of The United Illuminating Company to Increase Its Rates and Charges (2016 UI Rate Case Decision), the Authority concluded, subject to reevaluation in the instant proceeding, that the term “directly related” as used in Conn. Gen. Stat. §16‑243bb refers only to the fixed costs and O&M expenses directly related to metering, billing, service connections and the provision of customer service. The Authority determined that the evidentiary record of Docket No. 16-06-04 was inadequate to apply this definition and allocate costs at a sub-account level for the 2016 UI Rate Case Decision. Thus, the Authority adjusted the maximum residential customer charge (MRCC) for UI to a level that the PURA determined would ensure basic compliance with Conn. Gen Stat. §16‑243bb. 2016 UI Rate Case Decision, p. 96.

Subsequently, the Authority established this docket to: (1) establish an evidentiary record to allow the PURA to make determinations regarding what fixed costs and O&M expenses are directly related to the statutory functions for the provision of service to residential non-heating customers and (2) afford the EDCs and other interested parties the opportunity to participate in an investigation of a methodology that will be applied to their respective MRCC calculation for developing residential non-heating customer charges. The investigation will address the legal interpretation of the requirements of Conn. Gen. Stat. §16-243bb, and the review of evidence to apply such requirements at the sub-account level.

## Conduct of the Proceeding

By Notice of Request for Written Comments dated April 3, 2017, the Authority requested separate written comments from UI and The Connecticut Light and Power Company (CL&P; together, Companies) and other participants concerning includable rate base costs that should be considered by the PURA, O&M expenses, how historical test year data should be updated to reflect a proposed rate year and the comprehensive business activities that support the statutory functions.

By Notice of Rescheduled Hearing dated May 8, 2017, pursuant to Conn. Gen. Stat. §16-243bb and on its own motion, the Authority held public hearings on August 16, 17, and 18, 2017 at its offices located at Ten Franklin Square, New Britain, CT. A Late Filed Exhibit hearing was held on September 11, 2017 and the evidentiary record was closed at the end of that hearing.

The Authority issued its Proposed Final Decision in this matter on December 6, 2017. All parties and intervenors were granted an opportunity to file Written Exceptions to the draft Decision and to present Oral Arguments.

## Parties and Intervenors

The Authority recognized the following as Parties to this proceeding: The Connecticut Light & Power Company d/b/a Eversource Energy, 107 Selden Street, Berlin, CT 06037; The United Illuminating Company, P.O. Box 1564 New Haven, CT 06506; Office of Consumer Counsel (OCC), Ten Franklin Square, New Britain, CT 06051; and the Commissioner of the Department of Energy and Environmental Protection, 79 Elm Street, Hartford, CT 06106. The Authority granted Intervenor status to Acadia Center Inc.

# **Authority analysis of Statutory Requirements**

This docket was established to investigate a generic formula or methodology to be used to establish a MRCC calculation in accordance with Conn. Gen. Stat. §16‑243bb. The Authority must first consider the scope of its authority to establish such a methodology that conforms to the requirements of:

Conn. Gen. Stat. §16-243bb. Adjustment of electric distribution company residential fixed charge.(a) As used in this section:

(1) “Residential fixed charge” means any fixed fee charged to residential electric customers, including, but not limited to, (A) a fixed charge for distribution basic service, (B) a distribution customer service charge, (C) a customer charge, or (D) a basic service fee which is separate and distinct from any distribution charge per kilowatt-hour.

(2) “Electric distribution company” has the same meaning as provided in section 16-1.

(b) The Public Utilities Regulatory Authority shall adjust each electric distribution company's residential fixed charge upon such company's filing with the authority an amendment of rate schedules pursuant to section 16-19 to recover only the fixed costs and operation and maintenance expenses directly related to metering, billing, service connections and the provision of customer service.

(c) The provisions in subsection (b) of this section shall not permit or enable the authority to cause a cost shift to other rate classes.

(d) This section shall not apply to electric customers that subscribe to a residential electric heating service rate class.

The Authority has broad powers, under Conn. Gen. Stat. §§16-19 and 16‑19e, to determine and prescribe just and reasonable rates for EDCs.[[1]](#footnote-1) In interpreting the extent of the PURA’s authority under Conn. Gen. Stat. §16-19, the Connecticut Supreme Court has observed that that section “evinces a legislative intent to rely on the [PURA] to regulate and supervise public utilities and to establish rates that are not unreasonable,” which, coupled with the legislature’s choice to not impose upon the PURA “any specific formula or policy to use in setting rates,” supports the conclusion that Conn. Gen. Stat. §16-19 “is sufficiently flexible to permit the [PURA] to create necessary policies, including rate equalization, to guide its rate-making decisions.” Greenwich v. Department of Public Utility Control, 219 Conn. 121, 126 (1991) (“Greenwich”).[[2]](#footnote-2)

Conn. Gen Stat. §16-243bb was enacted in 2015, following the Authority’s proceeding in Docket No. 14-05-06, Application of The Connecticut Light and Power Company to Amend Rate Schedules, in which the proposed increase to the fixed charge for residential customers was a prominent issue. The General Assembly considered several options for limiting the residential non-heating customer charge in the 2015 legislative session, including legislation that would have directed the Authority to adjust each EDC’s residential non-heating customer charge to an amount not to exceed ten dollars per billing cycle.[[3]](#footnote-3) Ultimately, the legislation that achieved passage and was signed into law did not prescribe a maximum dollar value for the residential non-heating customer charge. Rather, it limited the EDCs’ cost recovery categorically to “fixed costs and operation and maintenance expenses” that are “directly related” to the four specified functions. Conn. Gen. Stat. §16-243bb(b).

Conn. Gen Stat. §16-243bb does not define the four functions, nor does it spell out what degree of relationship renders a fixed cost or O&M expense “directly related” to the allowed functions. The task of defining the functions and the scope of “directly related,” and adjusting the residential non-heating customer charge to conform, necessarily and appropriately falls to the Authority, in accordance with the rules of statutory interpretation, and the scope of PURA’s ratemaking authority under Conn. Gen. Stat. §§16-19 and 16-19e.

In construing the plain meaning of Conn. Gen. Stat. §§16-243bb and §1–2z directs the Authority to first consider the text of the statute itself and its relationship to other statutes. If, after examining such text and considering such relationship, the meaning of such text is plain and unambiguous and does not yield absurd or unworkable results, extra textual evidence of the meaning of the statute shall not be considered. AvalonBay Communities, Inc. v. Zoning Commission of Town of Stratford, 280 Conn. 405 (2006). The Authority finds that meaning of the text of Conn. Gen. Stat. §16-243bb, is plain and unambiguous and does not yield absurd or unworkable results. Based on the Authority’s review of the plain and unambiguous text of Conn. Gen. Stat. §16-243bb and its relationship with Conn. Gen. Stat. §§16-19 and 16-19e, the Authority makes the following legal conclusions regarding the plain meaning of Conn. Gen. Stat. §16-243bb.

First, the plain language of Conn. Gen. Stat. §16-243bb establishes a cap or limit on the Companies’ residential non-heating customer charge, by authorizing the EDCs “to recover only” certain costs and expenses associated with four listed functions. In so doing, the statute places an important constraint on the residential non-heating customer charge: it prohibits the collection of costs through that charge associated with functions other than those listed; it prohibits the collection of costs that are not “directly related” to the four specified functions; and it prohibits the collection of costs—other than fixed costs and operation and maintenance expenses—that may otherwise be directly related to the four specified functions. As such, Conn. Gen Stat. §16‑243bb establishes a maximum categorical limiton any approvable residential non-heating customer charge, which the Authority seeks to define in this Decision to develop the MRCC calculation.

Second, the express language of Conn. Gen. Stat. §16-243bb does not establish the residential non-heating customer charge as the exclusive charge or mechanism by which EDCs must recover all of the fixed costs and O&M expenses directly related to the statutory functions. In other words, any costs which the EDCs do not recover through a residential non-heating customer charge may be collected through a volumetric distribution delivery charge. See, Decision dated January 22, 2014, in Docket No. 13-06-08, Application of Connecticut Natural Gas Corporation to Increase Its Rates and Charges, page 140, Section II.M.3. and page 4, where the Connecticut Natural Gas Corporation proposed to raise the monthly residential customer charge from $14.00 to $16.50 and set the Delivery Charge at $0.7950 per ccf to collect the remaining customer related costs not recovered through the monthly residential customer charge.

Finally, the express language of Conn. Gen. Stat. §16-243bb narrows—but does not eliminate—the PURA’s general ratemaking authority and its discretion, pursuant to Conn. Gen. Stat. §§16-19 and 16-19e, to set just and reasonable rates. Conn. Gen Stat. §16‑243bb clearly limits the Authority’s exercise of ratemaking discretion by prohibiting the PURA from approving a residential non-heating customer charge *in excess* of the MRCC calculation. However, the Authority observes that Conn. Gen. Stat. §16-243bb does not eliminate or limit the Authority’s broad discretion to approve or adjust a residential non-heating customer charge to a level that *is* less than the MRCC calculated pursuant to the methodology in the instant Decision, if the standards set forth in Conn. Gen. Stat. §§16-19 and 16-19e so warrant. In many past Decisions, the Authority has articulated various policy and economic considerations for setting residential non-heating customer charges at an amount less than both 1) the full residential non-heating customer charge amount requested by the EDC; and/or 2) the fully allocated cost amount calculated by the EDC and identified in the cost of service study (COSS) submitted by the EDC with its rate proposal.[[4]](#footnote-4) With the enactment of Conn. Gen. Stat. §16-243bb, the Authority may continue to approve residential non-heating customer charges that are less than the MRCC calculation based on policy considerations, economic conditions, or other facts and circumstances existing at the time a rate case Decision is rendered, consistent with the standards set forth in Conn. Gen. Stat. §§16-19 and 16-19e.

As noted above, the plain language of Conn. Gen. Stat. §16-243bb does not provide specific definitions or criteria to be applied to determine whether a particular fixed cost or O&M expense is “directly related” to the statutory functions or a method or formula for calculating the MRCC. Moreover, Conn. Gen. Stat. §16-243bb lists, but does not define, the four categories of fixed costs and O&M expenses of the statutory functions that may be recovered through the residential non-heating customer charge. To ensure that the Authority’s review of an EDC’s proposed residential non-heating customer charges remains within the limits of Conn. Gen. Stat. §16-243bb, the Authority establishes in the instant Decision’s criteria for determining, and a methodology for calculating, the MRCC. In Section III.B.3. Discussion on COSS / Cost Allocation / Direct Assignment, the Authority establishes criteria for determining which fixed costs and O&M expenses are “directly related” to the statutory functions. In Section III.C. FERC Accounts, the Authority applies the criteria outlined in Section III.B.3. Discussion on COSS / Cost Allocation / Direct Assignment cited above to distinguish the specific costs and expenses that are includable and not includable in a MRCC calculation pursuant to Conn. Gen. Stat. §16-243bb. In Section III.E. MRCC Calculation, the Authority sets forth the specific methodology the EDCs shall use for calculating the MRCC.

For future rate cases, each EDC is directed to follow the instructions set forth in the instant Decision and submit a conforming MRCC calculation and proposed residential non-heating customer charge. The Authority will review the EDC’s proposal, approve its MRCC calculation, and determine the appropriate amount for the residential non‑heating customer charge. In performing this review, Conn. Gen. Stat. §16-243bb prohibits the Authority from setting a residential non-heating customer charge above the MRCC level. The Authority only will have discretion to set non-heating customer charges at or below the MRCC level. Through a combination of the residential non-heating customer charge and the volumetric distribution delivery charge, each EDC will be allowed to recover the revenue requirement for the affected classes. As there is regulatory certainty that these costs will be recovered through rates, the Companies should be indifferent as to whether its revenues are collected through residential non-heating customer charges, energy-use-based charges, a decoupling mechanism, or a combination of these or other charges. If that is not the case, the burden will be on the EDC to prove that it is financially harmful to the EDC or detrimental to ratepayers if some of the costs otherwise includable in the MRCC calculation are collected through a charge other than the residential non-heating customer charge.

# AUTHORITY MRCC DEFINITION AND methodology

The Authority requested written comments addressing the definition of directly related costs includable in the statutory functions to meet the requirements of Conn. Gen. Stat. §16‑243bb. The Authority examined the extensive evidence and legal interpretations presented in the instant case by the parties. Based on its review, the Authority describes below the criteria and methodology to be utilized in the MRCC calculation to ensure that the EDCs’ residential non-heating customer charges include only those fixed costs and O&M expenses that are directly related to the four statutory functions, such that they do not exceed the MRCC calculation. The MRCC calculation will be used by the Companies to develop the non-heating customer charges for CL&P Residential Electric Service (Rate 1) and Residential Time-of-Day Electric Service (Rate 7) customers, and UI Residential Rate R and Residential Rate RT customers.

## Costs Directly Related to the Statutory Functions

As a first step towards establishing the MRCC criteria and methodology in this section, the Authority defines the costs that are directly related to the four functions specified in Conn. Gen. Stat. §16‑243bb: billing, metering, provision of customer service, and service connection. Such costs are referred to as includable throughout the discussion, meaning that they may be included in the MRCC calculation without violating the limitations of Conn. Gen. Stat. §16-243bb. The Authority summarizes the parties’ positions with respect to each of the statutory functions in the sub-sections below. The OCC addressed includable and excludable costs for the statutory functions by reference to the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts (USOA: together, FERC Accounts). Rubin PFT, p. 4. The above comment was a general statement from the OCC and the Authority did not include it in each statutory function section in the instant Decision. The Authority notes that a detailed discussion of the FERC Accounts are included in Section III.C. FERC Accounts.

### Billing

#### Positions of the Parties

UI indicated that its billing is performed using a combination of internal and external resources to calculate, print and distribute customer invoices. After an invoice is ready to be printed, an electronic bill file is transmitted to the company’s bill printing and mailing contractor. The contractor prints and distributes the invoices to customers electronically or via the United States Postal Service. The company receives the customers’ invoice payment through the bill remittance process performed by the contractor. Written Comments, pp. 17 and 18. UI defined the scope of includable costs and expenses for its billing function to encompass the computer hardware, software, support equipment, outside services, and labor required to invoice and collect payment from its customers. Colca PFT, pp. 7 and 9.

CL&P defined the scope of includable costs and expenses for its billing function to encompass the types of business activities that are the fundamental inputs and outputs of its billing system. CL&P’s description of these business activities covered the billing system, which is included in the miscellaneous intangible plant FERC account, and any computer support needed for the system. CL&P also identified as includable the tasks that involve usage and dollar exception processing, mixed meter/mix customer investigations, billing adjustments/credit refunds, meter order creation and closing. Other tasks CL&P proposed to include in the MRCC involve meter change/removals, investigating no consumption, non-exclusive use, unidentified use and residential streetlight installs, changes, and removals. Written Comments, Q‑5, Attachment 1.

#### Discussion

The Authority finds that, for purposes of §16-243bb, the billing function encompasses the costs of labor, materials, computer hardware and software that are essential to create customer invoices and residential customer reports, and to distribute and collect invoice payments electric bills for residential non-heating customers. The Authority recognizes that each of the EDCs’ billing function is unique. For example, UI uses a contractor to complete its billing process. The Authority finds that the expense of using this external resource is essential to generating, distributing and collecting payments associated with billing. Therefore, the Authority includes the external resources that are vital to perform and complete the billing process as its definition of the billing function. The Authority finds that includable costs of the billing function do not extend to the regulatory allowance for uncollectible expenses and revenue credits for late fees and returned checks for purposes of the MRCC. The Authority addresses uncollectibles at an account level in Section III.C.6. Customer Account Expenses, Accounts 901-905.

The Authority acknowledges that some of the costs associated with the billing function do not neatly fit within a specific FERC account, but are spread over multiple accounts. In particular, the billing software that is unique to each of the EDCs is accounted for within the miscellaneous intangible plant FERC Account 303. The EDCs cannot measure the amount of electric services consumed by its customers, nor can they generate and distribute invoices to customers, without the tools necessary to perform the billing function. However, the Authority understands that the billing system and the internal and external resources that work together to complete the billing function do not apply only to the residential customer class. The billing system is a shared asset and expense among customer classes.

Since the EDCs provide electric services to different customer classes, assets and expenses necessary for certain functions are shared for all classes for purposes of efficiency and cost-effectiveness. Particularly with respect to the billing function, the vast majority of billing-related costs and expenses are shared by all customer classes. To conclude that the residential portion of costs may not be included in the MRCC if those costs are also utilized by other customer classes would make it impossible to include any costs related to the billing function in the MRCC calculation, which defeats the legislature’s purpose in including billing as an allowed statutory function in Conn. Gen. Stat. §16-243bb—an absurd result. Therefore, the Authority concludes that such shared assets and expenses may be included in the MRCC, but only to the extent that they are necessary to provide the billing function for non-heating residential customers under Conn. Gen Stat. §16‑243bb. In other words, the Authority cannot exclude an asset or expense because it does not exclusively apply to the residential non-heating customers.

The Authority reviewed UI’s proposal to use a percentage-based allocation of shared assets and expenses to be included in the MRCC calculation. The percentage of the asset associated with providing the function should be included in that calculation to the extent, and only to the extent, that the shared assets or expenses are used to provide service to residential non-heating customers. To quantify the percentage of these shared assets and expenses utilized for residential non-heating customers, the utilities would employ the direct assignment method. The Authority examined the direct assignment methodology and determines that this is an acceptable method to calculate the includable cost for the billing function. To determine the portion of these costs for residential non‑heating customers, each EDC is directed to utilize direct assignment, and if direct assignment is not possible, then cost allocation.

The Authority considered the Parties’ arguments as to whether revenues other than electric sales can be included in the MRCC calculation to offset expenses such as regulatory allowance for uncollectible accounts and revenue credits for late fees and returned check fees. Including such revenues could potentially reduce the MRCC. Late fees and returned check fees are similar in nature because of the labor that is required to perform the collection related activities associated with uncollectible amounts. Other than the collection related activities that produce the uncollectible amounts, there is no correlation between uncollectible accounts and late fees and returned check fees. Since the uncollectible regulatory allowance is a societal expense for revenues not recovered through customer receipts and is charged off, the Authority finds that the impact of including the rate base and expenses items associated with these accounts do not necessarily reduce the magnitude of the MRCC. In fact, for UI, the expenses of the uncollectible accounts in the instant case are greater than the revenues generated from the late fees and returned check fees. UI Late Filed Exhibit No. 3, Attachment Supplement 2. As a result, the Authority excludes from the MRCC calculation revenues from both late fees and returned check fees, and all other rate base and expense items associated with uncollectible accounts.

### Provision of Customer Service

#### Positions of the Parties

UI stated that the provision of customer service involves an extensive set of activities through which the company directly communicates with its customers. Customer service activities generally begin with a customer-initiated communication to an EDC. UI distinguished activities that enable and support the provision of customer service from those activities that are more directly related to specific processes involved in delivering electric service. For example, line transformers are employed to reduce the voltage of electricity from the higher levels necessary for efficient transport over long distances to the lower voltages required by customers’ appliances. Even though that process is necessary to provide electric service to customers, UI stated it is not considered part of the provision of customer service. Rather, it is a function of the process of providing electric distribution service. Written Comments, pp. 18 and 19. UI identified as MRCC includable customer service-related costs those costs incurred to communicate with specific customers regarding issues of interest to them. These issues included service connections and disconnections, credit and collections payments, invoicing and account balances, electric service prices and outage reporting. The company identified such cost items as the computer hardware, software, support equipment, outside services and labor. Colca PFT, p. 7.

With respect to the provision of customer service, CL&P identified as MRCC includable costs associated with assisting residential customers with billing inquiries; starting and stopping service; trouble calls; payment processing; and assisting Rate 1 and Rate 7 residential customers inquiring about or serviced by distributed generation (DG). In addition, CL&P identified as MRCC includable costs that are associated with managing incoming calls related to the electric supplier support center; social customer care; field engineering design regarding residential services; final bill inquiries and recovery; customer resolutions to company executives; credit call centers; quality assurance; and call center workforce management. Written Comments, Attachment 1, pp. 6-8.

#### Discussion

The Authority finds that the provision of customer service begins with a customer initiating contact with its EDC regarding their electric services. Conn. Gen. Stat. §16‑243bb excludes costs that are not “directly related” to the provision of customer service. This fact compels the Authority to distinguish customer-initiated activities—which it considers directly related—from other tasks such as, sales, advertising, final bill collection, or provisioning the electric distribution system that do not have such a strong and continuing nexus. As a result, the Authority defines the provision of customer service to include the costs for outside services, computer hardware and software, materials and labor required to (1) order service for connections and disconnections, (2) process credits and payments, and (3) manage customer inquiries regarding invoicing and account balances, electric service prices, and outage reporting. All of these activities are prompted by customer contacts and customer interests, and are therefore directly related to the provision of customer service. Sales, advertising, and uncollectible final bill communications are typically initiated and controlled by the EDC and are excluded from the MRCC calculation.

### Metering

#### Positions of the Parties

UI stated that the directly related costs of residential metering go beyond the cost of the physical equipment, installation, maintenance and the field support related to the meters. The company has advanced metering infrastructure (AMI) to perform metering. Consequently, there are computer hardware and software costs that UI must support to operate an AMI network. That equipment is directly related to metering because the AMI system could not obtain, transmit, and record meter reads without the equipment. The costs associated with residential metering using AMI are equipment related and are either included in rate base or expensed. The communication system that transmits meter readings from the meter to its meter reading computer storage system is not owned by UI. Therefore, UI must pay rent to the vendor that owns the equipment and such rent expenses are included as meter reading operation expenses. Written Comments, pp. 13 and 14. Subsequently, UI defined the includable costs and expenses of the metering function to encompass the utility electric meter located at the customer’s facility and all of the equipment, outside services and labor required to obtain, verify, and store meter readings. Colca PFT, p. 7.

CL&P identified as includable costs of residential metering a range of activities associated with the metering function. These activities include the costs associated with meters, meter engineering, monitoring, maintenance, system support, special requests, equipment procurement, service connections, service design, new metering installations, mobile meter reading, special reads, disconnect and reconnect processes, data management and ad hoc reporting. Written Comments, Attachment 1, pp. 1‑3.

#### Discussion

To properly apply the limitations of Conn. Gen. Stat. §16-243bb so as to identify the includable directly related costs of the metering function, the Authority reviewed the types of EDC business activities associated with metering, as well as the corresponding FERC accounts. These activities include the physical installation, maintenance and removal of meters as well as meter reading. The Authority finds that the EDCs’ business activities are all integral to the metering functions. The Companies cannot perform the functions of metering without all the equipment provided in the individual business activity list. Therefore, these activities associated with metering, to the extent, and only to the extent, that they are used for residential non-heating customers are directly related to the statutory function of metering and thus includable in the MRCC. The Authority finds that the directly related costs of labor materials, computer hardware and software required to install,[[5]](#footnote-5) test, maintain and read meters for residential non‑heating customers are includable costs.

The Authority concludes that costs associated with measuring the electricity delivered to residential non‑heating customers are directly related to performing the metering function. There are some clear bright‑line rules for includable costs associated with the metering function. These rules are based on the requirements set by the USOA. It is indisputable that the equipment costs that fall under the meter titles within the USOA are directly related to metering. However, based on the USOA requirements, the software expenses associated with metering do not fall under a corresponding FERC account with a metering title. As discussed herein, the Authority considers this limitation and addresses software costs related to metering in Section III.C.2.a. Intangible Plant Accounts 301-303. Finally, the Authority finds that all subaccounts within the meters description in the USOA are eligible to be included in the MRCC calculation. To determine the portion of these accounts for residential non‑heating customers, the Companies are directed to utilize direct assignment, and if direct assignment is not possible, then cost allocation.

### Service Connection

#### Positions of the Parties

The OCC stated that the term “service connection” in Conn. Gen. Stat. §16‑243bb refers to the service line (or service drop) that connects the meter to the transformer or the pole. The OCC’s interpretation of that term would exclude distribution plant accounts other than the service line from the MRCC calculation. Brief, p. 17.

UI stated that residential customers are typically connected to the electric distribution system through the service connection. The service connection is a set of wires that connects the wiring in the customers dwelling, or other facility, with the secondary voltage system of the utility. Overhead service connections are typically made from overhead distribution circuits, although a service connection could be made underground using a riser from the utility pole. Underground service connections are typically made from underground distribution circuits. UI asserted that most costs associated with residential service connections are fixed costs related to asset ownership. In addition, there are additional O&M costs associated with service connections. Operating expenses include the costs for installing insulating sleeves so that homeowners or their contractors can work safely around the service connections. The most common maintenance expenses are the costs associated with reconnecting the service cable to the customer’s wiring at the mast head. This may be necessary for reasons such as a repair to the service drop wire that has detached from the customer wiring, or a physical disconnection for non-payment. Written Comments, pp. 11 and 12. For purposes of Conn. Gen. Stat. §16-243bb, UI defined the includable costs for the service connection as the electric connection between the network distribution system and the customer facility, and all of the equipment and labor required to install, repair and maintain the electric connection. Colca PFT, p. 7.

CL&P contended that the MRCC includable costs of the service connection to encompass the costs of the service line and conductors, poles, and transformers. Response to Interrogatory RA‑25. The company also identified as includable several types of activities related to the service connection function, covering service connection activities, service design activities, installation of equipment, and stores activities to stock and provide equipment necessary to install the service. Written Comments, p. 4. CL&P included distribution plant costs associated with the service connection function for distribution plant that is upstream from the customer’s service wire connection in its COSS. Late Filed Exhibit No. 9, Attachment 1, p.1.

Subsequently, CL&P proposed an alternative methodology that removes the primary plant facilities costs, such as poles and transformers, from the MRCC calculation. Late Filed Exhibit No. 8. CL&P’s rationale for excluding these costs is that typically, primary underground and overhead lines are farthest from a customer’s service connection to the meter. CL&P stated that removing these costs would have to be tested to determine if the impact resulted in just, reasonable and non‑discriminatory rates. Although CL&P removed these costs in their response to Late Filed Exhibit No. 8, the company maintained that these costs should be includable in the MRCC calculation as directly related to the service connection function. Brief, pp. 14 and 15.

#### Discussion

The Authority agrees with UI and the OCC that the statutory service connection function refers to the service line or drop that connects the network distribution system to the customer’s facilities, and does not extend to upstream distribution plant such as conductors, poles, and transformers. In the context of the statutory language, the Authority is not persuaded by CL&P’s argument, stated in its response to Interrogatory RA‑25, that the service connection cannot be read as equivalent to a service drop. Terms that would have signified a broader scope of equipment than just the service line, such as “minimum system distribution plant,” were not utilized in Conn. Gen. Stat. §16‑243bb. Moreover, it is reasonable to interpret Conn. Gen. Stat. §16-243bb’s limiting purpose to constrain the MDCC includable costs for service connection to those that have a predominantly one-to-one relationship between the customer and the equipment, and are therefore more “directly related” to the customer.

A one-to-one relationship generally exists between the service line and the customer. Both EDCs testified that there is not necessarily a one‑to-one relationship between poles, transformers, or conductors to residential customers. Tr. 08/16/17 pp. 127-130; Tr. 08/17/17, pp. 264 and 265. The Authority finds that the general one-to-one relationship for network plant for the service connection function provides a reasonable guideline to determine the scope of includable plant and costs for this function.

In its written exceptions, CL&P stated that the Authority did not adequately address why the PURA rejected inclusion of FERC Accounts 364-368 in the MRCC calculation. Written Exceptions, pp. 1-3. The Authority provides the reasons for its determinations regarding includable service connections costs in Section III.A.4.b. Service Connections Discussion. The Authority finds that the language of the statute is plain and unambiguous. Under the rules of statutory construction, the Authority shall not examine any of the legislative history for purposes of interpreting the meaning of the statute. See State v. Ruocco, 151 Conn. App. 732, 752-53 (2014) (extratextual evidence such as legislative history shall not be considered if statutory terms are plain and unambiguous); see also Kinsey v. Pacific Employers Ins. Co., 277 Conn. 398, 405 (2006). In its analysis in Section III.A.4.b. above, the Authority explains the basis for rejecting CL&P’s claim and making its determination. Furthermore, the record contains ample evidence to support the Authority’s conclusions regarding Accounts 364 to 368. UI testified that General Plant costs contained Accounts 364 to 368 are not includable as costs directly related to customer service connections. Tr. 8/16/17, pp. 52; 54 and 70.

The Decision dated December 14, 1982, in Docket No. 82-08-06, General Investigation into Electric Company Residential Customer Service Charges (1982 Decision), addressed the types of costs that “may” be included in the customer service charge. While that Decision does state that some portion of the overall distribution system costs can be considered “customer related” and “can be included in a customer charge,” the Decision distinguished these “less direct” types of general distribution system costs from “direct” customer costs for expense accounts, metering and service drops. The Decision also recognized that customer cost quantification of the customer portion of general distribution system facilities is very difficult. 1982 Decision, pp. 3 and 4. Since Conn. Gen. Stat. §16-243bb now limits cost recovery under the customer charge to service connection costs directly-related to service connections, the Authority finds costs must be not just be “customer related” to be recovered through the customer charge but that the costs must be “directly related” to a customer’s service connection. Applying the standard required by Conn. Gen. Stat. §16-243bb, the Authority finds, for the reasons articulated in Section III.A.4.b. Discussion on Service Connections, that general distribution system costs for the items contained in Accounts 364 to 368, such as poles, transformers, and conductors, are related to operating an electric distribution system, but are not costs “directly related” to a customer’s service connection within the meaning of the statute.

Based on the aforementioned, the Authority concludes that for the purposes of Conn. Gen. Stat. §16-243bb, the MRCC includable costs for the service connection function are limited to the directly related costs of labor, materials and software required to install, and maintain the service connection (service drop or service line) for residential non‑heating customers. The Authority finds that costs related to service design and stores and stock activities are not includable in the MRCC calculation as they are related to general network distribution plant.

## Assignment of Costs; MRCC Methodology

### Positions of the Parties

The OCC stated that setting a generic formula that the EDCs can utilize in future rate increase applications when identifying their respective MRCC calculation need not be complicated. Brief, p. 3. The OCC provided a table listing the FERC accounts that were includable, and not in dispute by the parties, for distribution plant and associated depreciation, rate base deductions, O&M expenses, customer accounts and customer services and information expenses, administrative and general expenses, taxes and credits. Id., p. 12.

UI presented two alternatives for determining the includable costs for the MRCC calculation. The company initially proposed an MRCC calculation that utilized its embedded COSS from its last rate case. UI identified the subset of costs that were apportioned for residential non-heating customers and directly related to the four statutory functions. Underlying its COSS, the company relied on the definitions, functionalization and classification system presented in the Electric Utility Class Allocation Manual published by the National Association of Regulatory Utility Commissioners (NARUC). The NARUC manual identifies and defines distribution, customer accounts, customer service and general and plant related expenses. In determining the includable costs for the MRCC calculation, UI used the direct assignment method where feasible. Where direct assignment was not feasible, UI utilized cost allocation. The company also stated that individual asset records are available in its fixed accounting system. Colca PFT, pp. 4 and 14. By identifying individual assets UI was able to analyze them in relation to the statutory functions and directly assign costs.

As an alternative to a fully allocated COSS to determine the MRCC, UI presented a direct assignment methodology. Under its proposed methodology, UI performed an individual review of all the major assets booked to each FERC account and determined the relationship of the asset to the four statutory functions. UI stated that when assets or expenses supported a statutory function, then the company assigned an allocated proportion of that asset or expense to the includable function. UI Response to Interrogatory RA‑5.

CL&P proposed a fully allocated COSS methodology to calculate the MRCC and stated that the methodology is compliant with Conn. Gen. Stat. §16-243bb and reflects cost causation. CL&P provided the methodology used to classify costs between customer and demand, the percentages assigned to each of those functions and the rationale for the assignment. In addition, the company noted it did not use the term direct or indirect as it might cause confusion with the term “directly related” cited in the statute. The company identified whether the costs are allocated to rate classes based on direct assigned, internal or external allocators. CL&P stated that this is a standard method in which allocator types are defined and applied in cost-of-service studies. The term “internal” should not be considered to mean that those accounts are not directly related to one of the statutory functions. CL&P stated that a good example of this rationale is the application of depreciation reserve. While gross plant for FERC accounts 360 through 370 are allocated based on an external allocator, the accumulated depreciation for these very same accounts are allocated using an internal allocator. Late Filed Exhibit No. 9, Attachment 1, p. 1.

CL&P indicated that the Eversource Energy operating companies receive shared support from its service company to realize the economies of scale. These costs are likely to be lower than the cost of providing the necessary functions internally, through a third party or some other standalone basis. These costs are part of the cost of service and match dollar for dollar to revenue requirement; hence they should be treated no differently than direct costs. CL&P Response to Interrogatories OCC 5-19; Tr. 08/17/17, p. 250. CL&P proposed a separate MRCC calculation for partial requirements for non‑heating residential customers who use solar DG. Overcast PFT, pp. 28 and 29.

### Discussion on Solar DG Residential Customers

CL&P requested that the Authority establish a separate MRCC calculation for solar DG customers.  Overcast PFT, pp. 44 -52. The Authority notes that Conn. Gen. Stat. §16-243bb does not specifically require that the PURA establish a separate adjustment to the customer charges for solar DG customers.  Additionally, the noticed scope of this proceeding was for the Authority to establish a MRCC calculation for basic residential customers, and thus CL&P’s proposal is not within the scope of the instant docket.  Notwithstanding the foregoing, the Authority will consider CL&P’s proposal if it is submitted in a future rate case proceeding.

### Discussion on COSS / Cost Allocation / Direct Assignment

The Authority acknowledges that the rate design directives in Conn. Gen. Stat. §16‑243bb do not conform to the typical functionalization and classifications of distribution plant and expenses. Traditionally, customer and demand components were identified under the guidelines as outlined in the Electric Utility cost allocation manual of 1992 issued by the NARUC and rates were designed to move closer to an allocated customer component of the EDC’s costs. Conn. Gen. Stat. §16-243bb limited the costs that can be included in the EDC’s MRCC calculation into four distinct functions.

Use of allocations for the MRCC calculation is problematic in certain instances under the new methodology. For example, shared assets and expenses need more of a detailed examination to ensure a particular cost is directly related to the statutory functions. Direct cost assignments require the Companies to perform a granular examination of individual assets used and expenses incurred that are directly related to the statutory functions. In the event direct assignment is not feasible or practical, the Authority will consider cost allocation proposals that conform to the requirements of Conn. Gen. Stat. §16-243bb, where it is reasonable to conclude that only directly related costs are included.

### MRCC Application

The Authority reviewed the proposed cost methodologies of the Parties along with the USOA account descriptions to determine a reasonable and workable MRCC calculation that conforms to the limitations of Conn. Gen. Stat. §16-243bb.[[6]](#footnote-6) The Authority identifies, in the section immediately below, the accounts that contain all or in part costs that are includable in the MRCC calculation.

The EDCs separated the residential non-heating customers from the other customer classes and allocated the customer component of the costs associated with the FERC accounts in their proposed MRCC COSS. The Authority will not require any changes in the allocations currently used by the EDCs to classify the residential non-heating rate class portion of the includable costs.

Unless otherwise directed in this Decision, each company may continue to use its current methodology of assigning costs to the statutory functions. The Companies can include a combination of direct assignment, asset examination, and external and internal allocators to determine the includable costs for the MRCC calculation. For specified accounts, the Authority will require direct assignment where historically a company would make an allocation. This is not meant to dispute that costs from these accounts may be directly related to the statutory functions. However, to ensure that the MRCC calculation recovers only the fixed costs and O&M expenses directly related to the statutory functions, a direct examination and assignment of assets or expenses is necessary, where previously an allocation may have sufficed.

To the extent includable costs exist in certain accounts where direct assignment is required, cost allocation proposals will be considered by the Authority upon showing by the company that direct assignment is not feasible or practical, and such allocation conforms to the requirements of Conn. Gen. Stat. §16-243bb and the methodology approved herein. In such instances, the request shall be supported with a summary worksheet detailing, by account, the total cost proposed for inclusion, the applicability to one or more of the statutory functions, the allocator used to assign shared cost amongst the operating companies as well as the functionalization and classification of said costs, and the unit rate of the collective adjustment.  Further, the proposed MRCC adjustment is subject to change, depending on whether the underlying costs are accepted, modified or rejected by the Authority in an EDC’s rate case Decision.  Going forward, in rate plan filings submitted in compliance with future rate case Decisions, each company shall make and identify the required changes.

## FERC Accounts

The Authority reviewed the EDCs’ testimony and COSS filed data and considered the relationship of the individual FERC accounts to the statutory functions. Includable costs span a wide array of cost categories including: Rate Base additions and deductions; Electric Plant including Intangible, Distribution, and General Plant; O&M Expense; and Customer Expense and Sales Expenses. The Authority’s analysis will address classification of costs individually at the account level.

The Authority finds that in some instances, the FERC accounts fully encompass one of the four statutory functions. For example, FERC Account 370 Meters is includable in the MRCC calculation because the recorded costs represent the physical meters and associated labor. In many FERC accounts, the account description does not specifically apply to the four statutory functions. These FERC accounts may still, however, include costs that are necessary for the provision of one or more of the statutory functions for residential non‑heating customers. For example, FERC Account 303, Miscellaneous and Intangible Plant, may contain includable costs for metering or customer service related software, along with non-includable software for cybersecurity or accounting. Without this software, an order for service cannot be processed and a meter could not be read. In other instances, the FERC accounts do not have any relationship to the statutory functions.

The Authority also determined that a limited number of administrative and general (A&G) expense FERC accounts, such as property insurance, damages and injury and benefits, were appropriate for inclusion in the MRCC. This determination is based largely on whether the A&G cost is tied to an includable asset or expense item. For example, costs related to property insurance for the assets necessary to perform the statutory functions, such as service connections. Similarly, costs of benefits and insurance for damages and injury for employees who perform work related to any of the four statutory functions are includable in the MRCC calculation. The Authority finds that there is a direct relationship between those kinds of A&G expenses and other includable costs. Certain other A&G expenses, such as Land, Structures and Miscellaneous Equipment/Storage, relate to many EDC operations and are considered overhead expenses for the purposes of the MRCC calculation. The Authority determined that Conn. Gen. Stat. §16-243bb compels the exclusion of general plant/overhead expenses or costs shared amongst many operating functions with no direct relationship to the statutory functions. A summary of the includable FERC accounts for the MRCC calculation is found in Section III.E. MRCC Calculation.

### Balance Sheet Accounts 100-299

This series of FERC Accounts include several hundred titles. The Authority will limit the scope of the discussion to FERC Accounts identified by the Parties as directly related to one or more of the statutory functions.

#### Rate Base Additions

Rate base additions proposed to be included in the MRCC calculation by one or more of the Parties in the instant proceeding are recorded in USOA as follows:

* Account 154, Plant Materials and Operating Supplies, includes the cost of materials purchased primarily for use in the utility business for construction O&M purposes.
* Account 163, Stores Expense Undistributed (major only) , includes the cost of supervision, labor and expenses incurred in the operation of general storerooms, including purchasing, storage, handling and distribution of materials and supplies.
* Account 165, Prepayments, includes amounts representing prepayments of insurance, rents, taxes, interest and miscellaneous items, and shall be kept or supported in such a manner as to disclose the amount of each class of prepayment.
* Account 253, Other Deferred Credits, includes advance billings and receipts and other deferred credit items, not provided for elsewhere. [[7]](#footnote-7)

Under its fully allocated COSS, UI included costs for working capital, prepaid expenses, storm reserve, and customer deposits. Under its proposed direct assignment methodology, UI had delineated zero costs for working capital allowance, plant materials and supplies, prepayments, or other deferred credits in its MRCC calculation. Late Filed Exhibit No. 3, Attachment, Supplement 2.

CL&P proposed to include costs related to its working capital allowance in Account 154 as it supports the liquidity needed for expenses. The company included costs related to Account 163 in a similar manner to other general plant items, citing the costs as necessary to operate the business. Various prepayments related to Account 165 were included that specifically relate to deferred revenue, prepaid insurance, deferred medicare tax asset, deferred manhole inspections, deferred rate case expenses, prepaid regulatory assessment, deferred regulatory system upgrades, deferred storm cost reserve recovery and prepaid vehicles and registrations. CL&P cited that these costs relate to billing or general plant. The company also proposed to include deferred taxes related to Account 253, contribution-in-aid-of-construction (CIAC), citing a general deduction. Late Filed Exhibit No. 9, Attachment 1, p. 3.

The OCC stated that there is no basis to include all other accounts where any amount is functionalized as partially-customer related. This includes miscellaneous rate base additions such as working capital, miscellaneous prepayments and reserves, and deferred CIAC taxes. The OCC determined these accounts as excludable and outside of the statutory functions. Brief, pp.16 and 17.

The Authority will allow the inclusion of rate base additions only to the extent that the costs clearly follow the approved rate base and expense items discussed herein in Section III.C. FERC Accounts. The Companies should identify costs related to the statutory functions using the direct assignment methodology. For example, prepayments of property insurance in Account 165 related to includable plant, such as service connections and meters, is appropriate for inclusion in the MRCC calculation. Costs proposed for inclusion must be identified through direct assignment or if not possible through cost allocation as described in Section III.B.4. MRCC Application. Any cost proposals must be clearly presented in a rate case application to ensure that only the costs associated with the statutory functions are included in the MRCC calculation. Conversely, prepayments related to general plant items and general expense categories, such as rate case expenses, storm costs, and deferred taxes on CIAC are not includable. The Authority finds that Account 163 relates to general storage operations and distribution of supplies and is outside of the statutory functions. Therefore, it is excludable from the MRCC formula. Account 253 is also excluded from the MRCC calculation because it is related to network distribution builds for specific customers and is outside of the statutory functions.

The Authority will require that the cash working capital (CWC) allowance be excluded from the MRCC calculation as it is not directly related to the statutory functions. The CWC allowance is not a direct expense incurred in the process of collecting customer data, issuing customer bills or pursuing credit and collection activities. The CWC allowance is approved in a general rate case in recognition of the timing difference between when revenues are received and when expenses are paid out. This cost is typically based on the length of time that revenue is realized after bills are collectively sent to customers. However, the purpose of the actual CWC allowance is to provide enough free cash flow for the utility to properly maintain its operations until the revenues have been collected from customers. As such, the CWC is not directly related to metering, billing or the provision of customer service, and must be excluded from the MRCC calculation.

#### Rate Base Deductions

Rate base deductions proposed to be included in the MRCC calculation by one or more of the Parties in the instant proceeding are recorded in the FERC Accounts as follows:

* Account 228.1, Accumulated Provision for Property Insurance, includes amounts reserved by the utility for losses through accident, fire, flood or other hazards to its own property or property leased to others, not covered by insurance.
* Account 228.2, Accumulated Provision for Injuries and Damages, includes amounts charged to Account 928, Injuries and Damages, or other appropriate account to meet probable liabilities, not covered by insurance, for deaths or injuries to employees and others for damages to property neither owned nor held under lease by the utility.
* Account 228.3, Accumulated Provision for Pensions and Benefits, includes provisions made by the utility and amounts contributed by employees for pensions.
* Account 228.4, Accumulated Miscellaneous Operating Income, includes all operating provisions that are not provided elsewhere.
* Account 252, Customer Advances for Construction, includes advances by customers for construction which are to be refunded either wholly or in part.
* Account 281, Accumulated Deferred Income Taxes-Accelerated Amortization Property, includes the tax deferrals resulting from the adoption of the principles of comprehensive interperiod income tax allocation which the utility had availed itself of the use of accelerated depreciation (5 year) and certified defense utilities.
* Account 282, Accumulated Deferred Income Taxes-Other Property, includes the tax deferrals resulting from the adoption of the principles of comprehensive interperiod income tax allocation which are related to all property other than accelerated amortization property.
* Account 283, Accumulated Deferred Income Taxes – Other, includes all credit tax referrals resulting from the adoption of the principles of comprehensive interperiod income tax allocation, other than those deferrals included in Accounts 281 and 282.

UI proposed to deduct costs reserved for pensions and benefits, vacation accruals, and injuries and damages under its direct assignment proposed methodology. Late Filed Exhibit No. 1, Revised Attachment 1.

CL&P proposed to deduct costs reserved for benefits and insurance items covering all employees, such as public liability, long-term disability, medical, and retirement benefits. Additionally, the company proposed to deduct gross plant-related accumulated deferred income tax, Accounts 282 and 283. Late Filed Exhibit No. 9, Attachment 1, p. 3.

The OCC identified pension-related assets and liabilities allocated to includable labor expense, Account 252 (allocated to services and meters), and Accounts 281 and 282 (allocated to services and meters) as accounts not in dispute by the Parties and, therefore, includable in the MRCC calculation.

The Authority will allow the inclusion of the proposed rate base deductions of costs that clearly follow the approved rate base and expense items in Section III.C. FERC Accounts. Each EDC must identify these costs using the direct assignment methodology related to the statutory functions. For example, the costs in Account 228.3, Accumulated Provision for Pensions and Benefits, are related to includable employees and are appropriate for inclusion in the MRCC calculation. Accumulated deferred income tax on gross plant, with the exception of includable plant as identified below, is not to be included in the MRCC calculation.

### Electric Plant Accounts 301 – 399.1

For the purposes of the instant Decision, the Authority will limit the scope of this discussion to FERC Accounts identified by the Parties as directly related to one or more of the statutory functions. Electric plant accounts related to generation or transmission are not applicable to the MRCC, and will not be addressed.

#### Intangible Plant Accounts 301-303

Certain Intangible plant is recorded in the FERC Accounts as follows:

* Account 303, Miscellaneous Intangible Plant, includes the cost of patents rights, licenses, privileges and other intangible property necessary or valuable in the conduct of utility operations and not specifically chargeable to any other account.

UI proposed that Account 303 be includable in the MRCC calculation because there are costs booked to that account that are necessary to the provision of the statutory functions. Some assets used exclusively for a specific service are booked directly to a FERC account dedicated to that service. Other assets, which are specific to one or more of the statutory functions, must be booked to an allocated FERC account due to the accounting requirements of the USOA. For example, UI indicated that it utilizes software to perform automated metering. UI testified that the Meter Data Management system (MDM) software system is vital to the provision of automated metering. Without the data system, there is no automated metering. Tr. 08/16/17, p. 42. The software costs associated with the MDM system must be booked to Account 303, Miscellaneous Intangible Plant, based on the USOA requirements. UI provided a list of all the software applications and costs booked to Account 303, Miscellaneous Intangible Plant, and the statutory functions for which each application is used. Brief, p. 22; UI Response to Interrogatory RA-7, Attachment. UI further testified that the amount for Account 303, Miscellaneous Intangible Plant, can vary from year to year since a major software implementation will increase the amount of costs in that account in any given year. For example, costs will decline quickly when there is a short, three-year life for software. Tr. 08/16/17, p. 427.

CL&P proposed that customer-related costs included in Account 303 be included in the MRCC, stating that some of these costs relate to the statutory functions. Written Comments, p. 1; Attachment 1. The company provided a list of the system and software applications booked to Account 303, Miscellaneous Intangible Plant, and the statutory functions for which each application is used. Response to Interrogatory RA-7, Attachment 1. Further, the miscellaneous intangible plant for many major programs recorded in Account 303 are amortized over 10 years. Reply Brief, p. 5.

The OCC recommended that Account 303 be excluded from the MRCC calculation. Software costs depreciate quickly and plant additions in this category may not be known with any precision. The OCC expressed concern regarding the inclusion of software costs that do not provide customer-service functions at all. Brief, p. 14.

The EDCs incur software costs that are necessary to perform one or more of the statutory functions. For example, UI uses software applications associated with meter reading, customer billing and ordering. Customer service representatives use the software to access individual customer accounts to process orders for electric service and to answer customer billing questions, which are activities central to the provision of customer service. Tr. 08/16/17, pp. 42-47. CL&P also identified software costs for its C2 billing system and interactive voice response systems. CL&P Response to Interrogatory RA-7, Attachment 1. Based on the aforementioned, the Authority finds that certain software costs identified in Account 303 may be directly related to perform one or more of the statutory functions, and therefore appropriate for inclusion in the MRCC calculation.

The Authority finds that the shorter depreciation life of software could lead to significant variations in the includable intangible plant costs. This volatility in costs could be relevant when considering the appropriate level of the MRCC calculation. Further, the Authority agrees with the OCC that software costs not directly related to performing the statutory functions should not be included in the MRCC calculation. Therefore, the Authority will require an analysis of the individual assets in Account 303 by the Companies. Costs proposed for inclusion must be clearly presented and identified in a rate case application using the direct assignment where possible or cost allocation methodology as discussed in Section III.B.4. MRCC Application to ensure that only the costs associated with the statutory functions are captured in the MRCC calculation.

#### Distribution Plant Accounts 360-363

Certain distribution plant accounts are recorded in the FERC Accounts as follows:

* Account 360, Land and Land Rights, includes the cost of land and land rights used in connection with distribution operations.
* Account 361, Structures and Improvements, includes the cost in place of structures and improvements used in connection with distribution operations.
* Account 362, Station Equipment, includes the cost of installed of station equipment, which is used for the purpose of changing the characteristics of electricity distribution.
* Account 363, Storage Battery and Equipment, includes the cost of installed energy storage equipment used to store energy for load management purposes.

UI did not include any costs associated with these accounts in its proposed MRCC calculation. Response to Late Filed Exhibit No. 3, Supplement 2.

CL&P proposed to include some costs associated with Account 360 in its proposed MRCC calculation. Late Filed Exhibit No 9, Attachment 1, p. 1. Initially, it also included the costs for Account 361, Structures and Improvements, in its proposed MRCC calculation, with the reasoning that some of these costs related to metering and service connections. CL&P Written Comments. p. 1; WC-6 Attachment 1. Subsequently, the company determined that the assets recorded to this account are related to distribution substations and are not part of the metering and service connection functions. Response to Interrogatory RA‑21.

The OCC provided Table 3 that identified the accounts that only CL&P proposed should be contained in the MRCC calculation, which included Account 360. The OCC considered all the accounts listed in Table 3 as distribution plant account codes that are outside of the metering and service connection statutory functions and would exclude these costs from the MRCC calculation. Brief, Table 3, pp. 16 and 17.

Based on its review, the Authority finds that Accounts 360 through 363 are for general distribution system operations that are outside of the metering and the service connection statutory functions. Therefore, the Authority requires the Companies to exclude plant costs from Account 360 through Account 363 from the MRCC calculation.

#### Distribution Plant Accounts 364 – 370

Certain distribution plant is recorded in the FERC Accounts as follows:

* Account 364, Poles, Towers and Fixtures, includes the cost installed of poles, towers and fixtures used for supporting overhead distribution conductors and service wires.
* Account 365, Overhead Conductors and Devices, includes the cost installed of overhead conductors and devices used for distribution purposes.
* Account 366, Underground Conduit, includes the cost installed of underground conduit and tunnels used for housing distribution cables or wires.
* Account 367, Underground Conductors and Devices, includes the cost installed of underground conductors and devices used for distribution purposes.
* Account 368, Line Transformers, includes the cost installed of overhead and underground distribution line transformers and pole type and underground voltage regulators.
* Account 369, Services, includes the cost installed of overhead and underground conductors leading from a point where the wires leave the last pole of the overhead system or the distribution box or manhole, or the top of the pole of the distribution line, to the point of connection with the customer’s outlet or wiring.
* Account 370, Meters, includes the cost installed of meters or devices and appurtenances thereto for use in measuring the electricity delivered to its users.

UI excluded from its proposed MRCC calculation distribution system costs associated with Accounts 364 through 368, which are plant investments associated with poles, transformers, conductors, and conduit, from the MRCC calculation. It included the investments for Accounts 369 and 370, which are services and meters, in the calculation. Account 369 includes the plant investments required to establish the service connection. Late Filed Exhibit No. 3, Supplement 2, Attachment; Tr. 8/17/17, p. 54.

CL&P proposed that the includable rate base costs include the minimum system components of distribution plant Accounts 364 through 368 as well as Accounts 369 and 370. The company stated that the minimum system components of Distribution Plant Accounts 364 through 368 are integral to the customer connection as specified in the applicable statute and codified in its New Business Policies and, therefore, are includable costs in the MRCC calculation. Responses to Interrogatories RA-25 and RA‑38. CL&P indicated that for each rate base item that is recognized as includable in calculating the MRCC, all related costs should also be included. These related costs include property taxes and insurance; depreciation expense inclusive of negative salvage by type of equipment; working capital allowance; rate of return (ROR) and the income taxes on the equity portion; and the gross receipts tax (GRT) on all of the revenue requirements associated with each rate base item. For example, for Account 368, CL&P stated that the MRCC should include all of the associated property tax, property insurance, depreciation, negative salvage, ROR, income taxes on return on equity (ROE) and GRT expenses since those accounts are directly related to transformers. For the MRCC calculation, such costs should then be adjusted for minimum system classification based on the portion so classified and allocated to the customer charge revenue requirements. Written Comments, pp. 1 and 2.

As discussed in Section III.A.4.b. Service Connection Discussion, the Authority defined the statutory service connection function as the service line or drop that connects the network distribution system to the customer’s facilities, and does not extend beyond the first point of interconnection. The plant costs associated with the service connection function are contained in Account 369 and the metering function in Account 370. Accounts 369 and 370 are essential to statutory functions and therefore, includable in the MRCC calculation. Distribution plant for poles, towers and fixtures, and line transformers are outside of the Authority’s definition of the service connection statutory function, and do not apply to the other statutory functions. Therefore, the Authority finds that Accounts 364 through 368 are excluded from the MRCC calculation.

#### Distribution Plant Accounts 371-374

Certain distribution plant is recorded in the FERC Accounts as follows:

* Account 371, Installations on Customers’ Premises, includes the cost of equipment on the customer’s side of a meter when the utility incurs such costs.
* Account 372, Leased property on Customers’ Premises, includes the cost of electric motors, transformers and other equipment on customer’s premises leased or loaned to customers.
* Account 373, Street Lighting and Signal Systems, includes the cost installed of equipment used wholly for public street and highway lighting or traffic, fire alarm, police or other signal systems.
* Account 374, Asset Retirement Costs for Distribution Plant, includes asset retirement costs on plant included in the distribution plant function.

UI included costs for Accounts 371 and 372 in its proposed MRCC calculation applying the COSS methodology. Under its direct assignment methodology, the company delineated zero costs for these accounts in its MRCC calculation. Response to Late Filed Exhibit No. 1, Revised Attachment.

CL&P identified costs for Accounts 371 and 373 but allocated 100% of the costs to the demand component for residential non-heating customers. In addition, the company did not identify any costs associated with Accounts 372 and 374 in its proposed MRCC calculation. Late Filed Exhibit No. 9, Attachment 1, p. 1.

The Authority finds that Accounts 371 and 372 are linked to the costs for installation and equipment behind the meter and, therefore, should not be included in the MRCC calculation. Account 373 is for street lighting, which does not apply to any of the statutory functions. Account 374 is related to general distribution and is outside of the statutory functions. Based on the aforementioned, the Authority determines that Accounts 371 through 374 should be excluded from the MRCC calculation.

#### General Plant Accounts 389-399.1

General Plant is recorded in the FERC Accounts as follows:

* Account 389, Land and Land Rights, includes the cost of land and land rights used for utility purposes, the cost of which is not properly includable in other land and land rights accounts.
* Account 390, Structures and Improvements, includes the cost in place of structures and improvements used for utility purposes, the cost of which is not properly includable in other structures and improvements accounts.
* Account 391, Office Furniture and Equipment, includes the cost of office furniture and equipment owned by the utility and devoted to utility service, except the cost of such furniture which the utility elects to assign to other plant accounts on a functional basis.
* Account 392, Transportation Equipment, includes the cost of transportation vehicles for utility purposes.
* Account 393, Stores Equipment, includes the cost of equipment used for the receiving, shipping, handling and storage of materials and supplies.
* Account 394, Tools, Shop and Garage Equipment, includes the cost of tools, implements and equipment used in construction, repair work, general shops and garages and not specifically provided for or includible in other accounts.
* Account 395, Laboratory Equipment, includes the cost installed of laboratory equipment used for general laboratory purposes and not generally provided for in other accounts.
* Account 396, Power Operated Equipment, includes the cost of power equipment used in the construction or repair work exclusive of equipment includable in other accounts.
* Account 397, Communication Equipment, includes the cost installed of telephone, telegraph and wireless equipment for general use in connection with utility operations.
* Account 398, Miscellaneous Equipment, includes the cost of equipment, apparatus, etc., used in the utility operations, which is not includable in any other account.
* Account 399, Other Tangible Property, includes the cost of tangible utility plant not provided for elsewhere.
* Account 399.1, Asset Retirement Costs for General Plant, includes asset retirement costs on plant included in the general plant function.

Under its proposed fully allocated cost study, UI included costs for General Plant Accounts 389 through 395, 397, and 398 did not include costs for Accounts 399 and 399.1. Under its proposed direct assignment methodology, UI included costs for Accounts 390 through 392, 397 and 398 and had zero costs for Accounts 393, 394, and 398. Response to Late Filed Exhibit No. 3, Supplement 2.

CL&P proposed that customer related costs included in Accounts 389 through 398 be included in the MRCC calculation. Written Comments, p. 1; Late Filed Exhibit No. 9, Attachment 1, p. 1.

The OCC provided a table identifying the accounts that were not in dispute between the Parties. Specifically, the table listed accounts relevant to the statutory functions and recommended their inclusion in the MRCC calculation. The OCC identified Accounts 391, 392, 394, 395, and 397 as includable accounts that were directly related to one or more statutory functions. The OCC identified Accounts 389, 390, and 398 as accounts that the EDCs contended should be included in the MRCC calculation. These general plant accounts contain costs that are far removed from any customer-serving function. Brief, pp. 11, 13 and 14.

The Authority determines that Accounts 391 through 399.1 may contain some costs that are directly related to the statutory functions. The Companies must include only costs that are necessary for employees to perform their jobs and that are integral to the statutory functions. For example, the transportation equipment in the EDC’s fleet may be dedicated to meter reading, or certain office furniture purchased to furnish the customer service department. However, the Companies must use direct assignment where possible or cost allocation methodology as discussed in Section III.B.4. MRCC Application for shared service company functions to properly assign costs. Includable costs in Accounts 391 through 399.1 will need to be clearly identified at a sub-account level by the Companies to ensure that the EDC included only costs associated with the statutory functions and are captured in the MRCC calculation. Based on the above, the Authority will allow the customer-related costs in Accounts 391 through 399.1 to be included in the MRCC calculation to the extent that directly related costs are identified using direct assignment. The Authority finds that common utility plant such as land and/or buildings are used for the overall utility system operations, across many different utility functions and are not driven in significant part by the provision of the statutory functions. As such, the Companies are directed to exclude any costs related to Accounts 389 and 390 from the MRCC calculations.

### Income Accounts 400 – 408.1

Income accounts proposed by one or more of the Parties in the instant proceeding are recorded in the FERC Accounts as follows:

* Account 403, Depreciation Expense for Asset Retirement Costs, includes the amount of depreciation expense for all classes of depreciable electric plant except those chargeable to clearing accounts or merchandising, jobbing and contract work.
* Account 407.3, Regulatory Debits, includes the regulatory liabilities imposed on the utility by the ratemaking actions of regulatory agencies.
* Account 408.1, Taxes Other than Income Taxes Utility Operating Income, includes taxes other than income which relate to utility operating income.

UI included costs in Account 408.1, for payroll and property taxes under both its proposed MRCC COSS and direct assignment cost methodologies. Late Filed Exhibit No. 3, Attachment, Supplement 2. CL&P included in its MRCC calculation: depreciation and depreciation transfer credits for Account 403 related to gross general plant; Account 407 that included regulatory debits for deferred expenses for radio system; CIAC; non-tax gross ups; and other regulatory debits. Late Filed Exhibit No. 9, Attachment 1, pp. 8 and 9.

The OCC stated that it is reasonable for the Companies to include in the MRCC calculation income and property taxes that are associated with includable fixed costs related to the statutory functions. Additionally, employee-related taxes such as unemployment, workers compensation and the employer’s share of the Federal Insurance Contribution Act should be includable in the MRCC calculation. Written Comments, pp. 4 and 5.

The Authority finds that payroll and property taxes in Account 408.1 associated with includable rate base and expense items, identified by the Authority in Section III.B. Assignment of Costs; MRCC Methodology, are includable in the MRCC calculation. For example, payroll taxes related to includable employees, such as service technicians who install meters for residential customer service, is a necessary and unavoidable component of the cost of providing such service. Therefore, it is appropriate for inclusion in the calculation. Consequently, the Authority determines that these costs should be included in the MRCC calculation. These costs should be identified by the EDCs as directly related costs to the statutory functions.

The Authority finds that the costs associated with Accounts 403 and 407.3, with the exception of includable plant previously identified above, are outside of the statutory functions. Therefore, these accounts shall be excluded from the MRCC calculation.

### Other Operating Revenue – Accounts 447 - 457

The income accounts proposed by one or more of the Parties in the instant proceeding are recorded in the FERC Accounts as follows:

* Account 447, Sales for Resale, includes the net billing for electricity supplied to other electric utilities or to public authorities for resale purpose.
* Account 450, Forfeited Discounts, includes the amount of discounts forfeited or additional charges imposed because of the failure of customers to pay their electric bills before a specified date.
* Account 451, Miscellaneous Service Revenues, includes all revenues for all miscellaneous services and charges billed to customers which are specifically provided for in other accounts.
* Account 454, Rent from Electric Property, includes rents received for the use by other of land, buildings and other properties the regulatory liabilities imposed on the utility by the ratemaking actions of regulatory agencies.
* Account 456, Other Electric Revenues, includes revenues derived from operations not includable in any of the foregoing accounts.

UI included revenue credits for late fees and returned check fees in its proposed COSS and direct assignment MRCC calculation methodologies. UI asserted that the revenue accounts should be included in the MRCC calculation as an offset to the expenses associated with Account 904, Uncollectibles. Response to Late Filed Exhibit No. 1, Revised Attachment.

CL&P included Accounts 454 and 456 in its proposed MRCC calculation. Late Filed Exhibit No. 9, Attachment 1, p. 4.

The OCC included Account 450 in conjunction with the inclusion of Account 904 in the calculation and noted that account expenses are collected on a per-customer basis. The OCC also recommended that Account 451 be included in the MRCC calculation. Brief, p. 12.

The Authority finds that Account 451 may include some revenues directly related to the customer service function and includable as part of the MRCC calculation. The Companies must use direct assignment where possible or cost allocation methodology as discussed in Section III.B.4. MRCC Application, since the revenue is for miscellaneous services and charges billed to customers. For example, the Companies may collect fees for connecting or disconnecting service for residential non-heating customers. These miscellaneous revenues are tied to the statutory functions and therefore included in the MRCC calculation. The Authority also finds that Accounts 447, 450, 454, and 456 do not appear to link to the provision of the statutory functions, and are therefore not includable in the MRCC calculation.

### Distribution Expenses Accounts 500-599

Accounts 500-599, Distribution Expenses, contain several hundred titles. The following discussion will be limited to the scope of the accounts identified by the Parties or the Authority as fixed O&M expenses directly related to the statutory functions. Consequently, the Authority will only address below the distribution expenses consistent with applicable services that the EDCs provide and are potentially appropriate for MRCC inclusion (e.g., generation and transmission related expenses are excluded from the discussion).

Distribution expenses are recorded in the FERC Accounts as follows:

* Account 580, Operations Supervision and Engineering, includes the cost of labor and expenses for the general supervision and direction of the operation of the distribution system including line and meter operations.
* Account 583, Overhead Line Expense, includes the cost of labor, materials used and expenses incurred in the operation of overhead distribution of lines and stations.
* Account 584, Underground Line Expense, includes the cost of labor, materials used and expenses incurred in the operation of underground distribution of lines and stations.
* Account 586, Meter Expense, includes the cost of labor, materials used and expenses in the operation of customer meters and associated equipment.
* Account 587, Customer Installation, includes the cost of labor, materials used and expenses incurred on work of customer installations.
* Account 588, Miscellaneous Distribution Expenses, includes the cost of labor, materials used and expenses incurred on distribution system operations not provided for elsewhere.
* Account 589, Rents, includes the rents of property of other used, occupied or operated in the connection of the distribution system.
* Account 590, Maintenance Supervision and Engineering, includes the cost of labor and expenses for the general supervision and direction of the maintenance of the distribution system.
* Account 591, Maintenance of Structures, includes the cost of labor and expenses for the general supervision and direction of the maintenance of structures.
* Account 593, Maintenance of Overhead Lines, includes the cost of labor, materials used and expenses incurred in the maintenance of overhead distribution line facilities.
* Account 594, Maintenance of Underground Lines, includes the cost of labor, materials used and expenses incurred in the maintenance of underground distribution line facilities.
* Account 595, Maintenance of Line Transformers, includes the cost of labor, materials used and expenses incurred in the maintenance of transformers.
* Account 597, Maintenance of Meters, includes the cost of labor, materials used and expenses incurred in the maintenance of meters.
* Account 598, Maintenance of Miscellaneous Distribution Plant, includes the cost of labor, materials used and expenses incurred in maintenance of plant the book cost of which is includable in Account 371, Installations on Customer’s Premises and Account 372, Leased Property on Customer’s Premises.

Under its proposed fully allocated MRCC COSS methodology, UI included O&M expenses for Accounts 580 and 590 under the Metering and Service Connection functions; Accounts 583, 584, 588, 593, and 594 for the Service Connection function; and Accounts 597 and 598 for the Metering function. However, using the proposed direct assignment methodology, UI only included in its MRCC calculation expenses for Accounts 580, 583, and 586. The company removed Accounts 588 and 594 from its MRCC calculation. Under the direct assignment methodology, Account 584 was removed, which had zero expenses. Response to Late Filed Exhibit No. 3, Attachment Supplement 2; Revised Response to Late Filed Exhibit No. 1.

In its proposed MRCC COSS, CL&P included O&M expenses for Accounts 580, 590 (under the metering and service connection functions); Accounts 583, 584, 587, 593, 594 and 595 (under the service connection function); and 597 and 598 (for the metering function). Additionally, CL&P included rent expenses under Account 589 as part of the distribution expenses in its calculation. CL&P utilized internal allocators for Accounts 583, 584, 586, 588 and 589. Account 583 contained expenses for overhead and underground line, pole inspections, transformers and transformer credits. Expenses for Account 588 and Account 589 were allocated consistent with overall gross distribution plant. Written Comments, WC-6, Attachment 1; Late Filed Exhibit No. 9, Attachment 1, p. 5.

The OCC included in its proposed MRCC calculation the O&M expense accounts that are not in dispute by the Parties. Accounts 586 and 597 were identified for the metering function. In addition, Accounts 583, 584, 593 and 594 were identified for service connections while Accounts 580 and 590 were listed for the portion of costs associated with the metering and service connection functions. Brief, p. 11.

The Authority finds that Accounts 580, 583, 584, 586, 590, 593, 594 and 597 may contain costs that are includable in the MRCC calculation as some of the distribution O&M expenses necessary to perform the metering and service connection functions. Consequently, only O&M expenses that are linked to the distribution plant accounts are identified by the Authority in the instant Decision as includable in the MRCC calculation. The Authority will allow the residential non-heating customer portions of the expenses in these accounts to be included in the MRCC calculation, after the expenses have been identified through direct assignment as attributable to the statutory functions. CL&P included other costs that are not directly related to the statutory functions within Account 584. Costs associated with pole inspections and transformer expenses, which are associated with other distribution plant, are excluded from the MRCC calculation. Also, the Authority finds that the remaining distribution expense accounts that include Accounts 587, 588, 589, and 595 contain costs associated with minimum system distribution plant and are in excess of the metering or service connection functions. Account 598 is associated with maintenance of miscellaneous distribution plant that has no apparent relationship to any of the statutory functions. Therefore, the Authority deems that Accounts 587, 588, 589, 595 and 598 are excluded from the MRCC calculation.

### Customer Accounts Expenses, Accounts 901- 905

Customer accounts expenses are recorded in the FERC Accounts as follows:

* Account 901, Supervision, includes the cost of labor and expenses incurred for the general direction and supervision of customer accounting and collecting activities.
* Account 902, Meter Reading, includes the cost of labor materials and expenses incurred in reading customer meters and determining consumption performed by employees engaged in reading meters.
* Account 903, Customer Records and Collection Expense, includes the cost of labor, materials and expenses incurred on work on customer applications, contracts, orders and credit investigations.
* Account 904, Uncollectible Accounts**,** the account shall be charged with amounts sufficient to provide for losses from uncollectible utility revenues.
* Account 905, Miscellaneous Customer Accounts Expense, includes the cost of labor, materials and expenses incurred not provided for in other accounts.

Under both its proposed MRCC COSS and direct assignment cost methodologies, UI included expenses for Accounts 901 through 905. UI included costs attributed for Account 901, primarily for the billing function with some additional costs attributed to the metering function. Account 902 consists of metering reading costs and is attributed to the metering function. Accounts 903 and 905 include costs associated with customer account records, orders and miscellaneous expenses, which were attributed to the billing function. Response to Late Filed Exhibit No. 1, Revised Attachment 1; Late Filed Exhibit No. 3, Attachment, Supplement 2. UI also proposed to include costs associated with Account 904 in its MRCC calculation. UI asserted that uncollectible rate base and expense items should be included in the MRCC calculation because uncollectible accounts have billing implications. The company also proposed to include revenues associated with late fees and returned check fees to offset the expenses associated with uncollectibles. Colca PFT, pp. 9 and 10.

CL&P proposed to include costs associated with Accounts 901, 902, 903, and 905 in the MRCC calculation. For Account 901, CL&P used internal allocators and summed the labor expenses from Accounts 902 through 905 to determine the expenses associated with residential non‑heating customers. CL&P utilized a weighted meter reading cost allocator for Account 902 to determine the expenses for that account and attributed the expenses to the metering function. Expenses associated with Account 903 were attributed to the billing function and expenses for Account 905 were attributed to the customer service function. CL&P utilized a direct assignment for Account 904 and attributed 0% of the costs to the customer component for residential non-heating customers. Response to Late Filed Exhibit No. 9, Attachment 1.

The OCC identified the customer expense accounts that are not in dispute by the parties. The OCC’s table included Account 901 through 905 as account codes that have directly related costs to the statutory functions and would be included in the MRCC calculation. OCC Brief, Table 1, p. 11.

The Authority concludes that some expenses identified by the parties in Accounts 901, 902, 903, and 905 are directly related to billing, metering or customer service. Therefore, the Authority deems costs in these accounts as eligible for inclusion in the MRCC calculation as identified through direct assignment. If direct assignment is not practical, such as shared customer service center operations that span multiple operating companies, the Authority will consider cost allocation proposals as discussed in Section III.B.4. MRCC Application. These proposals must conform to the requirements of Conn. Gen. Stat. §16-243bb, where reasonable, to ensure that only directly related costs are included.

The Authority finds that costs associated with Account 904 has no apparent relationship to the statutory functions. The uncollectible allowance is approved in a general rate case as a public policy expense that recognizes that a certain portion of revenue will not be realized through customer receipts and will ultimately be charged off. The purpose of the actual uncollectible allowance is to recognize and provide for the recovery of this revenue shortfall through base rates. The uncollectible allowance does not include direct labor expenses incurred in the EDCs credit and collection activity, which are recorded in Account 903 for the billing function. Based on the aforementioned, the Authority excludes these costs from the MRCC calculation.

The Authority also excludes Account 144 that would incorporate for late fees and returned check fees revenues that partially offset the expenses incurred in Account 904. Just as Account 904 is excluded from the MRCC calculation, the Authority finds that the associated revenues must also be excluded from the MRCC calculation.

### Customer Service and Informational Expenses

Customer Service and Informational Expenses are recorded in the FERC Accounts as follows:

* Account 907, Supervision, includes the cost of labor and expenses in the general direction and supervision of customer service activities, to encourage safe, efficient and economical use of the utility’s service.
* Account 908, Customer Assistance Expense, includes the cost of labor, materials and expenses incurred for includes the cost of labor and expenses incurred in providing instructions or assistance to customers to encourage safe, efficient and economical use of the utility’s service.
* Account 909, Informational and Instructional Advertising Expense service, includes the cost of labor, materials and expenses incurred in activities which convey information to customers to protect health, safety, to encourage environmental protection or to conserve energy.
* Account 910, Miscellaneous Customer Service and Informational Expenses, includes the cost of labor, materials and expenses incurred in connection with customer service and informational activities which are not includable in other customer information expense accounts.

Under its proposed MRCC COSS and direct assignment cost methodologies, UI included expenses for Accounts 907, 908, and 910. UI identified these costs as directly related to the customer service function. The customer service function was based on communications by a customer to the company, typically to begin or end electric service at a location, and requests involving credit and collection activities. Response to Late Filed Exhibit No. 3, Attachment, Supplement 2.

In its proposed MRCC COSS methodology, CL&P identified Accounts 908 and 909 as including costs directly related to the service connection function. For Account 908, the company utilized an internal allocator and identified the account as tied to the metering, billing and billing service functions. Although listed in its COSS, there were no expenses identified for Account 909. Response to Late Filed Exhibit No. 9, Attachment 1.

The OCC identified the customer service and expense accounts that are not in dispute by the parties. The OCC’s table included Accounts 907, 908, and 910 as account codes that are directly related costs to the statutory functions and should be included in the MRCC calculation. OCC Brief, p. 11.

The Authority finds that the types of expenses identified by the Parties for Accounts 907, 908 and 910 may include costs directly related to the provision of customer service. Costs associated with these accounts may be includable in the MRCC calculation if identified separately as directly related to customer service function. Costs must be identified through direct assignment or cost allocation methodology as discussed in Section III.B.4. MRCC Application and not included in other recovery mechanisms, such as a conservation adjustment mechanism charge. The Authority determines that Account 909 relates to advertising expenses and is outside of the statutory functions and should be excluded from the MRCC calculation.

### Sales Expenses

Sales expenses are recorded in the FERC Accounts as follows:

* Account 911, Supervision, includes the cost of labor and expenses incurred for the general direction and supervision of sales activities, except merchandising.
* Account 912, Demonstrating and Selling Expense, includes the cost of labor, materials used and expenses incurred in promotional, demonstrating and selling activities, except by merchandising, to promote the use of utility services.
* Account 916, Miscellaneous Sales Expense, includes the cost of labor, materials used and expenses incurred with sales activities, except merchandising which are not includible in other sales expense accounts.

UI excluded costs associated with sales expenses in its MRCC COSS and direct assignment proposals. The company stated that the sales expenses were excluded because it did not seem to fit the definition of the statute. Response to Late Filed Exhibit No. 3, Attachment Supplement 2; Tr. 08/16/17, p. 138.

CL&P identified Accounts 911, 912 and 916 as accounts that have includable costs directly related to the customer service function. In its proposed MRCC COSS, CL&P included a credit for Account 911 and costs associated with Account 916 based on a weighted customer cost external allocator. Written Comments, Attachment 1; Late Filed Exhibit No. 9, Attachment 1, p. 7.

The OCC identified sales expense Accounts 911 and 916 in the list of accounts that should be excluded from the MRCC calculation. The OCC argued that there is no basis to include these accounts in the MRCC calculation. Brief, pp. 16 and 17.

The Authority finds that sales expense Accounts 911, 912 and 916 fall outside of the statutory functions as sales efforts that are Company initiated and distinct from the statutory functions. Therefore, the costs associated with these accounts are excludable from the MRCC calculation.

### Administrative and General Expenses

Administrative and General Account expenses are recorded in the FERC Accounts as follows:

* Account 920, Administrative & General Salaries, includes the compensation of officer’s executives and other employees not chargeable to utility operations and not chargeable directly to a particular operating function.
* Account 921, Office Supplies & Expenses, includes the cost of office supplies and expenses incurred in conjunction with the general administration of the utility’s operations not specifically provided for in other accounts.
* Account 922, Administrative Expenses Transferred, includes administrative expenses transferred to construction costs or to nonutility accounts.
* Account 923, Outside Services Employed, includes the fees and expenses of professional consultants and others for general services which are not applicable to a particular operating function or to other accounts.
* Account 924, Property Insurance, includes the cost of insurance or reserve accruals to protect the utility against losses and damages to owned or leased property used in its utility operations.
* Account 925, Injuries and Damages, includes the cost of insurance or reserve accruals to protect the utility against injuries and damages claims of employees or others.
* Account 926, Employee Pensions and Benefits, includes expenses and payments for employee accidents, sickness, hospital and death benefits and administrative expenses in connection with employee benefits and pensions.
* Account 928, Regulatory Commission Expense, includes all expenses incurred by the utility in connection with formal cases before regulatory commissions or bodies.
* Account 930, General Advertising Expense, includes the costs of labor, materials used, and expenses incurred in advertising and related activities, the cost of which by their content and purpose are not provided elsewhere.
* Account 931, Rents Expense, includes rents properly includable in utility operating expenses for the property of others used, occupied, or operated in connection with customer accounts, customer service and informational sales and general administrative functions of the utility.
* Account 935, Maintenance of General Plant, includes the costs assignable to customer accounts incurred in the maintenance of Account 390, Structures and Improvements, Account 391, Office Furniture and Equipment, Account 397, Communication Equipment, and Account 398, Miscellaneous Equipment.

UI proposed to include costs associated with Accounts 924, 925, and 926 in its MRCC calculation. Property insurance, injuries and damages and employee pensions and benefits should be included in the MRCC calculation. Property insurance expenses are incurred on assets used to provide the includable service functions. The costs for insurance are not avoidable and are fixed in nature. UI asserted that employee benefits including salary, incentive compensation, medical and retiree benefits should also be included in the MRCC calculation. These costs are part of the costs incurred by the skilled qualified employees who perform the tasks related to the service functions. These expenses should be included in the MRCC calculation proportionally as direct labor. The company also defined fixed costs to include property insurance expenses on includable assets. UI Written Comments WC‑1, pp. 8 and 9. Colca PFT, p. 8.

CL&P stated that it is appropriate to recognize salary plus full employee benefits in the MRCC calculation. CL&P Written Comments, p. 3. The company’s proposed MRCC calculation included expenses associated with property insurance, and injuries and damages. CL&P’s proposed MRCC COSS also contained expenses for Accounts 920, 921, 922, 923, 928, 930, and 931. For Account 935, CL&P did not include this account’s expenses in its proposed MRCC calculation. CL&P Late Filed Exhibit No. 9, Attachment 1, p. 7.

The OCC stated that it is reasonable to allow in the MRCC calculation an allocated portion of an includable employee’s costs, such as medical insurance and the retirement plan contributions, as directly related costs. It also identified injuries/damages and property insurance associated with meter and services as includable expenses. The OCC objected to the inclusion of incentive compensation unless the utility could demonstrate that the incentive was based on specific metrics directly related to the provision of the statutory functions. Written Comments, pp. 3 and 4; Brief, p. 12.

The Authority finds that it is reasonable to include expenses associated with Accounts 924 and 925 in the MRCC calculation because the Companies must have insurance on its assets and employees in the provision of one or more of the statutory functions. Additionally, the Authority will allow costs associated with Account 926 as part of the expenses of includable employees who provide the statutory functions. However, the Companies will exclude costs associated with incentive compensation as these costs are administered at a corporate level and are not directly related to the statutory functions. Tr. 8/16/17, pp. 121-124; Late Filed Exhibit No. 6; Tr. 09/11/17, p. 439.

Based on the FERC account descriptions, the Authority initially found Accounts 920, 921, 922, 923, 928, and 931 to be general and overhead in nature and related to overall company operations. For example, Account 920 includes officers and executive salaries and bonuses, which span an array of EDC functions and are not directly related to the statutory functions.

In its Written Exceptions, CL&P suggested that there are costs contained in the above accounts that are directly related to the statutory functions. CL&P argued that Account 920 includes salaries of employees who work in all four statutory functions while the Authority only focused on executive salaries and compensation. Written Exceptions, p. 4. CL&P also argued that Accounts 921 and 923 contain expenses for office supplies and subcontractors related to one or more statutory functions. Finally, CL&P maintained that Account 931 contains costs related to leasing the customer call center for customer service and should be included in the MRCC calculation.

In any future rate case, the Authority will operate on the rebuttable presumption that costs in Accounts 920, 921, and 923 are excluded from the MRCC calculation. The Authority will, however, consider EDC proposals to include specifically identifiable costs from Accounts 920, 921 and 923 in the MRCC calculation. The EDCs will have the burden of proving a specific cost from one of these accounts is directly related to one of the statutory functions as defined in Section III.A. Costs Directly Related to the Statutory Functions and providing supporting documentation and workpapers. For any EDC proposal to include labor expenses associated with Account 920, the EDC submission must include job titles and a detailed description of the employee’s work that is directly related to the statutory functions. For example, supporting documentation for inclusion of costs for a customer service or metering director must include the percentage of time the director spent working on the statutory functions.

Similarly, for Account 921 and 923, any EDC proposal to include costs in the MRCC calculation must be supported by a summary worksheet that details the specific costs, the total cost proposed for inclusion, the applicability of each costs to one or more of the statutory functions, and the allocator used to assign shared cost among the operating companies. In addition, the EDCs must include the functionalization and classification of said costs and the unit rate of the collective adjustment at an account level. The Authority does not consider general allocations from multiple control centers as sufficient supporting documentation to include costs from the above accounts in the MRCC calculation.

The Authority finds that costs in Accounts 922, 928, 930, and 931 are outside of the statutory functions and are excluded from the MRCC calculation. Account 931, which includes costs for office rental expenses, can be utilized by the EDCs for multi-operational common purposes and multiple operating companies. The Authority also finds Account 931 to be similar in function to buildings in Account 390, and therefore excludable from the MRCC calculation.

For Account 935, the EDCs did not identify costs associated with this account in their proposed MRCC calculations. The Authority recognizes that in the future it is possible that the EDCs may identify maintenance expenses in Account 935 that are related to plant Accounts 391, 397, and 398, which the PURA has determined in the instant Decision are includable in the MRCC calculation. However, the burden of proof will be on the EDCs to provide supporting documentation in a rate case that these costs are directly related to one of the four statutory functions. At that time, the Authority would determine if those costs are includable in the MRCC calculation.

## Test Year vs. Rate Year Data

UI proposed to adjust the test year MRCC value to the rate year MRCC value by multiplying the test year MRCC value by the percent change in allowed retail revenue in the respective rate year. Response to Late Filed Exhibit No. 3, Supplement 2. UI addressed the reason the cost assignment was performed using test year data rather than rate year. It indicated that, in making a rate year calculation, the company must make a broad forecast as the actual cost data only exists at the test year level. While UI does submit a rate year COSS in general rate cases, the cost data for the rate year is done by applying a ratio of the increase of the test year costs to the rate year where appropriate, as well as other forecasting techniques. UI indicated that while it can forecast the costs by account, only the test year data shows what actually happened. Tr. 8/16/17, pp. 105-108.

CL&P stated that the most straightforward methodology to adjust the test year data is to multiply the test year MRCC value by the percent change in the Authority’s approved distribution revenue. The company is not opposed to discussing other potential methodologies to move from the test year to the rate year MRCC. CL&P Written Comments, p. 4.

The OCC submitted that the preferable approach would be for the EDCs to rerun the MRCC COSS as part of a compliance filing. That way the MRCC calculation would reflect the components of the revenue requirement as determined by the Authority. In the alternative, if the COSS is not updated during the compliance phase, then ratios can be used to approximate the maximum customer charge. OCC Written Comments, p. 6.

The Authority reviewed the EDCs’ proposed methodologies and finds that the level of detailed cost tracking required in establishing the MRCC calculation under the requirements of Conn. Gen. Stat. §16-243bb can only be performed at the test year level, where the costs are known and measurable. Grossing up the charge in the amount of the rate increase or even attempting to forecast individual asset/expenses may cause the MRCC calculation to be established at a level that differs from actual costs. It creates a risk that the approved MRCC calculation would recover more than the fixed costs and the O&M expenses directly related to the statutory functions, a result that is prohibited by Conn. Gen. Stat. §16-243bb. Therefore, the Authority will require that the MRCC calculation be based on the test year.

In both of the EDCs’ Written Exceptions, there were concerns regarding the escalation of the costs associated with the statutory functions during all of the years in a multiple rate year plan.  The Authority accepts the EDCs’ argument that it is appropriate, in certain instances, to allow for escalating costs in the MRCC calculation.  However, the methodologies proposed by the EDCs include an overall gross up of the MRCC. It may not reflect the cost escalation an EDC would experience based on the statutory functions.  For example, if a large portion of an allowed EDC rate increase is for investments or O&M costs needed for overall distribution operations, such as a new substation or increased distribution system resiliency, applying the overall increase may overstate the MRCC charge.  This would be a violation of Conn. Gen. Stat. §16-243bb. Consequently, the Authority will require any requested increase in the MRCC over the test year levels to be supported with a summary worksheet detailing, by account, the total cost proposed for inclusion, the applicability to one or more of the statutory functions, the allocator used to functionalize and classify said costs, and the unit rate of the collective adjustment.  Finally, the proposed adjustment is subject to change, depending on whether the underlying costs are accepted, modified or rejected by the Authority.  In any rate year proposal submitted in compliance with a rate case Decision, the EDC shall indicate whether such an adjustment is necessary and include supporting data.

## MRCC Calculation

### List of Includable FERC Accounts

In summary, the Authority finds that each EDC should calculate their respective MRCC by identifying the costs for each of the statutory functions. The Companies’ respective MRCC calculations may include a combination of direct assignments and cost allocations, except where direct assignment is specifically required by the Authority. The Authority provides a list below of the FERC accounts that each EDC may utilize to determine their MRCC calculation. Certain accounts require direct assignment as noted in the table below, while other accounts may utilize cost allocations when direct assignment is not feasible. The Authority prefers the direct assignment of costs rather than allocations to ensure to the greatest extent possible that only costs directly related to the four statutory functions for residential non-heating customers are included in the MRCC calculation.

|  |  |
| --- | --- |
| **Account** | **Description** |
| 165 | Prepayments |
| 228.1\* | Accumulated Provision for Property Insurance |
| 228.2\* | Accumulated Provision for Injuries and Damages |
| 228.3\* | Accumulated Provision for Pensions and Benefits |
| 252\* | Customer Advances |
| 281\* | Accumulated Deferred Income Taxes-Accelerated Amortization Property |
| 282\* | Accumulated Deferred Income Taxes - Other Property |
| 283\* | Accumulated Deferred Income Taxes – Other |
| 303 | Miscellaneous Intangible Plant (direct assignment)\*\* |
| 369 | Services |
| 370 | Meters |
| 391 | Office Equipment (direct assignment)\*\* |
| 392 | Transportation Equipment (direct assignment)\*\* |
| 393 | Stores Equipment (direct assignment)\*\* |
| 394 | Tools, Shop and Garage Equipment (direct assignment)\*\* |
| 395 | Laboratory Equipment (direct assignment)\*\* |
| 396 | Power Operated Equipment (direct assignment)\*\* |
| 397 | Communication Equipment (direct assignment)\*\* |
| 398 | Miscellaneous Equipment (direct assignment)\*\* |
| 399 | Other Tangible Property (direct assignment)\*\* |
| 399.1 | Asset Retirement Cost for Other Plant (direct assignment)\*\* |
| 408.1 | Taxes Other than Income Taxes Utility Operating Income |
| 451 | Miscellaneous Service Revenues (direct assignment)\*\* |
| 580 | Operations Supervision and Engineering |
| 583 | Overhead Line Expense |
| 584 | Underground Line Expense |
| 586 | Meter Expense |
| 590 | Maintenance Supervision and Engineering |
| 593 | Maintenance of Overhead Lines |
| 594 | Maintenance of Underground Lines |
| 597 | Maintenance of Meters |
| 901 | Supervision (direct assignment)\*\* |
| 902 | Meter Reading (direct assignment)\*\* |
| 903 | Customer Records and Collection Expense (direct assignment)\*\* |
| 905 | Miscellaneous Customer Accounts (direct assignment)\*\* |
| 907 | Supervision (direct assignment)\*\* |
| 908 | Customer Assistance (direct assignment)\*\* |
| 910 | Miscellaneous Customer Service and Informational |
| 924 | Property Insurance |
| 925 | Injuries and Damages |
| 926 | Employee Pensions and Benefits |

\* Inclusion of these FERC accounts are contingent on the inclusion of other FERC accounts for rate base or expense accounts.

\*\* Where direct assignment is required but not possible, cost allocation proposals will be considered in accordance with Section III.B.4. MRCC Application.

### Supporting Documentation

For each revenue requirement component, each EDC is directed to submit a full accounting of the includable costs through a MRCC COSS that identifies all of the fixed costs, O&M expenses and other expenses for each account using the FERC Accounts. In its current or next rate case, each EDC should file a separate MRCC COSS workable spreadsheet using the layout from CL&P’s response to Late Filed Exhibit No. 9, which must include:

* Each revenue requirement component identified in a separate tab, with an additional tab that shows the overall MRCC revenue requirement and unit rate calculations.
* All columns presented in each tab of CL&P’s Response to Late Filed Exhibit No. 9, showing the allocation methodology for each accounts’ costs.
* Separately identifying direct labor expenses for each of the four functions in the same general format as the labor expense tabs shown in CL&P’s Late Filed Exhibit No. 9.
* For includable rate base costs in the MRCC, the Companies may include the associated property tax, property insurance, depreciation, negative salvage, Rate of Return, income taxes on ROE and GRT expenses.
* An additional worksheet showing an itemization of the MRCC calculation by FERC account components in the same general format as shown in UI’s Late Filed Exhibit No. 3, Attachment A, Supplement 2.
* An additional worksheet showing the itemization of the MRCC calculations using the layout in UI’s response to Late Filed Exhibit No. 3, Attachment A, Supplement 2.

# FINDINGS OF FACT

1. The billing function encompasses the directly related costs of labor, materials, computer hardware and software to create customer invoices, residential customer reports, distribute, and collect invoice payments electric bills for residential non-heating customers.
2. Each of the EDCs’ billing functions is unique in performing the statutory functions.
3. External resources are vital to perform and complete the billing function.
4. The billing function excludes the regulatory allowance for uncollectible expenses and revenue credits for late fees and returned checks.
5. Some of the costs associated with the billing function do not neatly fit into the FERC accounts.
6. The billing software that is unique to each of the EDCs is accounted for within the miscellaneous intangible plant FERC Account 303.
7. The EDCs cannot measure the amount of electric services consumed by its customers, generate and distribute invoices to the customers without the necessary tools to perform the billing function.
8. The billing system and the internal and external resources that work together to complete the billing function do not apply only to the residential customer class.
9. The billing system is a shared asset and expense among customer classes.
10. Late fees and returned check fees are similar in nature because of the labor that is required to perform the collection related activities associated with uncollectible amounts.
11. Other than the collection related activities that produce the uncollectible amounts there is no correlation between uncollectible accounts and late fees and returned check fees.
12. Customer service provisioning begins with a customer initiating contact with its EDC regarding their electric services.
13. It is necessary to distinguish customer service activities from other tasks such as, sales, advertising, final bill collection, or provisioning the electric distribution system as these tasks are not directly related to the statutory function of the provision of customer service.
14. The provision of customer service includes the costs for outside services, computer hardware and software, materials and labor required to provision ordering service for connections and disconnections, processing credits and payments, customer inquiries regarding invoicing and account balances, electric service prices and outage reporting.
15. The EDCs’ business activities are all integral to the metering functions.
16. Costs associated with measuring the electricity delivered to residential non‑heating customers are directly related to performing the metering function.
17. Equipment costs that fall under the metering titles within the USOA are directly related to metering.
18. Based on the USOA requirements, the software expenses associated with metering do not fall under a corresponding account with meter title.
19. The statutory service connection function refers to the service line or drop that connects the network distribution system to the customer’s facilities.
20. The one-to-one relationship for network plant for the service connection and metering statutory functions provides a reasonable guideline to determine includable plant and expenses for these functions.
21. The service connection function refers to the installation and maintenance of service drops.
22. The service connection function is the directly related costs of labor, materials and software required to install, and maintain the service connection (service drop or service line) for residential non‑heating customers.
23. The FERC accounts do not have account titles delineated for each of the statutory functions.
24. Direct cost assignments require the Companies to perform a granular examination of individual assets used and expenses incurred that are directly related to the statutory functions.
25. The direct assignment methodology presents an avenue to develop the MRCC calculation to cure these limitations.
26. There are accounts where the FERC account description clearlyapplies to one or more of the four statutory functions.
27. There are accounts where the FERC account description does not clearly apply to any of the four statutory functions but costs within those FERC accounts are necessary for the provision of one or more of these functions.
28. A limited number of A&G expenses are directly linked to either an includable asset or employee related to the statutory functions.
29. The EDCs separated the residential non-heating customers from the other customer classes and allocated the customer component of the costs associated with the FERC accounts in their proposed MRCC COSS.
30. The EDCs must have property insurance for the assets that meet the statutory functions because there is a relationship between these expenses and other includable costs.
31. Certain FERC accounts were either related to general plant or were overhead in nature and used in other operating functions even though historically some of the costs associated with those accounts were included in the development of the customer charge.
32. The CWC allowance is approved in a general rate case in recognition of the timing difference between when revenues are received and when expenses are paid out.
33. The CWC allowance is not a direct expense incurred in the process of collecting customer data, issuing customer bills or pursuing credit and collection activities.
34. The CWC cost is typically based on the length of time that revenue is realized after bills are collectively sent to customers.
35. The purpose of the actual CWC allowance is to provide enough free cash flow for the utility to properly maintain its operations until the revenues have been collected from customers.
36. The EDCs incur software costs necessary to perform the statutory functions.
37. Software applications carry a shorter depreciation life than network plant assets such as meters.
38. Certain software costs not directly related to performing the statutory functions should not be included in the MRCC calculation.
39. Service connections are defined as the service drop or service wire that connects a customer’s residence to the EDC’s general distribution system.
40. Distribution plant for poles, towers and fixtures, and line transformers are outside of the statutory functions.
41. Common utility plant such as land and/or buildings that are used for several utility services or for other purposes are outside of the statutory functions.
42. Payroll and property taxes associated with the cost includable in the MRCC calculation are unavoidable.
43. Costs associated with pole inspections and transformer expenses and credits are not directly related to the metering and service connection functions.
44. Certain distribution expense accounts that include costs associated with minimum system distribution plant are outside of the metering or service connection functions.
45. The uncollectible allowance is approved in a general rate case as a public policy expense that recognizes that a certain portion of revenue will not be realized through customer receipts and will ultimately be charged off.
46. The purpose of the actual uncollectible allowance is to recognize and provide for the recovery of this revenue shortfall through base rates.
47. The uncollectible allowance is not formulated to recover direct expenses incurred in the process of pursuing credit and collection activity, the costs of which are included in other accounts.
48. The Companies must have insurance on its assets and employees in the provision of service and that these costs are fixed in nature.
49. Incentive compensation are administered at a corporate level and are not directly related to the statutory functions.
50. Includable employee salaries and compensation should be contained in the FERC accounts previously deemed includable for the MRCC calculation.
51. The level of detailed cost tracking required in establishing the MRCC calculation can only be performed at the test year level where the costs are known and measurable.
52. Grossing up the charge in the amount of the rate increase or even attempting to forecast individual asset/expenses may cause the MRCC calculation to be established at a level that differs from actual costs, which could create a risk if it recovers more than the directly related costs to the statutory functions.
53. The Companies’ respective MRCC calculations may include a combination of direct assignments and cost allocations.
54. Certain accounts require direct assignment while other accounts may utilize cost allocations when direct assignment is not feasible.

# CONCLUSION AND ORDERS

## Conclusion

The Authority approves the MRCC methodology set forth in the instant Decision to ensure compliance with the requirements set forth in Conn. Gen. Stat. §16‑243bb. The Authority concludes that careful adherence to this methodology, which was derived after a lengthy and thorough investigation, will aid the EDCs and the Authority in the future to ensure, by efficient and transparent means, that the EDCs’ customer charges for residential non-heating customers do not exceed the limits established by Conn. Gen. Stat. §16-243bb. As noted above, this statute does not prohibit the EDCs from proposing a residential non-heating customer charge that is less than the MRCC calculation. Mindful of the limits that have been placed by Conn. Gen. Stat. §16-243bb, the Authority will continue to consider policy and economic considerations consistent with its jurisdiction under Conn. Gen. Stat. §§16-19 and 16-19e, now in the context of whether to approve or adjust a residential non-heating customer charge to a level that is equal to or less than the MRCC calculation.

In summary, the approved methodology requires the Companies to include only directly related costs in their respective non-heating customer charges at a subaccount level preferably through direct assignment of assets and expenses whenever possible, and through cost allocation when direct assignment is not feasible. If the Authority approves a residential non-heating customer charge that allows for recovery of less than the full amount of the Authority-approved MRCC, the costs and expenses not recovered through the residential non-heating customer charge will be part of the residential volumetric charge. However, if the Companies experience revenue shortfalls or surpluses due to volumetric variances from their projected sales forecasts for the residential non-heating customer class, the EDCs are directed to account for these variances as part of their annual decoupling filing.

## Orders

For the following Orders, the company shall submit one original of the required documentation to the Executive Secretary, 10 Franklin Square, New Britain, Connecticut 06051 and file an electronic version through the Authority’s website at www.ct.gov/pura. Submissions filed in compliance with the Authority’s Orders must be identified by all three of the following: Docket Number, Title and Order Number.

1. No later than January 5, 2018, CL&P shall file in Docket No. 17-10-46, Application of The Connecticut Light & Power Company d/b/a Eversource Energy to Amend Its Rate Schedules, the following with supporting documentation:
2. MRCC COSS with formatting as described in Section III.E. MRCC Calculation;
3. testimony on its MRCC calculation methodology;
4. a proposed residential non-heating customer charge, that is at or below the company’s MRCC calculation conforming to the requirements of Conn. Gen. Stat. §16-243bb and the requirements herein; and
5. scored and unscored proposed tariffs incorporating all proposed revisions.
6. No later than June 4, 2018, UI shall file in Docket No. 16‑06‑04RE01, Application of The United Illuminating Company to Increase Its Rates and Charges – Residential Customer Charge, a proposed residential non-heating Customer Charge to become effective January 1, 2019, the following with supporting documentation:
7. MRCC COSS with formatting as described in Section III.E. MRCC Calculation;
8. testimony on its MRCC calculation methodology;
9. a proposed residential non-heating customer charge, that is at or below the company’s MRCC calculation conforming to the requirements of Conn. Gen. Stat. §16-243bb and the requirements herein; and
10. scored and unscored proposed tariffs incorporating all proposed revisions.

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| **Docket No. 17-01-12** | **PURA ESTABLISHMENT OF THE MAXIMUM CUSTOMER CHARGE (MRCC) FORMULA FOR NON-HEATING RESIDENTIAL SERVICE** |

This Decision is adopted by the following Commissioners:

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| Katherine S. Dykes |
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| Michael A. Caron |
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| John W. Betkoski, III |
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CERTIFICATE OF SERVICE

The foregoing is a true and correct copy of the Decision issued by the Public Utilities Regulatory Authority, State of Connecticut, and was forwarded by Certified Mail to all parties of record in this proceeding on the date indicated.

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|  | P:\Jeff G\Jeff.jpg |  | December 20, 2017 |
|  | Jeffrey R. Gaudiosi, Esq. |  | Date |
|  | Executive Secretary |  |  |
|  | Public Utilities Regulatory Authority |  |  |

R. Skarzynski

R. Luysterborghs

1. *See* Conn. Gen. Stat. §16-19 (providing in relevant part that “[i]f the authority finds any proposed amendment of rates to not conform to the principles and guidelines set forth in section 16-19e, or to be unreasonably discriminatory or more or less than just, reasonable and adequate to enable such company to provide properly for the public convenience, necessity and welfare, or the service to be inadequate or excessive, ***it shall determine and prescribe, as appropriate*** . . . ***just and reasonable maximum rates and charges to be made by such company***”)(emphasis added); and Conn. Gen. Stat. §16-19e (providing, in relevant part, that the Authority shall structure and approve rates designed to permit the public service companies to perform all of their respective public responsibilities and to be sufficient, but no more than sufficient, to allow the companies to cover their operating costs including, but not limited to, appropriate staffing levels, and capital costs.) [↑](#footnote-ref-1)
2. The Court further noted a U.S. Supreme Court precedent on this issue: “Ratemaking bodies (are not bound) to the service of any single formula or combination of formulas. The agency to which the legislative power has been delegated is free, within the scope of its regulatory purview, to make the pragmatic adjustments which may be called for by particular circumstances.” Greenwich, 219 Conn. at 126, FN 4 (1991) (quoting Power Commission v. Pipeline, Co., 315 U.S. 575, 586 62 S.Ct. 736, 86 L.Ed. 1037 (1942)).

   The Greenwich decision further discussed these powers as follows:

   Courts have frequently observed that the task of rate-making require[s] expertise, technical skill, and constant attention and that it [is] obvious that legislatures were unable to discharge this obligation directly.’ 1 J. Sutherland, Statutory Construction (4th Ed.Sands) §4.20. As a result, enabling statutes have been construed as an expansive grant of authority to administrative agencies, and have been interpreted in a manner that allows the agencies significant latitude in setting rate policies. Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591, 600-602, 615, 64 S.Ct. 281, 88 L.Ed. 333 (1944); see also Hartford Electric Light Co. v. Water Resources Commission, 162 Conn. 89, 93, 291 A.2d 721 (1971); Connecticut Co. v. Norwalk, 89 Conn. 528, 533, 94 A. 992 (1915). Greenwich, 219 Conn. at 126, FN 3. [↑](#footnote-ref-2)
3. See, e.g., Senate Bill 570, An Act Concerning Electric Fixed Bill Fees and Grid Modernization. [↑](#footnote-ref-3)
4. See, Decision dated December 17, 2014 in Docket No. 14-05-06, Application of The Connecticut Light and Power Company d/b/a Eversource Energy to Amend Its Rate Schedules, Section II.J.5.d.i, page 187 (CL&P proposed raising residential customer charges for Residential Rates 1 and 7 from $16.00 per month to $25.50. The Authority approved $19.25 finding that a “more gradual approach is warranted” due to “customer opposition to the fixed charge design, the current Customer Charge levels and the implementation of a decoupling mechanism in the instant case. . .”); Decision dated February 4, 2009 in Docket No. 08-07-04, Application of The United Illuminating Company to Increase Its Rates and Charges, page 110, Section III.K.2. (UI proposed to raise its residential customer charge for Rate R from $15.37 to $16.25 in 2009 and $18.25 in 2010. The Authority denied an increase for 2009 and allowed an increase to $15.85 in 2010, taking into account the impact of the proposed increase on lower usage customers and state of the economy at the time.); see also, Decision dated January 22, 2014 in Docket No. 13-06-08, Application of Connecticut Natural Gas Corporation to Increase Its Rates and Charges, pages 140-142, Section II.M.3 and 4 (CNG proposed to raise the monthly residential customer charge from $14.00 of $16.50 and set the Delivery Charge at $0.7950 per ccf to collect the remaining customer related charges not recovered through the monthly residential customer charge. The Authority approved the increase finding, “Although most of the Company’s proposed customer and demand charges are below COSS levels, the Authority is reluctant to impose increases beyond those proposed” because of the additional potential rate impact of the System Expansion costs “which will reflect either 10% or 30% larger customer and demand charges.”) [↑](#footnote-ref-4)
5. Refers to the installation of the physical meters and not the FERC account for customer installations. [↑](#footnote-ref-5)
6. The Authority utilized the Electronic Code of Federal Regulations dated June 17, 2016, Title 18, Chapter 1, Subchapter C, Part 101 for the USOA account descriptions contained in Section III.C. FERC Accounts. [↑](#footnote-ref-6)
7. Account 253, Other Deferred Credits, is generally considered a Rate Base deduction. CL&P included Deferred Taxes on CIAC as a rate base addition in its response to Late Filed Exhibit No. 9. [↑](#footnote-ref-7)