RETURN DATE: APRIL 11, 2023	:	SUPERIOR COURT
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AQUARION WATER COMPANY OF CONNECTICUT,	:	
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Plaintiff-Appellant,	:	JUDICIAL DISTRICT OF NEW BRITAIN
V.	:	
	:	
PUBLIC UTILITIES REGULATORY AUTHORITY,	:	
	:	
Defendant-Appellee.	:	
	:	MARCH 30, 2023

ADMINISTRATIVE APPEAL

To the Superior Court for the Judicial District of New Britain at New Britain this 30th day of March 2023, comes Plaintiff-Appellant, The Aquarion Water Company of Connecticut ("Aquarion" or the "Company"), appealing pursuant to Sections 4-183(a) and 16-35(a) of the Connecticut General Statutes ("Conn. Gen. Stat.") from a final decision of the Connecticut Public Utilities Regulatory Authority ("Authority" or "PURA"), dated March 15, 2023, and says:

INTRODUCTION

1. This is a petition for administrative appeal by Aquarion of PURA's final decision, dated March 15, 2023, in Docket No. 22-07-01, Application of Aquarion Water Company of Connecticut to Amend its Rate Schedules ("Docket No. 22-07-01") ("Final Decision" or "Decision). A copy of the Final Decision is appended hereto as Exhibit A, with a copy of the dissenting opinion of Vice Chairman John W. Betkoski, III included as Exhibit B. PURA's Proposed Final Decision ("Proposed Decision") is referenced herein and appended hereto as Exhibit C. In Exhibit D, the Company has provided a certified copy of the transcript from the meeting of the PURA commissioners on March 15, 2023, adopting the Final Decision.

2. Aquarion delivers reliable, clean water supply to a population of approximately 685,000 residents and business owners served via 207,000 meters, located in 56 municipalities across the State of Connecticut. Aquarion currently has 320 employees working throughout its service territory. Aquarion has provided water services to Connecticut customers continuously since 1857 and currently operates as a wholly owned operating subsidiary of Aquarion Water Company, headquartered in Bridgeport, CT, which in turn is an indirect affiliate of Eversource Energy. Aquarion is a public-service company regulated by PURA pursuant to Conn. Gen. Stat. § 16-1(3).

3. On August 29, 2022, Aquarion submitted a rate application to PURA pursuant to Conn. Gen. Stat. § 16-19 and §§ 16-1-53 *et seq.* of the Regulations of Connecticut State Agencies, including submission of schedules and exhibits fulfilling PURA's Standard Filing Requirements, pursuant to § 16-1-53a (the "2022 Rate Application"). The Company's 2022 Rate Application requested authorization to increase base rates to address a calculated revenue deficiency of approximately $35.3 million in Rate Year 1,[1] effective March 15, 2023.[2] The Company's 2022 Rate Application encompassed several proposals aside from the request for an increase in base rates.

4. Prior to the rate filing on August 29, 2022, Aquarion was providing water service at base rates approved by PURA on September 24, 2013 in the Application of Aquarion Water Company of Connecticut to Amend Its Rates, Docket No. 13-02-20 ("2013 Rate Case" or "2013

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[1] "Rate Year 1" refers to the first twelve months that new base rates will be in effect following the issuance of PURA's final decision in a rate proceeding.

[2] Aquarion incurs costs to provide reliable, clean water service to customers. Aquarion recovers the majority of its "cost of service" or "revenue requirement" through base rates. "Base rates" are proposed by the utility and approved by PURA in a rate proceeding conducted pursuant to Conn. Gen. Stat. § 16-19.

Rate Decision"). In the 2013 Rate Case, PURA set base rates using calendar year 2012 as the test year, whereas the rates presented in the Company's 2022 Rate Application were presented to PURA on the basis of a calendar year 2021 test year.[3]

5. As discussed by the Company in testimony and exhibits comprising the 2022 Rate Application, the principal drivers of the Company's $35.3 million revenue deficiency were: (1) the cost of completed capital projects placed into service for the benefit of customers since the test year for the 2013 Rate Case, but not yet included in base rates for recovery ($266 million);[4] and (2) increased operating expenses caused by a range of factors including, but not limited to, inflation and the cost of compliance with evolving regulatory requirements for clean water resources.

6. The Company's 2022 Rate Application included testimony and exhibits demonstrating that, over the past 10 years, Aquarion has successfully met the longstanding objectives of state policy encouraging the Company to acquire and integrate 19 small water systems; to invest substantial capital into the replacement of aging water infrastructure and improvement of ancillary water facilities to assure an adequate quantity and quality of clean water for customers; and to undertake conservation and efficiency initiatives to control operating costs and promote environmental objectives.

7. Following a 200-day review process, PURA issued a Proposed Decision on February 16, 2023, rendering a series of determinations purporting to negate the entire $35.3 million

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[3] As explained in paragraph 30 fn. 11, below, the "test year" is a 12-month period used to derive a "representative" measurement of the utility's annual operating costs.

[4] See, LFE-1, Supp. 2. As explained below, this figure of $266 million is the incremental asset base or "rate base" accumulated by the Company since the last rate case in 2013 and not included in rates until this case. The term "rate base" is described below in paragraph 34. Theoretically, new base rates would be set in this case to commence recovery of this amount consistent with established ratemaking principles.

rate request and, instead, ***reducing*** base revenues by approximately ($379,365). On February 24, 2023, the Company submitted Written Exceptions challenging the numerous unreasonable and unwarranted decisions embedded in the Proposed Decision, which by its terms would reduce existing rates ***ten years after those rates were last set***.[5] The Company's Written Exceptions provided a clear and concise explanation of several math errors encompassed in the Proposed Decision and asked PURA to correct these errors. The Company's Written Exceptions also demonstrated how unfair the Proposed Decision would be to the Company if adopted as the Final Decision – even with the mathematical correction – and how damaging the ultimate impact would be for customers. The Company explained that the Proposed Decision had lost sight of the fact that while customers care about cost, customers also care about having access to reliable, clean water and – further – that the delivery of reliable, clean water requires persistent, adequate investment to replace water mains and appurtenant facilities, which the Proposed Decision did not support.

8. On March 15, 2023, PURA issued its Final Decision. PURA's Final Decision established an approved annual revenue requirement effecting a ***decrease*** in base revenues of ($1,969,517) instead of ($379,365), implying that the Company's actual cost of providing water service in 2023 is *lower* than the cost of providing water service in 2013 by approximately $2 million, which it is not. (Decision at 1, 146.)

9. The Company's requested increase in base rates of $35.3 million was entirely eliminated by PURA through a series of negative adjustments and arbitrary disallowances falling outside the confines of law. The enormity of the negative impact was remarkably acknowledged by two of the three PURA commissioners at the public meeting adopting the Final Decision, each

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[5] Paragraph 38, below, provides a computation of the revenue impact.

expressing on the record that the "arbitrary and capricious" decisions characterizing the Final Decision, including an "appalling" reduction in the return on equity from 9.63% to 8.7%, would have the effect of chilling investment in water utility infrastructure in Connecticut, and potentially investment for electric and gas utility services as well. (See, e.g., Exhibit D, at 11-12 and 15-16).

10. As demonstrated herein, the sheer magnitude of the disallowances conceived by PURA is underscored by the fact that the new, allegedly "just and reasonable" rates established by PURA in the Decision come after a 10-year interval, with cumulative inflation totaling 29.04 percent since base rates were last set. During that 10-year interval, the Company invested approximately $700 million to install, upgrade and replace water infrastructure, resulting in an increased asset base of approximately $266 million, on a net basis, to be recovered through base rates set in this proceeding.

11. Among other responsibilities, PURA is charged with overseeing public service companies with respect to "their adequacy and suitability to accomplish the duties imposed . . . by law and in respect to their relation to the safety of the public …." Conn. Gen. Stat. § 16-11. PURA conducts its regulatory proceedings under the authority granted to it in Title 16 of the General Statutes and pursuant to the Uniform Administrative Procedure Act, codified at General Statutes § 4-166 *et seq*.

12. Like all administrative agencies, PURA is required to wield its authority fairly, dispassionately and lawfully. It is legally obligated to make reasoned decisions according to law; to apply statutes and precedent without arbitrariness or capriciousness; and to afford due process protections foundational to our constitutional system of government. Failure to fulfill these legal norms undermines the integrity of the process, risking unwarranted harm for regulated entities and threatening public confidence in effective decision making, as well as the confidence of investors

needed to support utility investment. PURA's Decision in this proceeding did not meet these statutory and constitutional requirements in significant respects. Therefore, Aquarion has invoked its right to appeal.

13. Aquarion is compelled to bring this appeal to avoid substantial harm to its operations and, ultimately, to its ability to provide a reliable and clean water supply to customers. Aquarion's financial integrity is jeopardized by PURA's manifest violation of applicable statutory mandates governing the setting of base rates, fundamental tenets of due process and Connecticut administrative law and constitutional protections against confiscatory ratemaking.

14. Numerous determinations made by PURA in the Decision arise from clear errors of law, arbitrary and capricious administrative decision-making and abuse of discretion, resulting in an aggregate impact that is unjust, unreasonable, unlawful and discriminatory. See, e.g. Connecticut Light and Power Company v. Department of Public Utility and Control, 219 Conn. 51, 55-56 (1991), *citing,* Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591 (1944). The Decision demonstrates such a pervasive disregard for applicable statutory standards, fundamental due process and factual accuracy as to be undeserving of administrative deference and subject to correction by the court through careful analysis to independently determine if substantial rights have been prejudiced. Connecticut Light and Power Co. v. Department of Public Utility Control and Division of Consumer Counsel, 216 Conn. 627, 636 (1990) (stating that "[u]nder the appropriate standard set out in § 4-183(g), courts must undertake a case-by-case analysis to determine the merits of the challenged rate order and the prejudice, if any to the regulated company.")[6] Also, "while the court may not substitute its own balance of regulatory

[6] Following the issuance of the Court's decision in 1990, subsection (g) of Conn. Gen. Stat. § 4-183 was moved to subsection (j) of § 4-183.

considerations for the balance undertaken by the agency, it must independently assure itself that [PURA] has given 'reasoned consideration' to each of the guiding factors expressed in § 16-19e(a)(4)." Id., at 638; CL&P v. DPUC, 219 Conn. at 55-56.

15. That the Decision imposes severe and unwarranted financial consequences is not in question. Within two days of issuance, investor analysts and credit-rating agencies weighed in on PURA's Decision, affirming the negative impact on the Company's financial integrity, its investment profile and the attendant ability to attract capital resources at competitive terms for the benefit of customers. These impacts were foreshadowed by two of the three PURA commissioners at the March 15, 2023 public meeting as the outcome of this case in which the "traditional, expected rules of process have changed … in the docket," creating doubt in the mind of at least one PURA commissioner that deference will not apply on appeal given the serious implications of the Decision. (Exhibit D, at 11-12, 15-16). Further, they cited to the disruptive signals that will be sent to investment analysts who follow Connecticut companies indicating that "[CT Companies] were good companies to invest in" and that this "will [not] be true going forward after adoption of the Decision." (Id., at 12).

16. Both Commissioners avowed that the Decision will "discourage further ongoing investment by the [company] in the future," and by reducing return on equity below usual standards, will send a "massive signal to discourage vital investment." (Id., at 12, 16). Vice Chairman Betkoski dissented from the Decision; Commissioner Caron signed on nevertheless, stating "today is the day that belongs to the ratepayer" and that "the decision will provide a "significant reduction" in rates for Aquarion's ratepayers that "cannot in good conscience … [be allowed] to fail," thereby making it clear that the "total effect" of the rate decrease is wholly arbitrary and patently unfounded (Exhibit D, at 14).

17. As described in this Appeal, PURA erred in its Decision reducing Aquarion's base revenues by $2 million.

18. PURA's Decision is subject to reversal where there is a demonstration that the Company's substantial rights are prejudiced by the Decision where PURA's administrative findings, inferences, conclusions, or decisions are: (1) in violation of constitutional or statutory provisions; (2) in excess of the statutory authority of the agency; (3) made upon unlawful procedure; (4) affected by other error of law; (5) clearly erroneous in view of the reliable, probative, and substantial evidence on the whole record; or (6) arbitrary or capricious or characterized by abuse of discretion or clearly unwarranted exercise of discretion. Conn. Gen. Stat. § 4-183(j). If the court finds such prejudice, it shall sustain the appeal and, if appropriate, may render a judgment under subsection (k) of this section or remand the case for further proceedings. Conn. Gen. Stat. § 4-183(k). As set forth herein, PURA's erratic actions have produced unjust and unreasonable rates comprising unconstitutional confiscation, were arbitrary and capricious, violated the Company's due process and statutory rights, and were otherwise unlawful.

19. For all of these reasons, reversal of the Decision is necessary to ensure the fair and just administration of the law; the benefit of due process protections and other guarantees of the United States Constitution.

PARTIES AND JURISDICTION

20. Plaintiff-Appellant, Aquarion, is specially chartered by the Connecticut General Assembly with a principal place of business at 835 Main Street, Bridgeport, CT 06604.

21. Defendant-Appellee, PURA, is an agency of the State of Connecticut, charged with the regulation of public service companies like Aquarion pursuant to Title 16 of the General Statutes, and is part of the Connecticut Department of Energy and Environmental Protection ("DEEP"), with an office located at Ten Franklin Square, New Britain, Connecticut, 06051. As an agency within the meaning of General Statutes § 4-166(1), PURA is subject to the provisions of Title 4, Chapter 54 of the Connecticut General Statutes, entitled "Uniform Administrative Procedure Act" ("UAPA").

22. In addition to Aquarion, PURA recognized the following entities as parties to the proceeding in Docket No. 22-07-01: PURA's Office of Education, Outreach, and Enforcement ("EOE"); Connecticut Office of Consumer Counsel; and the Connecticut Commissioner of the Department of Energy and Environmental Protection. (Final Decision at 2). Consistent with Conn. Gen. Stat. § 4-183, each of the entities recognized as parties is being served with a copy of the instant appeal.

23. This Court possesses subject matter jurisdiction over this action pursuant to General Statutes §§ 4-183(a) and 16-35(a).

FACTUAL AND PROCEDURAL BACKGROUND

24. Further specific details of the Final Decision germane to the claims on appeal are described in the individual counts, below.

25. Aquarion is a public service company within the meaning of Conn. Gen. Stat. § 16-1. To obtain a change in base rates, Aquarion must "file any proposed amendment of its existing rates with the [A]uthority in such form and in accordance with such reasonable regulations as the [A]uthority may prescribe." Conn. Gen. Stat. § 16-19(a). PURA is statutorily charged with

regulating the rates of Connecticut's public service companies. Conn. Gen. Stat. § 16-19. Therefore, once a proposed amendment is filed by a public service company, PURA must conduct an investigation "to determine whether such rates conform to the principles and guidelines set forth in section 16-19e, or are unreasonably discriminatory or more or less than just, reasonable and adequate, or that the service furnished by such company is inadequate to or in excess of public necessity and convenience, . . ." (Id.)

26. On August 29, 2022, Aquarion submitted its 2022 Rate Application to PURA pursuant to Conn. Gen. Stat. § 16-19 and §§ 16-1-53 *et seq.* of the Regulations of Connecticut State Agencies, including submission of schedules and exhibits fulfilling PURA's Standard Filing Requirements, pursuant to § 16-1-53a. The Company's 2022 Rate Application, as amended through the course of the proceeding, requested approval to increase base rates over a three-year period for the rate years beginning March 15, 2023 (Rate Year 1), March 15, 2024 (Rate Year 2), and March 15, 2025 (Rate Year 3).[7] The Company submitted testimony and exhibits demonstrating that its multi-year rate plan would address revenue deficiencies of approximately $35.3 million for Rate Year 1;[8] approximately $13.6 million for Rate Year 2; and approximately $8.8 million for Rate Year 3, associated with planned capital additions in each year. Consistent with Connecticut law, the Company requested approval of new base rates effective March 15, 2023.[9]

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[7] As stated in the Final Decision, PURA denied the Company's proposal to establish a multi-year rate plan. (Final Decision at 8-9). This denial is not part of the Company's appeal in this proceeding and is not germane to issues discussed herein.

[8] As filed on August 29, 2022, the Company's requested increase was $27.5 million for Rate Year 1. Under standard practice, the computation of the revenue deficiency was updated over the course of the proceeding producing the final request of $35.3 million (LFE-001).

[9] See, Conn. Gen. Stat. § 16-19.

27. In support of its filing, the Company sponsored the testimony of nine witnesses. Donald J. Morrissey, President and Chief Operating Officer of Aquarion Company and its operating subsidiaries, provided an overview of the Company's rate application and the financial and operating factors driving the Company's need for rate relief. Debra A. Szabo, the Director of Rates and Regulation for Aquarion, and Joshua A. Unger, Manager of Rates and Regulations, jointly presented the Company's revenue-requirement analysis and revenue-deficiency calculation, including cost-recovery proposals regarding capital investment and operating costs. Daniel R. Lawrence, Vice President of Engineering and Real Estate for Aquarion, presented on the Company's capital program, including the Company's five-year capital plan through 2026 and a summary of new water-quality regulations and how those changes will impact the Company's cost structure. Lucy A. Teixeira, Vice President, Customer & Administrative Services for Aquarion, provided an overview of the Company's customer service performance, information pertaining to employee staffing, compensation and benefits program, and discussed the Company's information technology ("IT") function. Robert J. Ulrich, Vice President of the Connecticut Operations for Aquarion, provided review of the Company's operations staffing levels, the Company's water conservation program, and the Company's initiatives to attract skilled management employees. Mr. Ulrich also discussed the Company's largest operational cost categories, and the processes and practices Aquarion used to control costs, as well as non-revenue water, including the strategies and tactics the Company employs to monitor and control non-revenue water. In addition, the Company presented the testimony and supporting exhibits of three outside witnesses to support the Company's recommendations on: (1) Aquarion's return on equity and an assessment of the reasonableness of its proposed capital structure for ratemaking purposes; (2) the depreciation study performed for Aquarion to establish annual depreciation accrual rates

by account as of December 31, 2021 for all water plant; and (3) the Company's allocated cost of service and proposals on rate design.

28. The Authority held public comment hearings on the matter on September 8, 2022, at the Westport Town Hall at 110 Myrtle Avenue, Westport, CT; on October 6, 2022 and October 25, 2022, remotely through a Zoom video conference. On September 6, 2022, the Authority announced, and subsequently held, an additional public comment hearing on the matter on October 12, 2022, at the Stratford Library at 2203 Main Street, Stratford.

29. PURA conducted seven days of evidentiary hearings commencing on November 22, 2022, and concluding on December 6, 2022, in its offices at Ten Franklin Square, New Britain, Connecticut. PURA also conducted two days of late-filed hearings on the 80 late-filed exhibits issued during the evidentiary hearings on December 14 and December 15, 2022.[10] The evidentiary record includes approximately 955 responses to information requests by the Company, as well as 80 responses to late-filed exhibits requested by the Company and intervenors.

30. Aquarion's calculated revenue deficiency is based on a test year-ending December 31, 2021, adjusted for known and measurable changes to test year amounts for ratemaking purposes through the close of the evidentiary record (December 19, 2022). The calculated "revenue deficiency" is the difference between: (1) the Company's actual "cost of service," as measured based on a 12-month "test" period, or "test year;" and (2) the revenues collected from

[10] "Late-filed exhibits are a standard component of PURA proceedings. If witnesses are asked a question that requires more detail than is readily available at hearing, PURA may allow a response in writing in a "late-filed exhibit." In this case, all of Aquarion's late-filed exhibits were submitted with PURA's permission. Late-filed exhibits are subject to hearings and cross-examination at the request of other parties or by PURA's option.

customers through existing rates, on a normalized basis.[11] To the extent that the Company can demonstrate that its existing base rates are not collecting sufficient revenue to cover its actual operating costs, including a fair and reasonable return on invested capital, an increase in base rates is warranted. Thus, the revenue deficiency proposed by the Company in the rate proceeding is the increase in base-rate revenue that the Company (as the rate-case proponent) is seeking for PURA to authorize for recovery as of the effective date of new base rates, which in this case was March 15, 2023.

31. For ratemaking purposes, the Company's "cost of service" is also referred to as the "revenue requirement."[12] The revenue requirement is the level of revenue that the Company requires to cover its operating expenses and the costs of capital investment, including a fair and reasonable return on capital invested for utility purposes. In the ratemaking context, rates are set to recover a rate of return on invested capital determined by PURA to be "just and reasonable," based on record evidence in the proceeding. Following the proceeding, the utility's ability to earn its authorized return is entirely dependent on: (1) the degree to which actual, unavoidable costs incurred to serve customers are recovered through rates; and (2) the utility's ability to control costs that are not reflected in the cost-of-service approved in the most recent base-rate proceeding. Thus, the recovery of operating expenses and the rate of return on investments are concepts that are integrally related and represent the pivotal components of a rate decision.

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[11] Under Conn. Agencies Regs. § 16-1-54, "the test year shall consist of the most recent twelve-month period available ending at a calendar quarter." This financial data is presented in the proceeding through compliance with PURA's Standard Filing Requirements. Conn. Agencies Regs. § 16-1-53a.

[12] Standard Filing Requirement, A, B, and C Schedules.

32. “Operating expenses” are the costs of operating, maintaining and repairing the water system, including costs of labor, employee benefits, vehicles, tools, insurance and management activities, such as communications, accounting, regulatory compliance, customer-service functions, materials, chemicals and many other activities. Annual operating expenses are recurring costs associated with functions and activities that the Company must undertake to provide service to customers.

33. “Capital additions" are capital infrastructure projects that are completed and are "in service" for customers with actual costs recorded on the Company's books as utility plant. Capital additions are projects that are necessary to construct, upgrade and replace water infrastructure and that are long-lived assets from a ratemaking perspective. The Company does not recover the costs of its capital additions in a single year (as it would an operating expense). Instead, the Company recovers the cost of capital additions – or “utility plant” – over an extended time period, such as 10 to 40 years, depending on the nature of the asset.[13] The annual cost of a capital addition is referred to as the ”revenue requirement” and is comprised of annual depreciation expense (return *of* the investment), plus municipal property taxes and a rate of return computed using the weighted average cost of capital approved by PURA in the most recent base-rate proceeding (return *on* investment). As discussed in Count Four, below, annual costs associated with the recovery of capital additions also included state and federal income taxes that the Company is required to pay on the return component.

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[13] Utilities recover annual depreciation expense through customer rates. Recovery of this expense represents recovery of the original cost of a utility asset, spread over the expected useful life of the asset (i.e., 10 to 40 years depending on the nature of the asset).

34. "Rate base" is a ratemaking concept, not an accounting concept. For purposes of setting rates for public-service companies, "rate base" constitutes the utility's asset base. All elements of rate base are calculated at a single point in time as the net utility plant in service (i.e., original cost less accumulated depreciation), adjusted by other cost factors including working capital and accumulated deferred income taxes ("ADIT").[14] Both accumulated depreciation and ADIT are ***offsets*** to rate base, meaning that if the net utility plant in service has an original cost of $100, accumulated depreciation and ADIT would reduce that amount by $30, for example, so that the Company's return earned on rate base would be computed on the basis of $70, not the $100 originally invested. Stated otherwise, accumulated depreciation and ADIT combine to reduce the amount of capital investment upon which the Company is allowed to earn a return.

35. In a rate case conducted under Conn. Gen. Stat. § 16-19, the Company calculates and puts forth a "proposed revenue requirement" to collect annual operating expense, plus the annual cost of the Company's rate base. Once the filing is made, PURA's obligation is to conduct a contested proceeding to investigate the proposed revenue requirement with the participation of designated parties and intervenors and, ultimately, to issue a decision authorizing a revenue requirement for the Company on the basis of record evidence.

36. Since the 2013 Rate Case, Aquarion has consistently maintained and increased investment in areas such as water mains, storage tanks, treatment plant upgrades, dam improvements, new treatment facilities for smaller systems, and enhanced pump stations and the Company's 2022 Rate Application explained that these investments and associated depreciation

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[14] In the Final Decision, page 11, Table 1, "Pro Forma Rate Base ($)" shows the full breakdown of elements comprising rate base with all elements computed by the Company as of December 15, 2022.

expense on those new assets accounted for approximately $32.3 million, or 90%, of the requested increase (LFE-001 Supp. 2).

37. In this case, following PURA's 7-month investigation into the Company's 2022 Rate Application, PURA issued a Final Decision ***reducing*** existing base revenues by approximately $2 million implying a decline in the cost of the Company's actual cost of service since 2013 despite persistent inflationary pressures during the timeframe and the investment of hundreds of millions of dollars for infrastructure projects on the system.

38. More specifically, in the 2013 Rate Case, PURA authorized a total revenue requirement of $177,284,978, which roughly equates to $173,226,737 in the Final Decision. This comparison is derived starting with the total revenue requirement authorized in Docket No. 22-07-01 of $195,561,690, which is *inclusive* of incremental revenues associated with WICA infrastructure investments ($17.2 million) and acquisition of 19 smaller water systems adding incremental base revenues ($5.1 million).[15] These two revenue factors do not have the effect of offsetting the cost of higher operating and maintenance expenses for Aquarion's overall system, and neither provide support for the hundreds of millions of non-WICA capital investments that Aquarion has made over the last decade. When these two revenue factors are removed, PURA's reduction of $2 million in base revenues in Docket No. 22-07-01 implies that the Company's overall cost structure is $4 million lower than it was a decade ago, on a base-revenue basis (all else equal), due to the fact that conservation has occurred over the past 10 years eliminating half of the revenue disparity.

[15] The WICA surcharge is a statutory, cost-based surcharge designed to recover the incremental costs for a subset of Aquarion's capital investments devoted to replacement of aging and poor conditions water mains.

Line No.		Authorized at current rates	Conservation & other adjustments	Proforma revenue at current rates	Rate reduction	Authorized in Dkt 22-07-01
1						
2	Base Revenue	$ 177,284,978	$ (2,088,724)	$ 175,196,254	$ (1,969,517)	$ 173,226,737
3	WICA	$ 17,208,457	-	$ 17,208,457	-	$ 17,208,457
4	Acquisitions	$ 5,126,496	-	$ 5,126,496	-	$ 5,126,496
5	Total Revenue	$ 199,619,931	$ (2,088,724)	$ 197,531,207	$ (1,969,517)	$ 195,561,690

Given that the Company's *actual costs* have not declined and, instead, have increased relatively dramatically given investment levels, PURA's decision to set new rates to recover a base revenue level lower than in 2013 on an apples-to-apples basis is thoroughly unwarranted and arbitrary, resulting in unjust and unreasonable rates to such a significant extent that the consequence of the Decision is unconstitutional confiscation.

STATUTORY BASIS FOR APPEAL

39. Set forth at Conn. Gen. Stat. §§ 4-183 et. seq., the Connecticut UAPA imposes limits on both the substantive and procedural actions of administrative agencies.

40. Under the UAPA, PURA's Decision is subject to reversal where there is a demonstration that the Company's substantial rights are prejudiced by the Decision where PURA's administrative findings, inferences, conclusions, or decisions are: (1) in violation of constitutional or statutory provisions; (2) in excess of the statutory authority of the agency; (3) made upon unlawful procedure; (4) affected by other error of law; (5) clearly erroneous in view of the reliable, probative, and substantial evidence on the whole record; or (6) arbitrary or capricious or characterized by abuse of discretion or clearly unwarranted exercise of discretion. Conn. Gen. Stat. § 4-183(j). If the court finds such prejudice, it shall sustain the appeal and, if appropriate, may render a judgment under subsection (k) of this section or remand the case for further proceedings. Conn. Gen. Stat. § 4-183(k).

41. If a particular agency action is required by law, the court, on sustaining the appeal, may render a judgment that modifies the agency decision, orders the particular agency action, or orders the agency to take such action as may be necessary to effect the particular action. Conn. Gen. Stat. § 4-183(k).

42. Under Conn. Gen. Stat. § 16–19e(a)(4), PURA has an obligation to assure that "the level and structure of rates be sufficient, but no more than sufficient, to allow public service companies to cover their operating costs including, but not limited to, appropriate staffing levels, and capital costs, to attract needed capital and to maintain their financial integrity, and yet provide appropriate protection to the relevant public interests, both existing and foreseeable which shall include, but not be limited to, reasonable costs of security of assets, facilities and equipment …."[16]

43. Conn. Gen. Stat. § 16–19e(a)(4) does not permit a court to sustain a rate order solely on the basis of a determination that the rate is "just and reasonable" and generally supported by record evidence. CL&P v. DPUC, 216 Conn. at 636. Similarly, § 16–19e(a)(4) does not express the sole standard for a reviewing court's determination of whether a regulated company's "substantial rights" have been prejudiced. Id. Under the appropriate standard set out in § 4–183(j), courts must undertake a case-by-case analysis to determine the merits of the challenged rate order

[16] Conn. Gen. Stat. § 16-19e(a)(4) imposes obligations on PURA with respect to the areas for consideration in a ratemaking process. Conn. Gen. Stat. § 16-19e(a)(5), imposes obligations on the Company to demonstrate that the level and structure of rates proposed by the Company reflects prudent and efficient management of the franchise operation. In addition, under Conn. Gen. Stat. § 16-22, the Company has the burden of proving that its proposed rate under consideration is just and reasonable or that said transfer of assets or franchise is in the public interest. The prudence of a management decision depends on good faith and reasonableness, judged at the time the decision is made. CL&P v. DPUC, 216 Conn. at 645.

and the prejudice, if any, to the regulated company. Id., see, also, Connecticut Nat. Gas Corp. v. PUCA, 183 Conn. 128, 139-140 (1981).

44. In its review of administrative rate regulation, the court must, accordingly, ensure that the agency's decision-making process was conducted pursuant to the appropriate procedures and that the outcome of the process reflects reasoned decision-making, which requires the court to examine if the agency performed a reasonable application of relevant statutory provisions and standards to the substantial evidence on the administrative record. CL&P v. DPUC, 216 Conn. at 637.

45. Although the court may not substitute its own balance of regulatory considerations for the balance undertaken by the agency, it must independently assure itself that PURA has given "reasoned consideration" to each of the guiding factors expressed in Conn. Gen. Stat. § 16–19e(a)(4). CL&P v. DPUC, 216 Conn. at 638.

46. Aquarion now files this timely appeal of PURA's Decision pursuant to General Statutes §§ 4-183(a) and 16-35(a).

47. For the reasons stated herein, PURA's Decision is unlawful and must be reversed because the "total effect" of the Decision is to implement unjust and unreasonable rates causing a confiscatory impact for Aquarion in violation of constitutional protections afforded to an investor-owned utility. The determinations made in PURA's Decision causing the new rates to be unjust and unreasonable are affected by errors of law; are in violation of statutory provisions; are clearly erroneous in light of the substantial evidence in the record; are arbitrary and capricious; and, characterized by both an abuse of discretion and clearly unwarranted exercise of discretion.

AGGRIEVEMENT

48. Aquarion is aggrieved by the Decision because it requires Aquarion to *reduce its existing base revenues* by $2 million annually thereby causing the Company's earned rate of return to decline to 6.8%, well below the allegedly "just and reasonable" return on equity of 8.7% theoretically authorized by PURA in the Decision.[17] (Decision at 39.) This rate of return is below the level acceptable to support investment in the water system under the Hope and Bluefield standards governing utility ratemaking procedures established by the U.S. Supreme Court.[18] This rate of return also violates state law under, *inter alia,* Conn. Gen. Stat. § 16-19e(a) requiring that rates be set to recover the utility's cost of providing service to customers.

49. Aquarion is further aggrieved by the Decision because it rests on erroneous conclusions of fact and law and establishes orders that are final and binding determinations of Aquarion's legal rights that, in combination, strip the Company of any opportunity to earn a fair and reasonable return on utility capital invested. The exclusion of reasonable and prudently incurred costs that are necessary to provide a reliable and clean water supply to customers violates the Hope and Bluefield standards. The erroneous exclusion of operating costs also violates state law requiring rates to be sufficient to recover the utility's cost of service.

50. Aquarion is aggrieved by the Decision because it was made in violation of the UAPA and denied Aquarion its statutory due process rights afforded thereunder. Specifically, Aquarion is aggrieved by the Decision because it rests on findings and conclusions reached without affording Aquarion its due process provided by, *inter alia*, the UAPA.

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[17] This computation is discussed in paragraphs 69 and 70, below.

[18] Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia, 262 U.S. 679 (1923); Federal Power Commission et al v. Hope Natural Gas Co. 320 U.S. 591, 603 (1944).

51. For these reasons, Aquarion has a specific personal and legal interest at stake that the Decision has specifically and injuriously affected.

CLAIMS OF ERROR ON APPEAL

COUNT ONE

The Total Effect of PURA's Arbitrary and Capricious Decision-making Is the Imposition of Unjust and Unreasonable Rates Causing Unconstitutional Confiscation.

52. Aquarion incorporates by reference Paragraphs 1 through 51, above, as if fully set forth herein.

53. As a public service company under Connecticut law, Aquarion has a statutory obligation to deliver reliable, clean water supply to customers. Connecticut statutes provide that each regulated utility company operating in Connecticut, including water companies, are "granted a franchise to operate as a public service company, as defined in section 16-1" and are required to "provide service which is adequate to serve the public convenience and necessity . . . ." Conn. Gen. Stat. § 16-10a(a). In addition, "all public service companies shall perform all of their respective public responsibilities with economy, efficiency and care for public safety . . . and so as to promote economic development within the state with consideration for energy and water conservation, . . . and for the prudent management of the natural environment." Conn. Gen. Stat. § 16-19e(a)(3).

54. Although the Company's assets are employed in the public interest to provide Connecticut consumers with reliable water service, the assets are owned and operated by private investors. Duquesne Light Company and Pennsylvania Power Company v. Barasch, 488 U.S. 299, 307-308 (1989). As a result, this partly public, partly private status of utility property creates certain legal rights and obligations under the Takings Clause of the Fifth Amendment. Id.

55. Specifically, a subset of takings claims applicable to the rate regulation of public utilities involves challenges to utility rate decisions as confiscatory. Duquesne, 488 U.S. at 307; see, e.g., Woodbury Water Co. v. Public Utilities Commission, 174 Conn. 258 (1978). Confiscation jurisprudence arises from the "partly public, partly private status of utility property," which "creates its own set of questions under the Takings Clause" and invokes a distinct legal analysis. Duquesne, 488 U.S. at 307.

56. With respect to the constitutional framework relevant to state-level rate regulation, the U.S. Supreme Court has determined that regulated public utilities are entitled to "just and reasonable" rates, which is a two-part concept, including: (1) the recovery of reasonable and prudently incurred costs; and (2) the right to earn a fair and reasonable return on the assets committed to public service. The principle that regulated public utilities are entitled to a reasonable opportunity to recover their prudently incurred costs arising from the provision of utility service was established in the U.S. Supreme Court case, Federal Power Commission et al v. Hope Natural Gas Co. 320 U.S. 591, 603 (1944) ("Hope"). The principle that public utilities have the right to earn a fair and reasonable rate of return on capital invested to provide utility service to customers was established in the U.S. Supreme Court case, Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia, 262 U.S. 679 (1923) ("Bluefield"). These two principles are interrelated in that the recovery of prudently incurred costs is a prerequisite to the ability to earn a fair and reasonable return.

57. The U.S. Supreme Court has established that a "fair and reasonable rate of return" means that there is "enough revenue not only for operating expenses but also for the capital cost of the business, which includes service on the debt and dividends on stock, and by such standard the return to the equity owner should be commensurate with the terms on investments in other

enterprises having corresponding risks and such returns should be sufficient to assure confidence in the financial integrity of the enterprise so as to maintain its credit and attract capital." Hope, 320 U.S. at 603; see also CL&P v. DPUC, 216 Conn. at 633-34 (citing same).

58. Together, Hope and Bluefield are the basis upon which public utility regulators approve rates that are fair, just and reasonable. In combination, these decisions assure that rates do not become "confiscatory" or constitute an unjust "taking" of those revenues and/or earnings to which the utility shareholders have a legal right.

59. The constitutional guidelines for determining whether utility rates are confiscatory were enunciated by the U.S. Supreme Court in Hope. In that case, the U.S. Supreme Court noted "that the [jurisdictional ratemaking agency] was not bound to the use of any single formula or combination of formulae in determining rates. Its rate-making function, moreover, involves the making of 'pragmatic adjustments.'" Hope, 320 U.S. at 602. Moreover, U.S. Supreme Court precedent acknowledges that "the rate-making process . . . involves a balancing of the investor and consumer interests." Id. at 602-603. Thus, when a rate decision is challenged in the courts, the question is whether that decision "viewed in its entirety" meets the requirements of law for "just and reasonable" rates. Id. Under the statutory standard of "just and reasonable, it is the result reached not the method employed that is controlling. If the ***total effect*** of the rate order cannot be said to be unjust and unreasonable, judicial inquiry . . . is at an end." Id. (internal citations and quotation marks omitted; emphasis added).

60. The Connecticut Supreme Court has held that Conn. Gen. Stat. § 16-19e(a)(4) sets forth a test for establishing proper rates of public utilities incorporating the constitutional requirements affirmed by the U.S. Supreme Court in Hope for review of public utility rate-making

cases based on claims of unconstitutional confiscation.[19] Connecticut Light and Power Co. v. Department of Public Utility Control, et al, 219 Conn. 51, 55 (1991). In that regard, the Connecticut Supreme Court has reiterated that "the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks ... [and] should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital." Id. at 55-56, citing, Hope, at 603. Further, the Court has stated that Conn. Gen. Stat. § 16-19e(a)(4), "in identifying the various factors that the DPUC[20] must consider when it establishes rates for public service companies, uses language that tracks, almost verbatim, the language that the United States Supreme Court used in *Hope*...." Id. at 56, citing, CL&P v. DPUC, 216 Conn. at 635.

61. A confiscatory rate can result from the improper exclusion of a cost or item from rates, or from a rate of return that is too low to produce a reasonable return that would maintain investor confidence. See, e.g., Boston Gas Company v. Department of Public Utilities, 367 Mass. 92, 97-98 (1975). Cf. Fitchburg Gas & Elec. Light Co., 371 Mass. at 884 n.5, 359 N.E.2d 1294 ("A utility's income can be increased either by increasing its rate base or by increasing its permissible rate of return"). The rates must not be so low as to be confiscatory or so high as to exceed the value of the service to the consumer. No general definition of what is reasonable is established by the courts. Turner v. Connecticut Co., 91 Conn. 692, 698 (1917). The nature and scope of the inquiry is such that the question of what constitutes a reasonable rate is primarily a

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[19] Specifically, Conn. Gen. Stat. § 16-19e(a)(4) requires that "the level and structure of rates be sufficient, but no more than sufficient, to allow public service companies to cover their operating costs including, but not limited to, appropriate staffing levels, and capital costs, to attract needed capital and to maintain their financial integrity, and yet provide appropriate protection to the relevant public interests, both existing and foreseeable …."

[20] The Department of Public Utility Control was the predecessor agency of PURA.

question of fact, depending largely upon the circumstances of the particular case. New Haven v. New Haven Water Co., 118 Conn. 389, 402 (1934).

62. The Connecticut Supreme Court has found that, on an administrative appeal, the Superior Court's task is to determine on the record whether there was a logical and rational basis for PURA's Decision or whether, in light of the evidence, PURA has acted illegally or in abuse of its discretion.[21] Woodbury, 174 Conn. at 263, citing, Jaffe v. State Department of Health, 135 Conn. 339, 354 (1949); Kram v. Public Utilities Commission, 126 Conn. 543, 550 (1940). Further, the Superior Court must "ensure that the agency's decisionmaking process was conducted pursuant to the appropriate procedures and that the outcome of the process reflects reasoned decisionmaking—a reasonable application of relevant statutory provisions and standards to the substantial evidence on the administrative record." Off. of Consumer Couns. v. Dep't of Pub. Util. Control, 279 Conn. 584, 592 (2006).

63. Conn. Gen. Stat. § 4–183(j) coupled with the presumption of validity that attends a PURA rate order, establishes a standard for judicial review that is appropriately deferential to agency decision-making, yet goes beyond a mere judicial "rubber stamping" of an agency's decisions. Woodbury, 174 Conn. at 260 (1978); CL&P v. DPUC, 216 Conn. at 637. Moreover, although the weight and credibility of the evidence offered by the Company in the rate-case proceeding are matters within the province of PURA, a conclusion made by PURA that is not

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[21] The Connecticut Supreme Court has found that Conn. Gen. Stat. § 16-19e(a)(4) does not establish an independent standard, apart from Conn. Gen. Stat. § 4-183(j), for judicial review of PURA's rate orders. CL&P v. DPUC, 219 Conn. at 56. Rather, under § 4–183(j)(1), a court must review a claim asserted that a rate order violates § 16–19e(a)(4). Importantly, even a rate order that complies with this statutory mandate in terms of establishing a rate of return "commensurate with returns on investments in other enterprises having corresponding risks" is not automatically entitled to judicial approval. Id.; Hope at 603; 216 Conn. at 638.

legally supported by the evidence constitutes an abuse of power. New Haven Water Company v. Public Utilities Commission, 30 Conn. Supp. 149, 151-152 (1972); Connecticut Television, Inc. v. Public Utilities Commission, 159 Conn. 317, 329 (1970); Brook Ledge, Inc. v. Public Utilities Commission, 145 Conn. 617, 619 (1958). Similarly, although the trial court cannot substitute its discretion for that legally vested in PURA, the trial court does determine on the record whether there is a logical and rational basis for PURA's Decision or whether, in the light of the evidence, PURA has acted illegally or in abuse of its discretion. Anthony Augliera, Inc. v. Loughlin, 149 Conn. 478, 481, (1962); Kram v. Public Utilities Commission, 126 Conn. 543, 550 (1940).

64. Accordingly, the Company's appeal of PURA's Decision under this Count One of the Appeal Petition raises two sub-issues: (1) whether the rates set in the Decision are unjust and unreasonable and, therefore, confiscatory considering the "total effect" of the rate decision; and (2) whether PURA's decisions causing that total effect have a "logical and rational basis" or whether, in the light of the evidence, PURA has acted illegally or in abuse of its discretion. The burden of showing that PURA acted illogically, irrationally and in excess of its authority causing the imposition of rates that are "unjust and unreasonable," thereby constituting arbitrary and capricious action or abuse of discretion is upon the Company in this appeal. Briggs Corporation v. Public Utilities Commission, 148 Conn. 678, 687 (1961); Greenwich v. Greenwich Water Co., 145 Conn. 526, 533 (1958).

65. In this appeal, Aquarion is able to meet its burden of demonstrating a confiscatory impact due to the fact that PURA's Decision reduces existing revenues by $2 million, implying a decline in the cost of providing water service since the 2013 Rate Decision that does not exist. PURA achieves this outcome on the basis of a series of legally flawed conclusions that have a uniquely debilitating impact for the Company, as identified by Vice Chairman Betkoski in his

dissent and Commissioner Caron in their comments on the impact of the Final Decision (Exhibit B (Dissent)) and Exhibit D (transcript of Commissioners' voting on the Decision). The facts and circumstances attendant to the Company's 2022 Rate Application, combined with PURA's illogical and irrational decisions, have resulted in the imposition of new base rates that are "unjust and unreasonable" and the product of a flagrant abuse of discretion. PURA's Decision exceeds its statutory authority and is affected by errors of law requiring the Court to sustain the appeal in accordance with Connecticut case law. See, e.g., CL&P v. DPUC, 216 Conn. at 636-639.

66. In the Decision, PURA has rendered a series of arbitrary decisions requiring the Company to reduce its *existing* base revenues by ($1,969,517). Existing base rates were set by PURA in the 2013 Rate Decision based on a "cost of service" or "revenue requirement" established in 2013, using calendar year 2012 as the test year. Thus, the rate reduction will deprive the Company of approximately $2 million in revenue that is already being collected from customers and, at the same time, render the rates insufficient to cover ***any*** incremental cost increases arising since 2013 to provide reliable and clean water supply to customers.

67. In issuing its Decision, PURA has to meet the constitutional threshold for "just and reasonable rates." Therefore, the implication of the outcome imposed by the Decision has to be either that PURA believes that the Company's actual cost of providing water service *is less than it was in 2013* and that new base rates that reduce current base revenues by $2 million will still suffice to meet the constitutional requirement for "just and reasonable rates," as defined by the U.S. Supreme Court; or, PURA believes that the Company's actual cost of service is higher than it was in 2013 but ***none*** of the cost items that would warrant an increase in base rates were demonstrated by the Company to be reasonably and prudently incurred and therefore are properly excluded from base rates. Either way, the outcome defies basic logic, economics and regulatory

practice and demonstrates that PURA's Decision is seriously flawed from a legal perspective. The effect of the $2 million revenue loss is to cause a lop-sided equation where the Company is incurring *increased* costs to serve customers on the one hand and, on the other hand, PURA has *decreased* the incoming revenue collections originally set in the 2013 Rate Case. Rates are not "just and reasonable" in these circumstances because "just and reasonable" rates are those that meet the requirements of Conn. Gen. Stat. § 16-19e(a)(4), allowing the recovery of operating and capital costs, which PURA's new rates do not.

68. Where the Company is unable to collect sufficient revenues from customers to cover its actual cost of providing water service to customers, the Company's opportunity to earn its authorized return on equity is defeated.[22] The Company has no other source of revenues than customer rates, which means that the loss of revenue that is currently available to the Company causes a reduction in operating income. A reduction in operating income reduces the Company's earned return on utility capital invested for the benefit of customers, all else equal.

69. Each year on or before March 1, pursuant to PURA's longstanding reporting requirements, Aquarion is required to report its net income and associated earned return on equity for the most recent calendar year. As reported to PURA on March 1, 2023, the Company's earned return for year-end December 31, 2022 was 7.04 percent. The Company submitted its 2022 Rate Application to PURA on August 29, 2022 to request an increase in base rates due to the fact that the Company is in a position of persistent under-earning. Operating costs have increased well

[22] As noted previously (paragraph 31), in the ratemaking context, rates are set to recover a rate of return determined by PURA to be "just and reasonable" based on record evidence in the proceeding. However, the utility's ability to earn that return is entirely dependent on: (1) the degree to which actual, unavoidable costs incurred to serve customers are recovered through rates; and (2) the utility's ability to control costs that are not in the cost of service.

beyond the level recovered through existing base rates, thereby reducing the Company's ability to earn its authorized return as demonstrated by the earned return reported on March 1, 2023.

70. A computation of the earned return on equity reported to PURA on March 1, 2023, subtracting the reduced revenues of $1,969,517, demonstrates that the Company's rate of return will drop to approximately 6.8 %, all else remaining equal.[23]

Line	CAPITAL STRUCTURE		12/31/2022 Actual[1]	
1	Equity		$ 573,414,555	
2	Long Term Debt		486,505,000	
3	Short Term Debt		12,427,577	
4	Total		$ 1,072,347,132	
5				
6	Equity %	Line 1 / Line 4	53.47%	
7	Long Term Debt %	Line 2 / Line 4	45.37%	
8	Short Term Debt %	Line 3 / Line 4	1.16%	
9	Total		100.0%	
10				
11	Cost of Long Term Debt		4.28%	
12	Weighted Cost of Long Tern Debt	Line 7 x Line 11	1.94%	
13				
14	Cost of Short Term Debt		1.98%	
15	Weighted Cost of Short Term Debt	Line 8 x Line 14	0.02%	
16				
17	**Return on Rate Base**			
18			Actual	Proforma
19	Utility Operating Income		$ 60,670,399	$ 60,670,399
20	Revenue Reduciton (Final Decision, page 1)		-	(1,969,517)
21	Taxes on revenue adjustment[2]	27.52%	-	541,962
22	Adjusted Utility Operating Income	Sum Line 19: Line 21	$ 60,670,399	$ 59,242,844
23				
24	Rate Base	Actual @ 12/31/22	$ 1,058,754,693	$ 1,058,754,693
25	RORB	Line 22 / Line 24	5.73%	5.60%
26				
27	Less: Weighted Cost of Long Term Debt	Line 12	-1.94%	-1.94%
28	Less: Weighted Cost of Short Term Debt	Line 15	-0.02%	-0.02%
29	Weighted Cost of Equity	Sum Line 25:Line 28	3.77%	3.63%
30	**RETURN ON EQUITY**	**Line 29 / Line 6**	**7.04%**	**6.79%**

[1] *As filed on March 1, 2023 pursuant to Orders No. 2 issued in Docket No. 86-09-06 as stated in the Authority's final decision dated March 3, 1987.*

[2] *Effective tax rate based on 8.25% State tax rate and 21% Federal tax rate [(State * (1-Federal)) + Federal]*

[23] Return on equity is calculated as the quotient of net income divided by shareholder equity, where net income is the difference between revenues and expenses. Therefore, lower net income results in a lower return on equity, all else equal.

71. In a base-rate proceeding, PURA is required by constitutional law principles to allow the utility to recover reasonable and prudently incurred expenses and to set a fair and reasonable return on utility capital, assuring that the return to the equity owner is "commensurate with returns on investments in other enterprises having corresponding risks … [and] sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital." Connecticut Light and Power Co. v. Department of Public Utility Control, et al, 219 Conn. 51, 55 (1991); see, also, Hope, at 603.

72. In the Decision, PURA ostensibly performed this task of analyzing the record evidence to set a return "commensurate with returns on investments in other enterprises having corresponding risks." (Decision at 27-58). PURA thus determined that an authorized return on equity ("ROE") of 8.7% would meet its constitutional obligations, as follows:

> The Authority examined several factors in determining ***a just and reasonable ROE***, including current economic and market conditions, analytical models and cost of equity capital methodologies, such as the Discounted Cash Flow (DCF) Model and the Capital Asset Pricing Model (CAPM), ROEs of similar companies in other jurisdictions, and the Company's financial risk and credit rating. In reviewing these cost of capital methods, the Authority made determinations regarding each method's input components and reviewed variations of the models. Additionally, other relevant factors were analyzed in the process of evaluating and applying the cost of equity models. The Authority finds ***an 8.70% ROE*** to be consistent with these cost of equity methodologies and the factors considered herein.

Decision at 39 (emphasis added).

73. In addition, PURA acknowledged that it must determine the ROE that is "sufficient, but no more than sufficient" for Aquarion to "cover [its] capital costs, to attract needed capital and to maintain [its] financial integrity." (Decision at 57, citing, Conn. Gen. Stat. § 16-19e(a)(4); Woodbury Water Co., 174 Conn. at 264). PURA further asserted that, "cognizant of this legal framework, the Authority has analyzed a wide array of considerations in reaching a

determination, including, without limitation, the Company's capital structure, ***its financial condition***, ROEs from other jurisdictions, analytical models, testimony from the Parties and Intervenors, prevailing and anticipated market conditions, and the regulatory environment." (Id., emphasis added.)

74. There is no reference, statement or analysis in PURA's Decision that considers or calculates the impact of a $2 million base-revenue reduction on the Company's actual return on invested capital given the Company's ***existing*** under-earning position. Nor is there any consideration by PURA in the Decision of the impact arising from the disallowance of numerous cost amounts that the Company is incurring to provide water service to customers, or the impact of those disallowed costs on the Company's actual return on invested capital. In a normal ratemaking context, new rates would provide *increased* revenues with the new rates formulaically set at a level that – if nothing changed from the date of the order – would produce a return on equity of 8.7% as the "just and reasonable ROE" arising from PURA's decision. This did not happen in this case.

75. In this case, PURA failed to consider the impact of its *rate reduction* on the ability of new rates to support the "just and reasonable ROE" identified by PURA in the Decision. With a rate reduction, there are no new base rates that will properly incorporate the impact of the 8.7% "just and reasonable ROE," nor to set rates at a level calculated to produce that return. Instead, PURA has drawn conclusions concluding that a "just and reasonable ROE" is 8.7%, while at the same time implementing a series of arbitrary and capricious cost disallowances that *eliminate all incremental cost recovery and reduce existing revenues by $2 million*, thereby preventing the Company from recovering its actual operating costs or a fair and reasonable return on invested capital. This arbitrary outcome produces a "total effect" of yielding an actual ROE of 6.8%,

which is 200 basis points below the alleged 8.7% "just and reasonable ROE" identified by PURA in its own decision. (Decision at 39). Because PURA failed to check to see whether the aggregate impact of its numerous cost disallowances would undermine the validity of the Decision in setting "just and reasonable" rates (as measured on the basis of the actual rate of return enabled by the rates set by the Authority), PURA has rendered a rate decision that is "unjust and unreasonable" resulting in constitutionally invalid confiscation.

76. The Company invested approximately $700 million in the construction, upgrade and replacement of water infrastructure between 2013 and 2022. Prior to initiating the rate proceeding in Docket No. 22-07-01, the Company was not recovering the cost of this investment through base rates and one of the outcomes of the rate proceeding is the inclusion of unremunerated capital investment in new base rates for recovery. However, the Company's effective rate of return on all of that capital investment will be no more than 6.8% as a result of the Decision. Given that PURA has found that 8.7% is the "just and reasonable ROE" that is "sufficient, but no more than sufficient" for Aquarion to "cover [its] capital costs, to attract needed capital and to maintain [its] financial integrity," an outcome that produces a rate of return of 6.8% on invested capital has, by definition, resulted in unjust and unreasonable rates. (Decision at 57, citing, Conn. Gen. Stat. § 16-19e(a)(4); Woodbury Water Co., 174 Conn. at 264).

77. Conn. Gen. Stat. § 16-19e(a)(4) requires that "the level and structure of rates be sufficient, but no more than sufficient, to allow public service companies to cover their operating costs including, but not limited to, appropriate staffing levels, and capital costs, to attract needed capital and to maintain their financial integrity, and yet provide appropriate protection to the relevant public interests, both existing and foreseeable …." (emphasis added).

78. In a rate proceeding, there is no expectation that the Company will be granted a rate increase equivalent to its initial rate application because changes and adjustments are appropriately made through the course of the proceeding and PURA always retains discretion to make reasonable adjustments, so long as those adjustments are accurate and comport with the applicable legal standards for "just and reasonable rates." However, below, the Company demonstrates that cost recovery of at least $11.5 million proposed in the 2022 Rate Application was improperly excluded from the level of base revenues approved in the Decision, including the elimination of approximately $2.2 million in employee compensation for the "appropriate" staffing levels approved by PURA in its Decision.[24] Accordingly, the base rates that are imposed by the Decision are "unjust and unreasonable" in failing to allow the Company to cover its operating costs including, but not limited to, "*appropriate staffing levels, and capital costs*" to attract needed capital and to maintain financial integrity. Conn. Gen. Stat. § 16-19e(a)(4).

79. In fact, the substantial impact of PURA's arbitrary and capricious decision-making is demonstrated most vibrantly by the fact that Aquarion invested approximately $700 million in the water system between 2013 and December 15, 2022, resulting in incremental rate base of $266 million (net of accumulated depreciation, ADIT and other cost items that comprise the rate base computation). The revenue requirement associated with rate-base of $266 million is incorporated into the new base rates set by the Decision; yet, a $2 million reduction in base revenues is occurring, nonetheless. This means that the total disallowances and extractions effected by the Decision are of such a large magnitude that a reduction in base revenue is

[24] In this Appeal Petition, the Company has not addressed every erroneous disallowance encompassed in the Final Order. The issues raised herein are those with larger dollar amounts and poor precedent for the future, provoking the need for an appeal.

occurring, notwithstanding the fact that $266 million of new rate base is added to base rates as a counterweight.

80. There have been numerous cases brought before Connecticut courts regarding claims of "confiscation" in the utility rate-setting context. To the Company's knowledge, unconstitutional confiscation was not found in any of these cases – yet, it is also accurate that none of these cases came close to involving an overall *reduction* in base revenues – after a 10-year interval – and notwithstanding the incorporation of $700 million of incremental capital expenditure (with associated rate base of $266 million). See, e.g., Connecticut Natural Gas Corp. v. Connecticut Dep't of Pub. Util. Contr., 2010 WL 398279 (Jan. 6, 2010) (finding no confiscation in appeal of DPUC rate order following prior "over-earnings" decision issued by DPUC pursuant to Conn. Gen. Stat. 16-19g).

81. Together, Hope and Bluefield constitute the legal foundation upon which public utility regulators approve rates that are just and reasonable. According to the U.S. Supreme Court, "just and reasonable" rates are rates that allow for: (1) the recovery of reasonable and prudently incurred costs; and (2) the opportunity to earn a fair and reasonable return on the assets committed to public service. Connecticut statutory law incorporates this two-part standard and the "total effect" of PURA's Decision fails on these two tests. Conn. Gen. Stat. § 16-19e(a)(4). PURA has arbitrarily disallowed a significant amount of valid and appropriate operating expense from the approved revenue requirement allowed for recovery through rates. The result is a $2 million rate reduction that will strip *current* revenues from the Company. The effect of reducing revenues by $2 million annually is to reduce the effective rate of return to 6.8%, rather than setting "just and reasonable" rates that would be calibrated to recover the targeted rate of return of 8.7% that PURA determined to be the "just and reasonable ROE."

82. PURA's Decision therefore results in "unjust and unreasonable rates" on which Aquarion cannot earn a fair and reasonable return on the assets it has committed to public service, violating PURA's obligation to set rates in conformance with requirements of the U.S. Constitution.

COUNT TWO

PURA's Arbitrary Disallowance of $42 Million in Used and Useful Capital Additions Is an Error of Law

83. Aquarion incorporates by reference Paragraphs 1 through 82 above as if fully set forth herein.

84. PURA's Decision acknowledges that the Company completed capital additions subsequent to the end of the 2021 Test Year and before the close of the record in the proceeding on December 15, 2022. (Decision at 16-17). PURA's Decision also acknowledges that "the Authority permits utilities to make pro forma adjustments to the test year plant-in-service for a reasonable period of time for definite, ascertainable expenses maturing or certain to materialize." (Id. at 17, citing, Connecticut Nat. Gas Corp., 29 Conn. Supp. 379, 390 (1971)).

85. In the Final Decision, PURA segmented the Company's completed, in-service capital additions into three segments: (1) capital additions completed in the Test Year ending December 31, 2021 (the "First Segment") (Decision at 11-16); (2) post-test year capital additions completed between January 1, 2022 and August 31, 2022 (the "Second Segment") (id. at 16-22); and (3) post-test year capital additions completed between September 1, 2022 and December 15, 2022, four days before the close of the evidentiary record on December 19, 2022 (the "Third Segment") (id.). Importantly, all three categories of capital additions were supported by the same

type of evidence in the proceeding, although the evidence was submitted to the record at different times throughout the proceeding in accordance with case timing and PURA precedent.

86. PURA then arbitrarily denied recovery of the Third Segment of capital additions, which are those that were 100% complete between September 1, 2022 and December 15, 2022, totaling $42,136,826.[25] The financial impact associated with the exclusion of capital additions completed between September 1, 2022 and December 15, 2022 is a disallowance and reduction to the approved revenue requirement of $3,471,076.

87. PURA's disparate treatment of the Company's proposed test year capital additions in the Decision is arbitrary and capricious and an abuse of discretion prejudicing the Company's substantial rights. Under the UAPA, PURA's Decision is subject to reversal where there is a demonstration that the Company's substantial rights are prejudiced by the fact that PURA's administrative findings, inferences, conclusions, or decisions are: (1) in violation of constitutional or statutory provisions; (2) in excess of the statutory authority of the agency; (3) made upon unlawful procedure; (4) affected by other error of law; (5) clearly erroneous in view of the reliable, probative, and substantial evidence on the whole record; or (6) arbitrary or capricious or characterized by abuse of discretion or clearly unwarranted exercise of discretion. Therefore, this unlawful outcome should be reversed by the Court. Conn. Gen. Stat. § 4-183(j).

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[25] There are two separate errors relating to PURA's treatment of post-test year capital additions. Here, Count Two of the Company's appeal petition speaks to PURA's arbitrary decision to disallow the recovery of all post-test year capital additions completed between September 1, 2022 and December 15, 2022 (totaling $42,136,826) (Decision at 17). The second error is addressed in Count Three, below, regarding PURA's arbitrary decision to exclude capital additions totaling $5,923,474 from the segment of capital additions completed *prior to August 31, 2022.* These capital additions were disallowed by PURA on the basis of allegedly "unreliable" data. (Decision at 19, fn.32).

88. In addition, under Conn. Gen. Stat. § 16-19e(a)(4), PURA has an obligation to determine that the level and structure of rates is sufficient, but no more than sufficient, to allow public service companies to cover their operating costs including, but not limited to, appropriate staffing levels, and capital costs, to attract needed capital and to maintain their financial integrity, and yet provide appropriate protection to the relevant public interests, both existing and foreseeable which shall include, but not be limited to, reasonable costs of security of assets, facilities and equipment. With respect to the exclusion of post-test year additions completed after August 31, 2022, PURA ***failed to apply this standard*** due to the fact that it excluded these capital additions, although the evidence supporting these additions was accepted in support of the first and second segment of capital additions.

89. In the Proposed Decision, issued on February 24, 2023, PURA rejected the Third Segment of capital additions purportedly on procedural grounds stating that the Company had submitted documentation of those capital additions too late in the proceeding, admonishing the Company that "as the Company knows, late filed exhibits are not the proper vehicle for submitting ***new evidence on new issues*** into a contested proceeding." (Proposed Decision at 17; emphasis added.) Because PURA's posture in the Proposed Decision was that the supporting documentation had *not* been provided to the record prior to the end of hearings, PURA claimed in the Proposed Decision that "the absence of evidence … makes a determination on the [prudence] test … ***impossible***." (Id. at 17, fn.28; emphasis added). Consequently, PURA's Proposed Decision did not comment on the merits of the Company's evidence as a result of its erroneous conclusion.

90. In Written Exceptions (and oral argument on the Written Exceptions), the Company demonstrated that it had, in fact, previously introduced documentation supporting the Company's post-test year capital additions completed in the period September 1, 2022 through December 15,

2022, in its 2022 Rate Application and updated throughout the case in responses to discovery, hearings and a final late-filed exhibit to finalize the numbers. Consequently, this information was not "new evidence on new issues" at the time it was submitted for the second time in a late-filed exhibit on December 12, 2022, as PURA represented in the Proposed Decision.[26]

91. In the Final Decision issued 15 days after oral arguments on the Proposed Decision (March 15, 2023), PURA changed its stated basis for exclusion of these plant additions -- discarding the theory that the documentation was submitted too late and concocting a new theory of disallowance. (Decision at 16-22).

92. In the Final Decision, PURA's new rationale is that "[b]y failing to submit material evidence as to the *prudency* of capital additions occurring between September 1, 2022, and December 15, 2022, the Company has *failed to meet its burden* demonstrating that these capital costs satisfy the standard for a pro forma adjustment to rate base." (Decision at 19, emphasis added). Thus, PURA's basis for disallowance changed from a procedural flaw that allegedly made it "impossible" to perform a prudence review -- to a substantive flaw 15 days later, where PURA now determined that the Company allegedly failed its burden to demonstrate that this particular segment of capital projects was prudent. Because PURA's conclusion that the Company had failed

[26] The Company's Written Exceptions and Oral Argument established that the Company provided project listings and other detailed information for infrastructure projects completed in the period September 2022 through December 15, 2022 (see interrogatory response Q-RRU-132; Q-LF-004). To convey the scope of infrastructure work to be completed in the fourth quarter of 2022, the Company also summarized the major investments greater than $1 million in response to an interrogatory, Table 1-RRU-132, representing approximately $34.5 million of the total investment of $48 million for the Third Segment. This information was submitted to the record on October 14, 2022, more than two months prior to the close of the record and prior to the start of evidentiary hearings. Consequently, this information was not "new evidence on new issues" at the time it was properly submitted for the second time in a late-filed exhibit on December 12, 2022.

its burden was made only in the Decision – and not in the Proposed Decision – Aquarion had no notice or opportunity to respond to this specious conclusion.

93. In its Decision, PURA states that, for the costs of plant investments to be included in rate base, the Company bears the burden of demonstrating that: (1) the plant is in service; and (2) the costs were prudently and reasonably incurred. (Decision at 12).[27] With respect to the first prong of the test, PURA raised no doubt in the Decision that the projects were in service, nor could it. The Company provided the in-service dates of all projects included in the third segment (September 1, 2022 through December 15, 2022) in discovery and responded to cross examination at a hearing conducted on December 14, 2022. (See, e.g., 12/14/22 Hearing, Tr. at 11-20, 23, 26).

94. With respect to the second prong, PURA concluded that the Company failed to demonstrate that the "costs were reasonably and prudently incurred" for the Third Segment of capital additions, offering up numerous conflicting statements as to the reasons that "large volumes of data" were irrelevant to the prudency of capital additions completed subsequent to August 31, 2022 (Decision at 17-19).

95. The reasons given by PURA for its conclusion that the Company had failed its burden in relation to this ***particular segment*** of capital additions were on the order of: (1) the Company "did not offer any pre-filed testimony with respect to these additions," but instead only referred to its responses to interrogatories (id. at 17); or (2) "[n]owhere in the transcript does a Company witness describe the plant additions as prudent or useful" (id. at 18-19); or (3) the

[27] As noted above, the "prudence" of a management decision depends on good faith and reasonableness, judged at the time the decision is made. CL&P v. DPUC, 216 Conn. at 645. There is no indication anywhere in the record that the Company has not operated with good faith and reasonableness in relation to the third segment of capital additions, nor could PURA bring itself to render such a conclusion.

Company "did not offer any pre-filed testimony or other evidence as to the prudency of capital additions completed subsequent to August 31, 2022; indeed, there is simply no evidence (not even a bald statement) on which the Authority could make a prudency determination for these proposed pro forma adjustments" (id. at 19); and (4) "[n]one of the evidence cited by the Company is relevant to the prudency of the expenditures or usefulness of those plant additions" (id. at 18). PURA also found that "none of the evidence explains why the expenditures were made, which options were considered, how the costs were managed, or any of the other factors that would allow the Authority to assess the 'good faith and reasonableness' of the management decisions". (Decision at 19). In other words, PURA simply abandoned any pretense of conducting an actual prudence review as required by law.

96. In fact, all of PURA's contentions regarding the alleged *lack* of evidence are directly refuted in the same and other pages of the Decision by PURA's own statements acknowledging the "large volumes of data" and explanations of the Company's capital authorization processes that ***were*** provided by the Company in various exhibits, testimony, transcripts and responses to discovery, with no suggestion offered by PURA as to why the Company's evidence is irrelevant to the examination of prudence.[28] (See, e.g., Decision at 15-16 and 17-19).

97. The clear error of law embedded within this stack of contradictions is that there is ***zero difference*** between the evidentiary basis for the Second Segment of post-test year capital

[28] For example, at pages 15-16 of the Decision, PURA describes information provided by the Company through *pre-filed testimony,* submitted with the 2022 Rate Application on August 29, 2022, discussing the "four-stage process" used by the Company for ***all*** projects over $100,000 involving project prioritization, alternatives analysis and a competitive solicitation process for contractor bids to identify "lowest cost qualified contractors." (Id. at 15-16, 17-19; emphasis added).

additions (completed between January 1, 2022 and August 31, 2022), which were allowed in rates, and the evidentiary basis for the Third Segment of post-test year capital additions completed between September 1, 2022 and December 15, 2022 that were disallowed on the basis that the Company allegedly did not meet its burden of proof. (Decision at 19). The fact is that all of the Company's post-test year projects – both before and after August 31, 2022 – ***were supported by the very same exhibits***, thus underscoring PURA's hollow footing on this issue.

98. In fact, after disparaging the Company's voluminous documentation on the *total post-test year additions*, i.e., January 1, 2022 through December 15, 2022, for two pages (Decision at 17-19), PURA arbitrarily concluded that it "will only allow a pro forma adjustment to plant in-service for plant additions through August 31, 2022." (Decision at 19). There is no reason whatsoever stated in the Final Decision for applying August 31, 2022 as the cut-off date on prudence. In fact, PURA acknowledges that it has "filtered the data" on the total post-test year additions provided in the Company's spreadsheets to exclude only those amounts after August 31, 2022. (Id.). Thus, the egregious legal error here is not a dispute over "substantial evidence." Rather, the fundamental abuse of discretion lies with PURA's decision to *disallow* recovery of post-test year capital additions in the Third Segment that were completed in the last four months of the year (prior to the record close) on the stated basis that the Company failed its burden of proof, while *allowing* the recovery of post-test year capital additions for the first eight months of the year in the Second Segment that PURA "filtered" from the ***very same evidentiary records*** without any basis for that disparity. The post-test year capital additions in the Second Segment and Third Segment were supported by the same record evidence; yet PURA authorized recovery in rates of the capital additions in the Second Segment but arbitrarily and capriciously denied recovery in rates of the capital additions in the Third Segment.

99. Nor does PURA square the fact that the documentation provided for the excluded pro-forma capital additions totaling $42 million (Third Segment) was exactly the same type of documentation submitted to substantiate the $600 million of projects completed through the end of the test year (First Segment), which were expressly allowed for inclusion in rates without the opposition of any party.[29] PURA acknowledges this very fact stating, "the Company submitted a request for plant additions between the end of the Test Year (i.e., December 31, 2021) and August 31, 2022 and presumably, these pro forma additions are covered by the same limited evidential hair as the plant additions through the Test Year." (Decision at 17). Thus, out of $700 million in total capital additions requested for recovery through the cost of service in Docket No. 22-07-01 – on the same evidentiary basis – only the last segment (the Third Segment) totaling $42 million somehow fails the same evidentiary standard that PURA ostensibly applied to the First and Second Segments of completed capital infrastructure investments.

100. In fact, PURA's conclusion on the Company's alleged failure to carry its burden of proof on the Third Segment of post-test year additions is designed to obscure the fact that PURA has made a rule change in the Decision, arbitrarily (and unfairly) implemented through the disallowance of the post-test year capital additions completed after August 31, 2022 -- falsely

[29] At page 16 of the Decision, PURA concluded that "[n]either OCC, DEEP, nor OAG took a specific position on the prudency of the approximately $600 million in additional test year plant-in-service. As a result, the Authority will allow the Company a Test Year plant-in-service of $1,776,894,698."

alleged as the Company's failure to sustain its burden of proof.[30] Specifically, PURA states on page 21 of the Decision that "with respect to *future* water utility rate cases, the Authority finds that pro forma adjustments for plant-in-service should generally be limited to plant that is or will be placed in service as of the date of the [rate application] – a date that is notably within a utility's sole discretion." (Decision at 21; emphasis added). It is not a coincidence that the Company filed its 2022 Rate Application on August 29, 2022 and that PURA identified August 31, 2022 as the cut-off for rejecting the segment of completed plant additions after that date; yet, no explanation is given.

101. Consequently, PURA's conclusion that the Company failed to meet its burden of proof in relation to post-test year projects completed between September 1, 2022 and December 15, 2022 is wholly disingenuous, as well as constituting the epitome of arbitrary and capricious decision-making. Had Aquarion known that PURA intended to effect a rule change after more than 20 years of rate case precedent, it could have filed its case just a few months closer to the end of the year to capture the year-end capital additions. This point is specifically acknowledged by PURA in announcing its rule with respect to "future water utility rate cases" on page 21 of the Decision, but is denied to Aquarion due to PURA's arbitrary treatment of one segment of the Company's post-test year capital additions. The problem with unannounced rule changes is also

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[30] There is no better demonstration of this obfuscation than PURA's circular reasoning that "[t]he Company asserts that the Authority is making a Post Hoc change; however, the Authority is simply providing guidance on how it intends to apply the relevant legal standard in the future. As noted herein, the application of this guidance to the instant proceeding is superfluous as the Company did not satisfy its evidentiary burden for the expenditures in question." (Decision at 21, fn.35). Similarly, PURA states that, "[i]n this case, the sheer dearth of evidence with respect to capital additions alleged to be prudent and complete after the August 31, 2022 Application date, regardless of eligibility, renders the debate superfluous." (Id.). This concept of "sheer dearth of evidence" is patently false given the fact that the First and Second Segments stood on this alleged "dearth" of evidence.

noted by Commissioner Caron in his remarks at the March 15, 2023 public meeting where the PURA Commissioners voted on the Decision (Exhibit D, at 11). The dissenting opinion of Vice Chairman Betkoski similarly criticized these unannounced rule changes during the course of this rate case, stating "[c]ourts of course often defer to agency expertise but some of the exceptions pointed out that there were new rules being applied to Aquarion in this docket that were not applied to others." (Exhibit B (Dissent), at 17).

102. Accordingly, in its Final Decision, PURA has arbitrarily and capriciously denied recovery of capital additions in the Third Segment that were completed between August 31, 2022 and December 15, 2022, at a total cost of $42 million. The annual financial impact associated with the exclusion of capital additions completed between September 1, 2022 and December 15, 2022 is a disallowance and reduction to the approved revenue requirement of $3,471,076.[31]

103. PURA's erratic action to exclude approximately $42 million of completed, post-test year capital additions in the Third Segment by inexplicably treating them differently from similar, allowed capital additions, prejudices the Company's substantial rights because the Decision is arbitrary and capricious, violates the Company's due process and statutory rights, and constitutes an abuse of discretion and a failure to correctly and consistently apply the burden of proof to all three segments of the completed capital infrastructure projects, resulting in unjust and unreasonable rates and unconstitutional confiscation.

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[31] The amount of $3,471,076 is the annual revenue requirement associated with $42 million of excluded capital additions. As noted above, the annual revenue requirement for capital additions recovers annual depreciation expense, plus municipal property taxes and a return on investment.

COUNT THREE

PURA's Conclusion that the Total Amount of Allowed Capital Additions Made Prior to August 31, 2022 Cannot Be Corrected Because the Data is Unreliable Is Arbitrary, Capricious and Represents an Abuse of Discretion.

104. Aquarion incorporates by reference Paragraphs 1 through 103 above as if fully set forth herein.

105. PURA's Decision acknowledges that the Company made capital plant investments subsequent to the end of the 2021 Test Year and before the close of the record in the proceeding on December 19, 2022. (Decision at 16-17). PURA's Decision also acknowledges that "the Authority permits utilities to make pro forma adjustments to the test year plant-in-service for a reasonable period of time for definite, ascertainable expenses maturing or certain to materialize." (Id. at 17, citing, Connecticut Nat. Gas Corp., 29 Conn. Supp. 379, 390 (1971)).

106. In the Final Decision, PURA arbitrarily separated the Company's completed capital additions into three segments: (1) capital additions completed in the Test Year ending December 31, 2021 (the "First Segment") (Decision at 11-16); (2) post-test year capital additions completed between January 1, 2022 and August 31, 2022 ("Second Segment") (Decision at 16-22); and (3) post-test year capital additions completed between September 1, 2022 and December 15, 2022 (id.) (prior to the record close on December 19, 2022) ("Third Segment"). With respect to the Second Segment, PURA allowed recovery of most of the capital additions, but erroneously identified the composition of capital additions included in the segment, thereby understating the total cost of ***allowed*** capital additions in the Second Segment. The total cost of the erroneously excluded post-test year capital additions in the Second Segment is $5,923,474. The *annual*

financial impact of this $5,923,474 error results in a disallowance and reduction to the approved revenue requirement of $487,954 per year.[32]

107. PURA's disparate treatment of the Company's proposed test year capital additions in the Decision is arbitrary and capricious and an abuse of discretion prejudicing the Company's substantial rights. Specifically, PURA has arbitrarily segmented projects completed in the post-test year period into two parts (defined previously as the Second Segment for the period January 1, 2023 to August 31, 2023 and Third Segment for the period September 1, 2023 to December 15, 2023), and then disallowed a subset of capital additions in the Second Segment on the purported basis that information quantifying the subset was unreliable, although PURA relied on the very same source information to calculate its disallowance. Under the UAPA, PURA's Decision is subject to reversal where there is a demonstration that the Company's substantial rights are prejudiced by the fact that PURA's administrative findings, inferences, conclusions, or decisions are: (1) in violation of constitutional or statutory provisions; (2) in excess of the statutory authority of the agency; (3) made upon unlawful procedure; (4) affected by other error of law; (5) clearly erroneous in view of the reliable, probative, and substantial evidence on the whole record; or (6) arbitrary or capricious or characterized by abuse of discretion or clearly unwarranted exercise of discretion. This outcome should be reversed by the Court. Conn. Gen. Stat. § 4-183(j).

108. In addition, under Conn. Gen. Stat. § 16-19e(a)(4), PURA has an obligation to determine that the level and structure of rates is sufficient, but no more than sufficient, to allow public service companies to cover their operating costs including, but not limited to, appropriate

[32] The amount of $487,954 is the annual revenue requirement associated with $5.9 million of excluded capital additions. As noted above, the annual revenue requirement for capital additions recovers annual depreciation expense, plus municipal property taxes and a return on investment.

staffing levels, and capital costs, to attract needed capital and to maintain their financial integrity, and yet provide appropriate protection to the relevant public interests, both existing and foreseeable which shall include, but not be limited to, reasonable costs of security of assets, facilities and equipment. With respect to the exclusion of post-test year additions completed prior to August 31, 2022 (which fall into the Second Segment), PURA ***failed to apply this standard*** by arbitrarily refusing to correct the computation of capital additions comprising the Second Segment or to provide reviewable information to support its computation.

109. Because the Company's post-test year capital projects completed before and after August 31, 2022 were substantiated in the record for the proceeding with the *same documentary evidence and project listing*, PURA had to find a way to differentiate the capital additions completed before and after August 31, 2022 to support its arbitrary disallowance of the Third Segment. In the Proposed Decision, PURA stated that it "was able to sort the data" provided by the Company on its completed post-test year additions to institute the arbitrary cut-off of August 31, 2022.[33] (Proposed Decision at 18, fn.31). PURA performed this "sorting" in its Proposed Decision in order to disallow the Third Segment of capital projects on procedural grounds that the documentation was submitted too late in the proceeding. Consequently, on this narrow point regarding the "sorting" of record data, the Company had the opportunity to address the accuracy of PURA's decision in its Written Exceptions submitted on February 28, 2023. The Company delineated the "sorting" error in detail in its Written Exceptions.

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[33] Specifically, PURA stated that, [a]lthough the Company provided the year-to-date actual additions as of November 30, 2022, the Authority was able to ***sort the data*** to identify actual additions in-service as of August 31, 2022. Final Late Filed Ex. 4." (Proposed Decision at 18, fn.31).

110. In the Final Decision, PURA doubled down on its "sorting" process, stating that "to determine the amount of plant additions [subject to disallowance], the Authority *filtered the data* provided by the Company in Final Late Filed Ex. 4, Supplemental Attachment 2 for all projects noted as being completed ("Cap.date") between January 1, 2022, and August 31, 2022. Applying this filter, the Authority identified 673 projects constituting $52,315,630 of additions and $1,137,738 of retirements, for a total plant addition of $51,177,892." (Decision at 19; emphasis added). However, this computation remains incorrect.

111. In its Written Exceptions responding to the Proposed Decision, Aquarion demonstrated that the quantification of plant additions in-service as of August 31, 2022 was incorrect, as stated in Table 4 of the Proposed Decision and derived through PURA's "sorting" process. Aquarion noted that PURA did not provide a listing of projects comprising the computation stated in Table 4 of the Proposed Decision, nor is there any such listing on the record for the proceeding since PURA unilaterally derived the list through its off-the-record "sorting" process after the record was closed. To address PURA's error, the Company's Written Exceptions included a correct listing showing the accurate subset of plant additions placed into service prior to August 31, 2022 (submitted as Attachment Excerpt of LFE-4 (Supplemental Attachment 1)).

112. In Written Exceptions, the Company also reproduced PURA's Table 4 of the Proposed Decision showing that, when the quantification derived through PURA's off-the-record "sorting" process is corrected, the total plant additions as of August 31, 2022 are $57,101,366, or $5,923,474 greater than the total of $51,177,892 adopted by PURA in both the Proposed Decision and Final Decision. Thus, it was clear that PURA's "sorting" of the data erroneously excluded plant that should be included in the mathematical computation. The corrected Table 4 presented by the Company in Written Exceptions is as follows:

Table 4: CORRECTED Pro Forma Plant-In-Service Adjustment ($)

	(a)		(b)		(c)
	Authority Allowed		**Math Correction**		**Corrected Plant Additions as of 8/31/2022**
Plant in Service	$52,315,630		$6,247,108		$58,562,738
A/D	(1,137,738)		(323,634)		(1,461,372)
Net	$51,177,892		$5,923,474		$57,101,366

113. In the Final Decision, PURA refused to make any correction, doubling down on this erroneous conclusion in a footnote. In the footnote, PURA's Decision states that:

> The Company asserts that the Authority miscalculated the pro forma plant-in-service amount. However, the **new table** attached to its written exceptions purporting to correct the miscalculation includes projects completed prior to January 1, 2022, including many projects with a "Cap.date" in years 2016, 2017, and 2018. These projects were completed prior to or during the Test Year and are not pro forma additions. As such, the Company's tabulation of $57,101,366 for pro forma plant-in-service **appears** to erroneously include projects that should be excluded. Therefore, in addition to being filed **after the close of the evidentiary record**, the Authority finds this data to be unreliable. In light of the **Company's failure** to otherwise provide an accurate tabulation of capital investments through August 31, 2022, the Authority finds the sorting of data provided by the Company in Final Late Filed Exhibit 4 to be the most reliable method for determining pro forma additions through August 31, 2022.

(Decision at 19, fn.32; emphasis added.).

114. The illogical arbitrariness of this statement cannot be understated. First, it is PURA, and not the Company, that devised the arbitrary cut-off of August 31, 2022 applicable to post-year additions ***"after the close of the evidentiary record."*** The segmentation of the Company's post-test year additions was arbitrarily imposed by PURA on false procedural grounds in the Proposed Decision and then on false substantive grounds in the Final Decision. Since PURA did not seek production of any information that disaggregated the reported post-test year plant

additions *at the time the record was open*, no evidence was received into the record as to the correct disaggregation.

115. Second, in the footnote, PURA refers to the listing submitted by the Company as part of its Written Exceptions (Attachment Excerpt of LFE-4 (Supplemental Attachment 1)) as the "***new table.***" However, the "new table" (or listing) presented by the Company is the same data listing that PURA is using for its calculation. PURA refers to this exhibit as "Final Late Filed Exhibit 4." The Company filed this exhibit on December 12, 2022, before the record closed on December 19, 2022, and did not show any disaggregation between capital additions completed before and after August 31, 2022, as there was no reason to do so. Once the issue emerged in the Proposed Decision, the Company produced a listing of the correct subset of post-test year capital additions placed in service prior to August 31, 2022, extracted from Final Late Filed Exhibit 4, which PURA has rejected as "unreliable." PURA has ***not*** provided any basis for its computation. There is no listing in the record that shows the basis for PURA's computation; however, PURA and the Company are relying on the same data listing submitted to the record -- Final Late Filed Exhibit 4 – showing all post-test year capital additions completed in the period January 1, 2022 through December 15, 2022.

116. Third, in the footnote, PURA declared the Company's listing of the subset of capital additions to be inaccurate on the basis that it includes "many projects with a "Cap.date" in years 2016, 2017, and 2018," and stating that "the Company's tabulation of $57,101,366 for pro forma plant-in-service ***appears*** to erroneously include projects that should be excluded." (Decision at 19, fn.32; emphasis added). Again, if this exercise had been conducted transparently and *on the record*, PURA would not have had to speculate as to whether projects with a "Cap.date" in years 2016, 2017, and 2018 were "erroneously" included in the list. PURA has not disclosed the basis

for its computation of allowed capital additions as of August 31, 2022; therefore, the Company cannot be sure as to the basis of that computation. However, if PURA had requested a proper breakdown of capital additions before and after August 31, 2022 during the proceeding, the Company would have had the opportunity to discuss the issue with PURA. The Company would have indicated that the listing of post-test year capital additions includes incremental "capital additions" with a "Cap.date" in the post-test year period (January 1, 2022 through December 15, 2022) that are capitalized project costs linked to previously completed projects placed into service in prior years.

117. Similarly, if PURA had requested a proper breakdown of capital additions before and after its arbitrary cut-off of August 31, 2022 *while the record was open*, the Company might have also explained that water main projects, for example, may be placed into service and become used and useful to customers sometimes years before the total costs associated with the project are incurred, i.e., once facilities are constructed, the facilities are placed into service for customers at the earliest possible date and additional capital costs frequently trail that in-service date, such as costs to repave the location that can occur well after the fact. However, because PURA is conducting its process *off-the-record* to disaggregate projects costs in order to accommodate its arbitrary August 31, 2022 cut-off date, PURA did not obtain that information to support its decision.

118. Fourth, at the end of the footnote on Page 19 of the Decision, PURA concludes that "[i]n light of the ***Company's failure*** to otherwise provide an accurate tabulation of capital investments through August 31, 2022, the Authority finds the sorting of data provided by the Company in Final Late Filed Exhibit 4 to be the most reliable method for determining pro forma additions through August 31, 2022." Unbelievably, PURA is attributing this debacle to the

"Company's failure to provide an accurate tabulation of capital investments through August 31, 2022," although PURA failed to mention in the proceeding that it was going to impose this arbitrary cut-off or to provide the Company with the opportunity to provide the correct tabulation during the proceeding. Unbelievably, PURA has determined the Company's Late Filed Exhibit 4 to be the "most reliable method" for determining pro forma additions through August 31, 2022, even though there is no such disaggregation contained in that exhibit and even though PURA has to "sort" or "filter" the reliable data in that exhibit to formulate its own erroneous, off-the-record computation of the capital additions completed prior to August 31, 2022. Unbelievably, PURA has rejected the Company's presentation of an actual listing showing the correct subset of capital additions prior to August 31, 2022 (using the *same reliable data* that PURA has used in its sorting/filtering exercise), concluding that the Company's computation was filed "after the close of the evidentiary record," and that "the data [is] unreliable." Unbelievably, PURA has determined that the Company's listing was improperly filed after the close of the evidentiary record, while PURA's listing, which is not disclosed at all to the record, is not.

119. Accordingly, in its Final Decision, PURA has arbitrarily denied recovery of a portion of the capital additions in the Second Segment that were completed before the August 31, 2022 cut-off date, totaling $5,923,474. As explained above, the financial impact associated with the exclusion of capital additions in the Second Segment, January 1, 2022 through August 31, 2022, is an arbitrary disallowance and reduction to the annual revenue requirement of $487,954.

120. PURA's refusal to correct the error associated with the Company's Second Segment of capital additions, i.e., capital additions completed between January 1, 2022 and August 31, 2022, and its reliance on extra-record evidence directly germane to the dispute collectively are arbitrary and capricious and an abuse of discretion prejudicing the Company's substantial rights.

Specifically, PURA has arbitrarily disallowed capital additions on the basis that the Company failed its burden to demonstrate prudence, while PURA is relying on the same exact source information and simply compiling its own secret list. Under the UAPA, PURA's Decision is subject to reversal where there is a demonstration that the Company's substantial rights are prejudiced by the fact that PURA's administrative findings, inferences, conclusions, or decisions are: (1) in violation of constitutional or statutory provisions; (2) in excess of the statutory authority of the agency; (3) made upon unlawful procedure; (4) affected by other error of law; (5) clearly erroneous in view of the reliable, probative, and substantial evidence on the whole record; or (6) arbitrary or capricious or characterized by abuse of discretion or clearly unwarranted exercise of discretion. Therefore, this outcome should be reversed by the Court. Conn. Gen. Stat. § 4-183(j).

121. PURA's erratic action to exclude approximately $6 million of completed, post-test year capital additions in the Second Segment prejudices the Company's substantial rights because the determination is arbitrary and capricious, violates the Company's due process and statutory rights, and constitutes an abuse of discretion resulting in unjust and unreasonable rates and, as a consequence, unconstitutional confiscation.

COUNT FOUR

PURA's Refusal to Correct the Amount Allowed for State and Federal Taxes Is Arbitrary, Capricious and Represents an Abuse of Discretion.

122. Aquarion incorporates by reference Paragraphs 1 through 121 above as if fully set forth herein.

123. In the Final Decision, PURA calculated state and federal taxes of only $2,977,243, associated with the rate base authorized by the Final Decision through August 31, 2022. (Final Decision at 104, 108 at Table 36). This amount is too low and is the result of a mathematical

mistake made by PURA that PURA refused to correct. The correct amount of state and federal income tax expense is $5,444,245, as demonstrated below. The Company raised the issue of PURA's mistaken computation of state and federal income-tax expense in its Written Exceptions responding to the Proposed Decision, as well as a second issue that PURA did not provide the supporting computations in the Final Decision so that the Company and other parties could properly respond to PURA's computations. In its Final Decision, PURA refused to correct its faulty computation and also did not disclose all elements of its computation. The incorrect computation of state and federal income tax expense is causing an understatement of state and federal tax expense equal to $2,467,013.

124. PURA's refusal to correct its computation of state and federal income tax expense in the Decision is arbitrary and capricious and an abuse of discretion prejudicing the Company's substantial rights. Under the UAPA, PURA's Decision is subject to reversal where there is a demonstration that the Company's substantial rights are prejudiced by the fact that PURA's administrative findings, inferences, conclusions, or decisions are: (1) in violation of constitutional or statutory provisions; (2) in excess of the statutory authority of the agency; (3) made upon unlawful procedure; (4) affected by other error of law; (5) clearly erroneous in view of the reliable, probative, and substantial evidence on the whole record; or (6) arbitrary or capricious or characterized by abuse of discretion or clearly unwarranted exercise of discretion. Therefore, this outcome should be reversed by the Court. Conn. Gen. Stat. § 4-183(j).

125. Under Conn. Gen. Stat. § 16-19e(a)(4), PURA has an obligation to determine that the level and structure of rates is sufficient, but no more than sufficient, to allow public service companies to cover their operating costs including, but not limited to, appropriate staffing levels, and capital costs, to attract needed capital and to maintain their financial integrity, and yet provide

appropriate protection to the relevant public interests, both existing and foreseeable which shall include, but not be limited to, reasonable costs of security of assets, facilities and equipment. PURA ***failed to apply this standard*** by refusing to correct the computation of state and federal income tax expense or to provide reviewable information to support its computation.

126. In the Proposed Decision, PURA summarized the components of the Company's approved revenue requirement, including the state and federal income tax amounts computed by PURA, in Table 32 of the Proposed Decision. However, no part of the Proposed Decision provided the computation of total disallowances to the cost of service that would drive the change in expense for state and federal income tax. Meaning that, as costs are disallowed from the cost-of-service, state and federal income-tax expenses would also decline. Therefore, to check this computation, it would be necessary to see how PURA has calculated the total disallowances as the associated reduction in tax expense flows therefrom.

127. In its Written Exceptions, Aquarion raised the issue that PURA had incorrectly *over-quantified* the impact of disallowed plant additions on the computation of state and federal income tax, i.e., the state and federal income tax amount computed by PURA was too low. The disallowance of plant additions reduces rate base and, in turn, reduces state and federal income-tax expense. If the impact of the disallowance of rate base is *over-quantified,* then state and federal income tax expense allowed for recovery through base rates will be *under-quantified*, meaning that state and federal income-tax expense will be set at a level that is lower than the actual level of tax expense to be incurred as a result of the Decision.[34] In Written Exceptions, the Company raised the fact that the Proposed Decision did not provide a computation of the tax impact associated with

[34] Stated otherwise, the Company would experience greater tax expense levels than PURA has provided for in rates because the level included in rates is not matched with the elements of the revenue requirement that will be taxable.

plant additions disallowances in order to check PURA's computation. The Company demonstrated that the figures that were included in the Proposed Decision implied a quantified reduction of state and federal income-tax expense totaling $7,487,912 in relation to the disallowed capital additions, which was not correct.

128. Although it cannot be traced by explanation in the Proposed Decision, PURA's computation of the disallowed taxes implied by the information set forth in the Proposed Decision was $7,487,912. In its Written Exceptions, the Company relied on evidence in the record in Late-Filed Exhibit 1, Supplement 2, Attachment 1, to provide an illustrative computation of the applicable state and federal taxes associated with the post-August 31, 2022 rate base that was disallowed by the Proposed Decision. The Company's computation showed that the reduction in state and federal income-tax expense to be incorporated into rates due to PURA's rate base disallowances should be $5,624,799, instead of $7,487,912, assuming total disallowance of the capital additions completed between September 1, 2022 and December 15, 2022, which is what occurred. The Company asserted to PURA in its Written Exceptions that PURA's mistake in the Proposed Decision results in an understatement of state and federal income tax expense of $1,863,113.

129. In the Final Decision, PURA did not correct this error for state or federal income tax expense and still did not disclose all of the necessary elements of the computation. Because PURA did not do this exercise, the mathematical error persists in the Final Decision, albeit in a different amount due to further adjustments made by PURA to the allowed revenue requirement in the Final Decision.

130. PURA's Final Decision computes the tax impact of disallowed expenses to be a reduction to the Company's requested state and federal income tax expense of ($8,015,502)

(derived as $3,075,109 + $5,612,381). (Decision at 104). However, the fundamental error in PURA's Decision is that the computation starts with the "tax impacted adjustments," which is stated as $8,145,310, without any explanation or demonstration of how that amount was calculated. PURA states only that "[t]he Authority has made tax impacted adjustments equaling $8,145,310." (Final Decision at 104). However, this number, $8,145,310, is not correct. In fact, the ***correct*** tax impact of disallowed expenses is a reduction of only ($6,227,812), as shown below in Table A, below, which means that PURA has ***overstated*** the reduction to state and federal income tax expense associated with PURA's numerous cost disallowances by $2,467,012, just as the Company said in its Written Exceptions. From a high level, this computation is as follows:

Tax Impacted Adjustments:		
Operating expenses		$ 10,723,437
EADIT Amortization		(2,600,846)
Depreciation		6,745,696
Payroll Tax		209,416
Acquisition Adjustment Amortization		111,089
		$ 15,188,792
Late Fees		(546,925)
Tax Impacted Adjustments		$ 14,641,867
Tax Impacted Adjustments per Decision		$ 8,145,310
Understated Tax Impacted Adjustments		$ 6,496,557
State Taxes	8.25%	$ 535,966
Federal Taxes	21.00%	$ 1,251,724
Utility Operating Income Shortfall		$ 1,787,690
Tax grossup		1.38
Revenue shortfall		$ 2,467,012

131. **Table A – Corrected Income Tax Expense Computation**, below, computes the mistake in tax expense in greater detail using record evidence from Docket 22-07-01 and PURA's Final Decision. As discussed above, the mistake has apparently occurred because PURA did not

provide a computation of the total disallowances to the Company's cost of service that would have a direct impact on the computation of state and federal income-tax expense that the Company would expect to bear with the resulting cost of service. Table A shows the correct computation of the disallowed tax expense associated with PURA's adjustments to the cost of service, demonstrating that the correct total "tax impacted adjustments" is not a subtraction of ($8,145,310), but rather a subtraction of ($6,227,812).

Table A – Corrected Income Tax Expense Computation

Tax Expense Reductions Associated with Disallowances per Decision (Decision at 104, Section VI.E.3 and 4)				Corrected			
	State Tax	Federal tax	Combined	State Tax	Federal tax	Combined	Variance
Tax impacted Upward Adjustments	$ 8,145,310	$ 8,145,310		$ 15,188,792	$ 15,188,792		
State tax[1]	8.25%	(671,988)		8.25%	(1,253,075)		
	$ 671,988	$ 7,473,322		1,253,075	$ 13,935,717		
		21%			21%		
	$ 671,988	$ 1,569,398	$ 2,241,386	$ 1,253,075	$ 2,926,500	$ 4,179,576	$ (1,938,190)
Disallowed Revenue	$ (37,274,053)	$ (37,274,053)		$ (37,820,978)	$ (37,820,978)		
State tax	8.25%	$ 3,075,109		8.25%	$ 3,120,231		
	$ (3,075,109)	$ (34,198,944)		$ (3,120,231)	$ (34,700,747)		
		21%			21%		
		$ (7,181,778)	$ (10,256,888)		$ (7,287,157)	$ (10,407,388)	$ 150,500
Adjustment	**$ (2,403,121)**	**$ (5,612,381)**	**$ (8,015,502)**	**$ (1,867,155)**	**$ (4,360,656)**	**$ (6,227,812)**	$ (1,787,690)
						Tax Gross-up	1.38
						Error	$ (2,467,012)

Note 1. State taxes are deductible for federal income tax purposes, and therefore, are subtracted before federal income tax is computed

132. As compared to the Company's total request for state and federal income tax expense of $10,992,745 in the proceeding, PURA's computations allowed a total of only $2,977,243 for state and federal income-tax expense, which understate the Company's actual income tax expense computed on the basis of the approved revenue requirement by $2,467,012, as shown below in Table A, above. (Id.) A summary of the mistake is as follows:

	Decision [1]	Required	Error
State Taxes	$ 1,639,809	$ 2,379,442	$ (739,633)
Federal Taxes	$ 1,337,434	$ 3,064,813	$ (1,727,379)
	$ 2,977,243	$ 5,444,256	$ (2,467,013)

N.1. Decision at 108, Table 36.

133. Accordingly, in its Final Decision, PURA has arbitrarily denied recovery of state and federal income tax expense, erroneously reducing the amount that Aquarion is allowed to recover in base rates by $2,467,012. The financial impact associated with the erroneous understatement of state and federal income-tax expense is the product of PURA's refusal to reveal its computation or to correct its error once the Company brought it to PURA's attention in Written Exceptions as clearly erroneous. If PURA had disclosed its computations in a transparent and methodical manner in the Proposed Decision, the Company could have responded with more detailed information on the mistake. Tellingly, even after the Company raised the issue and indicated that the lack of a transparent computation was hindering assessment of the cost recovery, PURA could not bring itself to provide that computation in the Final Decision.[35]

134. PURA's erratic action to exclude approximately $2.5 million of recovery for state and federal income-tax expense prejudices the Company's substantial rights because the determination is arbitrary and capricious, violates the Company's due process and statutory rights, and constitutes an abuse of discretion resulting in unjust and unreasonable rates and, as a consequence, unconstitutional confiscation.

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[35] There is no doubt that PURA will contend that the Company "failed in its burden" to demonstrate why PURA's computation of income-tax expense was wrong in the Proposed Decision. However, the 150-page Proposed Decision was issued on February 16, 2023, with a deadline for written exceptions on February 24, 2023, only seven days later. As a result, the Company's time was severely limited to figure out PURA's mathematical mistakes that are only implied in the Decision since no computations were provided.

COUNT FIVE

PURA's Decision to Extend Accumulated Depreciation through December 2022, and Net Utility Plant through August 2022, in the Calculation of "Rate Base" Artificially Reduces the Recovery on Rate Base Allowed in the Decision and Is Arbitrary, Capricious and Represents an Abuse of Discretion.

135. Aquarion incorporates herein by reference Paragraphs 1 through 134 above as if fully set forth herein.

136. As described in the Final Decision, rate base is a "fundamental principle" of cost-of-service ratemaking, comprised of "the investor-supplied facilities and other investments necessary to supply utility service to consumers in a safe, reliable, and cost-effective manner." (Final Decision at 9). For ratemaking purposes, rate base is the asset base on which the investor is able to earn a return on investment. Bluefield, 262 U.S. at 690; Pub. Serv. Co. of New Mexico v. Fed. Energy, Regulatory Comm'n, 653 F.2d 681, 683 (D.C. Cir. 1981) ("As a general proposition, a regulated utility is allowed to recover . . . a reasonable return on capital invested in the enterprise and allocated to public use.").

137. "Rate base" is a ratemaking concept, not an accounting concept. For purposes of setting rates for public-service companies, "rate base" is determined by taking the test year net book value of prudent capital investments and accounting for other factors, including accumulated depreciation, working capital, and non-rate base capital such as accumulated deferred income taxes ("ADIT").[36] Both accumulated depreciation and ADIT are ***offsets*** to rate base, meaning that if the net utility plant in service has an original cost of $100, accumulated depreciation and ADIT would reduce that amount by $30, for example, so that the Company's return earned on rate base would be computed on the basis of $70, not the $100 originally invested. Stated otherwise, accumulated

[36] In the Final Decision, Table 1, on page 11, "Pro Forma Rate Base ($)" shows the full breakdown of elements comprising rate base.

depreciation and ADIT combine to reduce the amount of capital investment upon which the Company is allowed to earn a return on its investment.

138. In the Proposed Decision, PURA disallowed capital additions completed between September 1, 2022 through December 15, 2022, reducing recovery of post-test year capital additions to the eight months between January 1, 2022 and August 31, 2022, as discussed in Count Two and Count Three of this Appeal Petition. (Proposed Decision at 17-19). However, PURA ***did not make any coincident adjustment*** to use 8/12ths of the annual depreciation expense accruing monthly in January 2022 through August 2022. Instead, PURA calculated rate base as of August 31, 2022 (for inclusion in rates), but included accumulated depreciation expense through December 31, 2022. (Id., at 23). As a rationale, PURA stated "[t]he Company's evidentiary failure does not suspend the depreciation of rate base, which continued through the entirety of 2022 in a known and measurable manner." (Decision at 23). However, this alleged "evidentiary failure" is false, as addressed in Count Two, above.

139. PURA's disparate treatment of interrelated components of rate base in the Decision is arbitrary and capricious and an abuse of discretion prejudicing the Company's substantial rights. PURA has manipulated the computation of rate base to deprive the Company of its fair and reasonable return on capital invested for utility purposes. Under the UAPA, PURA's Decision is subject to reversal where there is a demonstration that the Company's substantial rights are prejudiced by the fact that PURA's administrative findings, inferences, conclusions, or decisions are: (1) in violation of constitutional or statutory provisions; (2) in excess of the statutory authority of the agency; (3) made upon unlawful procedure; (4) affected by other error of law; (5) clearly erroneous in view of the reliable, probative, and substantial evidence on the whole record; or (6) arbitrary or capricious or characterized by abuse of discretion or clearly unwarranted exercise

of discretion. Conn. Gen. Stat. § 4-183(j). Therefore, this outcome should be reversed by the Court.

140. Under Conn. Gen. Stat. § 16-19e(a)(4), PURA has an obligation to determine that the level and structure of rates is sufficient, but no more than sufficient, to allow public service companies to cover their operating costs including, but not limited to, appropriate staffing levels, and capital costs, to attract needed capital and to maintain their financial integrity, and yet provide appropriate protection to the relevant public interests, both existing and foreseeable which shall include, but not be limited to, reasonable costs of security of assets, facilities and equipment. With respect to the exclusion of post-test year additions completed prior to August 31, 2022, PURA ***failed to apply this standard*** by manipulating the computation of rate base to artificially reduce the rate base balance and depriving the Company of its fair and reasonable return of capital invested for utility purposes.

141. In the Final Decision, PURA stated the following with respect to the mismatch of net utility plant in service and accumulated depreciation:

> The Authority's disallowance of new plant additions for the September through December 2022 period was solely a result of the Company's failure to satisfy its evidentiary burden with respect to plant additions after August 31, 2022, as noted in Section IV.B.2. Pro Forma Plant Additions. Consequently, ***the August 31, 2022 date has no specific accounting relevance*** except that the Company provided no material evidence regarding prudency of plant additions made after that date. ***The Company's evidentiary failure does not suspend the depreciation of rate base***, which continued through the entirety of 2022 in a ***known and measurable*** manner. Consequently, the Authority finds it reasonable to account for depreciation of Test Year and pro forma plant-in-service through December 31, 2022.

(Final Decision at 23).

142. This quote makes the manipulation of the rate base computation eminently clear. First, PURA states that one of the reasons it is creating the mismatch between the cut-off date for

net utility plant (August 31, 2022) and accumulated depreciation (December 31, 2022) is because "the August 31, 2022 date has no specific accounting relevance." However, of course it does not. PURA chose the date of August 31, 2022 as an arbitrary cut-off date for post-test year capital additions (and disallowance of the Third Segment) and thus this is a date that PURA ***has selected***. Here, PURA makes it sound like somehow the Company's showing of prudence suddenly fell off on August 31, 2022, and this is the only reason that the date of August 31, 2022 is involved. That is not what occurred, as discussed in Count Two, of this appeal.

143. Second, "rate base" is not an accounting concept, but rather is a ratemaking concept that represents the total capital investment by a utility to provide service to customers.[37] Thus, the mismatch of net utility plant in service and accumulated depreciation is a totally inappropriate computation of rate base, wherein all elements of rate base should be aligned to the same endpoint. In making this "known and measurable" change in *one element of rate base*, there is a *net increase* in accumulated depreciation of $5,896,018 as of December 31, 2022, under PURA's computation, rather than a *decrease* to accumulated depreciation of $7,087,213, that would be properly applicable at August 31, 2022. PURA's mismatched adjustments are arbitrary and capricious and defy all of PURA's ratemaking precedent over several decades. Even if PURA were to change this ratemaking practice, it provided no notice to the Company or any party in the proceeding, constituting a rule change that was apparent for the first time in the Proposed Decision.

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[37] The Connecticut Superior Court defined "rate base" in Connecticut Light & Power Co. v. DPUC, 1990 WL 271488, quoting J.Bonbright, *Principles of Public Utility Rates* (Columbia University Press, 1961), stating that: "[r]ate base represents the total quantum of invested capital or of property "values" on which the company is entitled to a reasonable rate of compensation.'" Connecticut Light and Power Co. v. Connecticut DPUC, 1990 WL 271488 at *8, quoting J.Bonbright, *Principles of Public Utility Rates* at 150.

144. Third, PURA states that "[t]he Company's evidentiary failure does not suspend the depreciation of rate base, which continued through the entirety of 2022 in a known and measurable manner." However, the logic flaw in this assertion is that PURA is allowing accumulated depreciation to run through the end of December 2022, but this depreciation pertains *only* to the net utility plant already included in rate base – it does not apply to capital additions *excluded from rates*. In fact, PURA says that "depreciation of rate base" is not suspended, meaning that the accumulated depreciation that PURA is applying through the end of the year pertains exclusively to the rate base that *already exists.* Why then would the extension of accumulated depreciation be justified with reference to the Third Segment, which is ***excluded*** from rate base due to the Company's alleged failure to meet its burden.

145. The Final Decision uses capital additions in service as of August 31, 2022 to compute rate base. Therefore, to be internally consistent, PURA needed to use an accumulated depreciation reserve that reflects only eight months of depreciation through August 31, 2022, rather than an annual depreciation amount for calendar year 2022. This error appeared in Table 5 on Page 20 of the Proposed Decision. When this error is corrected to use 8 months of depreciation instead of 12 months of depreciation in 2022, the corrected Table 5 illustrates there is a *net decrease* to accumulated depreciation of $7,087,213 as of December 31, 2022. All else equal, a higher level of accumulated depreciation acts as a larger offset to rate base, thereby reducing the amount of rate base upon which a return is calculated.

146. The corrected computation provided by the Company in response to the Proposed Decision is set forth in Table 5, below, from the Company's Written Exceptions.

Table 5: CORRECTED Adjusted Reserve for Accumulated Depreciation ($)

		(a)		(b)		(c)
		PURA Proposed Decision Table 5		**Math Correction**		**Corrected Acc. Dep.**
1	Accumulated Depreciation Balance at 12/31/2021	$586,389,124		-		$586,389,124
2	FY Depreciation Exp. at new rates	40,186,159		(13,395,386)	(1)	26,790,772
3	Depreciation Adjustment	1,154,573		(769,715)	(2)	384,858
4	Balance Prior to Additions & Retirements - Proposed Decision, Table 5, Column C	627,729,856		(14,165,102)		613,564,755
5	1/2 yr. dep for plant additions after test year	748,648		76,686	(3)	825,334
6	Retirement for plant additions after test year	(1,137,738)		(323,634)	(3)	(1,461,372)
	Reserve for Acc. Dep., page 20, Table 5, Column G	627,340,766		(14,412,050)		612,928,717
7	Dep Adjustment, Section VI.C.	(4,286,456)		1,428,819	(1)	(2,857,637)
8	SWRP Amort, Sch B-3.0A	3,797,750		-		3,797,750
9	PURA Calculated Reserve, Table 5, Column G	626,852,060		(12,983,231)		613,868,829
10	Company Proposal 12/15/2022, Table 5, Column G	620,956,042		-		620,956,042
11	Correction Adjustment	5,896,018		(12,983,231)		**(7,087,213)**

147. These computations show that PURA's arbitrary extension of accumulated depreciation through December 31, 2022, although it disallowed capital additions for that same time period and has cut-off the computation of rate base as of August 31, 2022 for all other rate base elements, is ***overstating*** accumulated depreciation by $12,983,231. Where accumulated depreciation is overstated, the impact is to reduce rate base artificially by that same amount so that

the Company's return on invested capital is improperly eliminated for that portion of rate base equating to $12,983,231. The revenue requirement impact associated with this effective disallowance of utility plant in service is $1,069,511.

148. **Note 1** in Corrected Table 5, above, addresses the matching principle so that, when plant additions are quantified through August 31, 2022, so should be the accumulated depreciation reserve. Line 2 recalculates depreciation expense for the eight months ending August 31, 2022, using 8/12ths of the annual depreciation expense of $40,186,159, which results in a depreciation expense amount of $26,790,772 through August 31, 2022. Line 7 prorates the depreciation adjustment made by PURA in Section VI.C of ($4,286, 456) for eight months, which adds back $1,428,819. Line 2 and Line 7 are highlighted in yellow to show the pro-rating of eight months of depreciation expense. **Note 2** in Corrected Table 5, above, addresses the fact that the Proposed Decision extended the amortization period of the depreciation adjustment from 5 to 10 years. (Proposed Decision at 84, Table 25). Adjusting for the extended amortization years from 5 to 10 years and then pro-rating for eight months results in the following computation, $1,154,573/2 = $577,287; $577,287/12*8 = $384,858. Line 3 is highlighted in green to show the change in amortization from 5 to 10 years, pro-rated over eight months. **Note 3** in Corrected Table 5, above, addresses the half-year depreciation and retirement for the corrected plant additions shown in the Corrected Table 4, above. Lines 5 and 6 are highlighted in blue to show the half year depreciation and retirement associated with the corrected plant additions. Thus, the Company showed in its Written Exceptions that there should be a net decrease to accumulated depreciation of $7,087,213, in the computation of rate base, as shown in Corrected Table 5.

149. Accordingly, in its Final Decision, PURA has arbitrarily denied recovery of rate base deemed prudently incurred in this proceeding, erroneously reducing the approved revenue

requirement by the amount of $1,069,511. The financial impact associated with the arbitrary mismatch of net utility plant in service and accumulated depreciation is the product of PURA's arbitrary and capricious departures from long-held ratemaking practice with no notice and no stated justification as to the reason that it is appropriate to install this mismatch in rates.

150. PURA's erratic action to deny recovery of capital investment by creating a purposeful mismatch between net utility plant and accumulated depreciation (both components of rate base) prejudices the Company's substantial rights because the determination is arbitrary and capricious, violates the Company's due process and statutory rights, and constitutes an abuse of discretion resulting in unjust and unreasonable rates and, as a consequence, unconstitutional confiscation.

COUNT SIX

PURA's Decision to Reduce the Calculation of "Rate Base" by Eliminating a Pro Forma Adjustment for ADIT Is Arbitrary, Capricious and an Abuse of Discretion.

151. Aquarion incorporates herein by reference Paragraphs 1 through 150 above as if fully set forth herein.

152. In response to the Proposed Decision, Aquarion asserted an additional error in calculating rate base, involving the calculation of ADIT. In short, the Proposed Decision erroneously "rejected the Company's proposed annual amortization of $2,804,852 for excess accumulated deferred income tax ("EADIT")" on the basis that PURA thought the Company had returned this amount to customers during the test year, which the Company did not do and could not do without PURA's authorization. In Written Exceptions, the Company stated that it did not make any such proposal and PURA did not state a basis for its conclusion that the Company made such a proposal in the Proposed Decision. Specifically, the Proposed Decision stated:

> The Company proposed a pro forma accumulated deferred income tax (ADIT) of $87,872,470, including a pro forma decrease of $1,092,000 from the test-year ADIT of $88,964,470. As discussed in Section VI.E.4., ***the Authority rejects the Company's proposed annual amortization of $2,804,852 for excess accumulated deferred income tax (EADIT***). Consequently, the Authority will increase ADIT by $2,804,252 to reverse the Company's reduction of one year of amortization for the ADIT regulatory asset from rate base. ***Consequently, the approved pro forma ADIT is $90,676.***

(Proposed Decision at 21; emphasis added).

153. In the Final Decision, PURA corrected this mistake and eliminated its adjustment of $2,804,252 for EADIT. However, now, in the Final Decision, PURA rejected the "pro forma decrease to ADIT of $1,092,000 effect as of year-end, December 31, 2022, which it did not do in the Proposed Decision.

154. In the Final Decision, PURA arbitrarily eliminated this reduction to ADIT depriving the Company of notice to address the issue in Written Exceptions, stating:

> The Company proposed a pro forma accumulated deferred income tax (ADIT) of $87,872,470, including a pro forma decrease of $1,092,000 from the test-year ADIT of $88,964,470. As discussed in Section VI.E.4., the Authority rejects the Company's proposed annual amortization of $2,804,852 for excess accumulated deferred income tax (EADIT). There is no rate base adjustment required for this reversal as the Company has not reflected amortization of the ADIT in its request. ***Concerning the $1,092,000 pro forma decrease of ADIT, the Authority disallows this adjustment*** pending the outcome of the independent audit ordered in Section VI.E.4. ***Consequently, the approved pro forma ADIT is $88,964,470.***

(Final Decision at 24; emphasis added).

155. PURA's disparate treatment of interrelated components of rate base in the Decision is arbitrary and capricious and an abuse of discretion prejudicing the Company's substantial rights. Specifically, PURA has manipulated the computation of rate base to deprive the Company of its fair and reasonable return on capital invested for utility purposes. Under the UAPA, PURA's Decision is subject to reversal where there is a demonstration that the Company's substantial rights

are prejudiced by the fact that PURA's administrative findings, inferences, conclusions, or decisions are: (1) in violation of constitutional or statutory provisions; (2) in excess of the statutory authority of the agency; (3) made upon unlawful procedure; (4) affected by other error of law; (5) clearly erroneous in view of the reliable, probative, and substantial evidence on the whole record; or (6) arbitrary or capricious or characterized by abuse of discretion or clearly unwarranted exercise of discretion. Conn. Gen. Stat. § 4-183(j). Therefore, this outcome should be reversed by the Court.

156. Under Conn. Gen. Stat. § 16-19e(a)(4), PURA has an obligation to determine that the level and structure of rates is sufficient, but no more than sufficient, to allow public service companies to cover their operating costs including, but not limited to, appropriate staffing levels, and capital costs, to attract needed capital and to maintain their financial integrity, and yet provide appropriate protection to the relevant public interests, both existing and foreseeable which shall include, but not be limited to, reasonable costs of security of assets, facilities and equipment. With respect to the computation of rate base, PURA ***failed to apply this standard*** by manipulating the computation of rate base to artificially reduce the rate base balance and deprive the Company of its fair and reasonable return of capital invested for utility purposes.

157. As noted previously, ADIT is an offset to rate base, so that the larger the amount of ADIT, the more the reduction to rate base – and conversely – the lower the amount of ADIT, the less reduction to rate base. Where rate base is artificially reduced, the Company is deprived of its return on invested capital, contradicting proper ratemaking practice and constitutional principles. Although PURA ties the updated ADIT figure to the "independent audit" ordered in Section VI.E.4, ***it is not related***. The independent audit relates to EADIT, which is a concept that does not pertain to ADIT arising after January 1, 2018. Moreover, the independent audit is also

an arbitrary and capricious decision for the reasons discussed below in Count 12 of this appeal petition. PURA did not provide any notice of this erroneous determination in the Proposed Decision.

158. Moreover, the excess ADIT (or "EADIT") due to customers of $51.6 million, established in 2018 as a result of the 2017 Federal Tax Cuts and Jobs Act, is one component of the ADIT balance *and remains unchanged* ***for the year 2022***. The rate case application proposed to return, or credit, to customers an annual amortization of $2,804,852 of EADIT, starting with the effective date of new rates in this proceeding. However, these amounts have nothing to do with the pro forma adjustment for actual ADIT of $1,092,000 and this amount will ***not*** be part of the independent audit framed by PURA in its Final Decision.

159. Thus, PURA's determination in the Final Decision to eliminate this pro forma adjustment is baseless, erroneous and arbitrary. The reason that PURA has eliminated it is because the proforma adjustment reduces ADIT as of December 31, 2022 of $1,092,000, which has the effect of causing a corresponding ***increase*** to rate base and a related increase in return on rate base. Consequently, this is an adjustment to the Company's benefit, which PURA has arbitrarily rejected. Carrying this amount out through December 15, 2022, would be consistent with PURA's arbitrary action to extend accumulated depreciation through that date. Instead, PURA has directed the Company to follow a *third treatment* for the rate-base components, which is *not* to use August 31, 2022 (the date of the rate base computation for net utility plant); and *not* to use December 31, 2022 (the date of the accumulated depreciation expense), but rather to use a *test year* amount of ADIT because that is the highest level of ADIT on the record and will impose a relatively ***greater*** reduction to rate base. As a result, PURA has adopted three different time points for separate elements of rate base, which should instead all be aligned with net utility plant on August 31, 2022.

160. Accordingly, in its Final Decision, PURA has arbitrarily denied recovery of rate base deemed prudently incurred in this proceeding, erroneously reducing the approved revenue requirement by the amount of $89,955. The financial impact associated with the arbitrary mismatch of net utility plant in service calculated as of August 31, 2022, and test year ADIT, is the product of PURA's arbitrary and capricious departures from long-held ratemaking practice with no notice and no stated justification as to the reason that it is appropriate to install this mismatch in rates.

161. PURA's erratic action to reduce rate base by creating a purposeful mismatch between net utility plant calculated as of August 31, 2022 and ADIT recorded as of December 31, 2021, prejudices the Company's substantial rights because the determination is arbitrary and capricious, violates the Company's due process and statutory rights, and constitutes an abuse of discretion resulting in unjust and unreasonable rates and, as a consequence, unconstitutional confiscation.

COUNT SEVEN

PURA's Decision to Disallow 100% of the Variable Component of Employee Compensation Is an Error of Law Due to a Failure to Apply the Correct Legal Standard.

162. Aquarion incorporates herein by reference Paragraphs 1 through 161 above as if fully set forth herein.

163. In the Final Decision, PURA denied recovery of 100 percent of the Company's "employee incentive compensation," which is one of two elements comprising the Company's total "Employee Compensation" package for employees, which the Company relies on to attract and retain the skilled and experienced employees that are necessary to provide reliable, clean water to customers. (Final Decision at 60-64). Specifically, the Company requested recovery of a total of $1,706,725 to cover the operating expense of the annual employee incentive compensation

program (plus, another $500,000 that was disallowed as a capitalized amount). (Id., at 63). PURA disallowed 100% of employee compensation on the basis that "the evidence in the record does not support the conclusion that the Incentive Program properly incentivizes employees or benefits ratepayers in such a way that it constitutes prudent and efficient management of the Company's operation." (Id., at 63).

164. In disallowing this portion of employee compensation, PURA cited to the following conclusions that: (1) the Company failed to demonstrate that the Incentive Program *is required* to maintain competitive salaries and employee retention (id.); (2) the Company provided *no evidence* to substantiate its burden that the Incentive Program incentivizes its employees; (3) employees only receive employee incentive compensation if the Incentive Program is funded; and (4) since 70% of the employee incentive compensation is tied to achievement of financial goals, the Incentive Program *primarily benefits the Company's shareholders, rather than ratepayer*s (id. at 64). PURA therefore concluded that the employee incentive compensation program "is more accurately described as a bonus plan than an incentive plan and is denied on the basis that the Incentive Program provides little, if any, benefit to ratepayers." (Id. at 64).

165. PURA's disallowance of 100% of the Company's employee incentive compensation is arbitrary and capricious and an abuse of discretion prejudicing the Company's substantial rights. Under the UAPA, PURA's Decision is subject to reversal where there is a demonstration that the Company's substantial rights are prejudiced by the fact that PURA's administrative findings, inferences, conclusions, or decisions are: (1) in violation of constitutional or statutory provisions; (2) in excess of the statutory authority of the agency; (3) made upon unlawful procedure; (4) affected by other error of law; (5) clearly erroneous in view of the reliable, probative, and substantial evidence on the whole record; or (6) arbitrary or capricious or

characterized by abuse of discretion or clearly unwarranted exercise of discretion. Conn. Gen. Stat. § 4-183(j). Under this standard, Aquarion's outcome depriving recovery of this cost should be reversed by the Court.

166. PURA's exclusion of approximately $2.2 million in employee compensation costs is an error of law because PURA has failed to apply the correct legal standard to its consideration of these costs.

167. Under Conn. Gen. Stat. § 16-19(e)(a)(4) (emphasis added), PURA is obligated to assure that the level and structure of rates is "sufficient, but no more than sufficient, to allow public service companies ***to cover their operating costs*** including, but not limited to, ***appropriate staffing levels***, and capital costs, to attract needed capital and to maintain their financial integrity, and yet provide appropriate protection to the relevant public interests, both existing and foreseeable …" (emphasis added). Under Conn. Gen. Stat. § 16-19(e)(a)(5), PURA is to determine that the level and structure of rates charged customers shall reflect ***prudent and efficient management*** of the franchise operation. Moreover, the prudence of a management decision ***depends on good faith and reasonableness, judged at the time the decision is made***. CL&P v. DPUC, 216 Conn. at 645 (emphasis added).

168. In the Final Decision, PURA fails to apply the applicable legal standards in §§ 16-19e(a)(4) and (5) to any extent in evaluating Aquarion's request to recover this component of employee compensation. For example, under the applicable legal standard established in § 16-19e(a)(5), PURA was required to evaluate whether allowing recovery of this "level and structure of rates charged customers . . . reflect[s] prudent and efficient management" by Aquarion. Conn. Gen. Stat. § 16-19e(a)(5). Specifically, the Connecticut Supreme Court explained that when a utility company seeks to recover in rates a cost of providing utility service, the prudence standard

that must be applied is that the prudence of a management decision depends on good faith and reasonableness, judged at the time the decision is made. CL&P v. DPUC, 216 Conn. at 645, citing Violet v. Federal Energy Regulatory Commission, 800 F.2d 280, 282–83 (1st Cir.1986). Although the Company bears the burden of proving the prudence of its operating costs for inclusion in rates, PURA never even reached this examination in the Decision because PURA failed to perform the correct examination under § 16-19e(a)(4), as well as to properly conduct a prudence inquiry under § 16-19e(a)(5).

169. In the Final Decision, PURA effectively turned the legal standard upside down by stating that disallowance was justified by a series of propositions that PURA put forward as the "test" for recovery, where then PURA concluded that the Company's plan did not meet the criteria inherent on those propositions. None of the propositions are principles established as the proper measure of the incentive compensation program. As a result, PURA has arbitrarily applied random criteria to disallow this expense instead of applying the statutory standard combined with the prudence review.

170. PURA has a statutory obligation to set rates that recover prudent operating expenses and to allow the Company the opportunity to demonstrate its operating costs are prudent. PURA's tactic on this expense is effectively a pre-judgment of the costs based on criteria PURA has decided to apply, such as whether shareholders obtain a benefit, or whether customers experience a "direct" benefit. A prudence review involves the Company putting forth its reasons that it incurs the costs; how it incurs the costs; how it works to contains the costs; and why the costs are necessary to provide utility service to customers in order to show that the costs are reasonable, warranted and necessary in the course of providing service to customers. In turn, PURA is supposed to look at the evidence and determine whether the Company's decisions to incur the cost based on all of the

record evidence exhibits "good faith and reasonableness, judged at the time the decision is made." Here, PURA makes absolutely ***no attempt*** to apply this standard and the Final Decision contains no language from PURA discussing how the Company has failed in demonstrating "good faith and reasonableness" in relation to this component of employee compensation.

171. For example, PURA asserts that "the evidence in the record does not support a finding that the Incentive Program properly incentivizes employees or benefits ratepayers in a way that constitutes efficient management of the Company's operation." However, over two pages of the Decision, this is just a conclusion with nothing behind it. The vague facts that are referenced have no direct bearing on the program and there is no discussion as to where the Company's program actually falls down. There is no analysis by PURA of the details in the record of the Incentive Program and how it works or, conversely how it does not work to "incentivize" employee performance; no discussion of potential alternatives or identification of the aspects of the program that do or do not achieve the goal of "good faith and reasonableness;" and most importantly, no statement by PURA as to the reasons that there is no good faith or reasonable outcomes in the program. PURA only states conclusions to fit random criteria that PURA imagines might be a basis for excluding this cost from recovery in rates. A prudence review would involve the regulator's analysis of the costs and then the regulator's conclusions as to why the Company's actions are unreasonable or in bad faith in incurring those costs. This does not occur in the Final Decision.

172. Instead, there are seven paragraphs in the Decision in which PURA makes only conclusory statements ultimately concluding that the program benefits shareholders and/or provides no *direct* benefit to ratepayers, neither of which is a criterion expressed in the statutory standard allowing cost recovery. Employees are necessary for operation of the system and delivery

of service to customers. The very existence of these employees is a direct benefit to customers – i.e., the Company does not have to prove that customers receive some unique, direct benefit from the employee compensation program in isolation of other components of their service in order to show that these costs are reasonably incurred. The program is for employees and the existence of employees is a direct benefit to customers. Rather than analyzing and weighing record evidence in relation to the correct legal standard in § 16-19e(a) and CL&P v. DPUC, PURA simply provides a series of conclusions on random aspects of the overall picture, which falls far short of a correct application of the statutory standard in § 16-19e(a).

173. Moreover, even if it were accurate that shareholders obtain a benefit as a result of the employee incentive compensation program, PURA cannot lawfully disallow costs on the basis that shareholders do receive a benefit – there is no such legal standard applicable to ratemaking and PURA does not cite such a standard throughout the entire Decision. In fact, the lack of analysis and consideration belies a *prejudgment* of the program costs that no effort by the Company would be able to overcome.

174. For example, PURA's main basis for disallowing the costs is that the Company provided "no evidence" to substantiate its alleged burden that "the Incentive Program incentivizes employees." On appeal, the Company will demonstrate this statement to be wrong, based on the substantial existing record evidence. However, this casual statement bears no wisp of a prudence inquiry. There is no organized description by PURA of the Company's program, nor analysis of how, why and to what extent the Company conducts the program as part of its "prudent and efficient management of the franchise operation." PURA does not discuss or analyze -- or even reference -- in the Decision as to how the Incentive Program works for employees, or when they do or do not receive their individual incentive compensation, or at what level for what level of

performance. Any discussion of this kind is absent from the Decision. If PURA has not addressed any details of the Incentive Program in its Decision, then it is not possible to determine how this component of employee compensation failed the statutory prudence test.

175. As with other issues raised on appeal, PURA fails to square the fact that PURA has allowed recovery of ***base*** compensation in the Decision for all of the Aquarion employees in question, representing an acknowledgement that the Company needs these employees to deliver safe and reliable water service to customers and furthermore that Aquarion is acting prudently to pay its employees. PURA reached a finding that the level of employees in question (324 employees) is necessary to provide service to customers (Decision at 61). As a result, there is no rational basis for excluding the second part of compensation paid to these employees as part of the Decision, unless there was a finding that the cost was not prudently incurred. However, there is no prudence analysis set forth in the Decision that would indicate PURA has conducted such an inquiry. Instead, PURA spends time in the decision talking about how shareholders can recover this cost through the earning sharing mechanism, which is a fundamentally flawed and non-sensical premise.

176. With respect to shareholders, the Final Decision alludes in several places to the fact that the Company could seek recovery of certain costs from shareholders where PURA has disallowed recovery from its customers through rates, or separately that shareholders can bear the cost of disallowed expenses instead of customers. (See, e.g., Final Decision at 62, 64, 66, 81, 82). However, these statements belie a complete lack of understanding of the legal and financial parameters of utility ratemaking. From a legal perspective, Connecticut law sets the standards for recovery of costs that are incurred to provide service to customers, including Conn. Gen. Stat. §§ 16-19e(a)(4) and (5), which generally and appropriately place the burden on utilities to

demonstrate that their operating costs are reasonably and prudently incurred. There is no legal standard that has PURA determining whether the costs *benefit* shareholders or customers and *attributing* costs in that manner (particularly without any record evidence supporting that allocation), without any determination of prudence. Nor is PURA free to make a pre-judgment as to the costs that may or may not satisfy the prudence standard before the utility has had the opportunity to present that case. From a financial perspective, utility companies do not "seek recovery" of costs from shareholders, after approval or disapproval by their regulator. Equity investors and debtholders provide the Company with capital resources, which the Company devotes to capital investment on the system. These capital resources need to be returned to investors and lenders with a reasonable return for the resource provided. When PURA denies the recovery of unavoidable operating costs, these disallowances prevent the utility company from earning a fair and reasonable return for shareholders. This is the reason that the U.S. Constitution and Connecticut state law require more of PURA than random decisions to throw out costs under pretenses and, instead, requires PURA to conduct a thoughtful, methodical inquiry into the reasons that costs are incurred and the way that costs are managed by the business in providing service to customers. This is the essence of a prudence review required under Conn. Gen. Stat. §§ 16-19e(a)(4) and (5), and PURA has failed on that burden by not even attempting such an inquiry.

177. Accordingly, in its Final Decision, PURA has arbitrarily denied recovery of employee compensation costs for the Incentive Program, erroneously reducing the approved revenue requirement by the amount of $1,706,725. The financial impact associated with the arbitrary disallowance of this expense is the product of PURA's arbitrary and capricious failure to follow or apply the applicable legal standard in § 16-19e(a), as well as a departure from long-held ratemaking practice.

178. PURA's erratic action to exclude employee compensation costs prejudices the Company's substantial rights because the determination is arbitrary and capricious, violates the Company's due process rights and constitutes and error of law by failing to apply the correct statutory standard, and constitutes an abuse of discretion resulting in unjust and unreasonable rates and, as a consequence, unconstitutional confiscation.

COUNT EIGHT

PURA's Decision to Disallow Deferred Conservation Expense Is an Error of Law Due to a Failure to Apply the Correct Legal Standard.

179. Aquarion incorporates herein by reference Paragraphs 1 through 178 above as if fully set forth herein.

180. PURA's disallowance of 50% of the Company's deferred conservation expense is arbitrary and capricious and an abuse of discretion prejudicing the Company's substantial rights. Under the UAPA, PURA's Decision is subject to reversal where there is a demonstration that the Company's substantial rights are prejudiced by the fact that PURA's administrative findings, inferences, conclusions, or decisions are: (1) in violation of constitutional or statutory provisions; (2) in excess of the statutory authority of the agency; (3) made upon unlawful procedure; (4) affected by other error of law; (5) clearly erroneous in view of the reliable, probative, and substantial evidence on the whole record; or (6) arbitrary or capricious or characterized by abuse of discretion or clearly unwarranted exercise of discretion. Conn. Gen. Stat. § 4-183(j). This outcome should be reversed by the Court.

181. In the Final Decision, PURA denied recovery of **50 percent** of the Company's "deferred conservation expense." PURA authorized deferred regulatory asset treatment for any new conservation expenses approved in the July 6, 2016 Decision ("Conservation Decision") in

Docket No. 13-08-16, PURA Investigation of Water and Energy Conservation Programs Eligible for Costs Recovery during General Rate Cases, and incurred prior to the company's next rate case, provided that the company "implements [such programs] and demonstrates that the expenses for such programs were reasonable and prudent." Conservation Decision, at 2-3 (emphasis added). A regulatory asset represents an incurred expense that is probable of recovery in the future, enabled either by PURA Order, legislative mandate, or prior PURA precedent. By authorizing deferred regulatory asset treatment in the prior decision, PURA established that the Company would be entitled to recover these costs in a future base-rate proceeding. By authorizing deferred regulatory asset treatment in its prior decision, PURA established that the Company would be entitled to recover these costs in a future base-rate proceeding (i.e., this base rate proceeding) upon a finding that such costs were incurred prudently. Conservation Decision at 3.[38]

182. In the Decision, PURA concludes that only $1,498,051 or 50% of the Company's actual deferred conservation expenses were reasonable and prudent. Accordingly, PURA disallowed a total of $1,498,050 of deferred conservation expenses. (Decision at 88). PURA disallowed this expense on the basis that, although the Company demonstrated that water usage has decreased in the aggregate across its systems, "it is unable to attribute these reductions specifically to the conservation program." (Decision at 87). PURA also cites to the absence of "key performance indicators" as a basis for disallowance. There is simply no more to it.

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[38] The Conservation Decision was implemented pursuant to Public Act 13-78, Section 2, which authorized Aquarion to recover its prudently incurred conservation program costs in rates. Section 2 of Public Act 13-78 states in relevant part that, "The Public Utilities Regulatory Authority shall initiate a docket to identify water and energy conservation programs, including, as applicable, measures in an approved water supply plan pursuant to section 25-32d of the general statutes, that would be eligible for recovery by any water company, as defined in section 16-1 of the general statutes, in a general rate case, provided such company implements such programs and demonstrates with information and data available to the public that the expenses for such programs were ***reasonable and prudent***." (emphasis added.)

183. PURA's exclusion of approximately $1.5 million in deferred conservation expense is an error of law because PURA has failed to apply the correct legal standard in § 16-19e(a) to its consideration of these costs. For example, PURA fails to explain in its Decision how either of the two factors cited as reasons that the Company's recovery fails are the necessary and exclusive factors that would demonstrate that the conservation expenses are the function of "prudent and efficient management."

184. Under Conn. Gen. Stat. § 16-19e(a)(4), PURA is obligated to assure that the level and structure of rates is "sufficient, but no more than sufficient, to allow public service companies ***to cover their operating costs*** including, but not limited to, appropriate staffing levels, and capital costs, to attract needed capital and to maintain their financial integrity, and yet provide appropriate protection to the relevant public interests, both existing and foreseeable …" Under Conn. Gen. Stat. § 16-19e(a)(5), PURA is to determine that the level and structure of rates charged customers shall reflect ***prudent and efficient management*** of the franchise operation. Moreover, the prudence of a management decision ***depends on good faith and reasonableness, judged at the time the decision is made.*** CL&P v. DPUC, 216 Conn. at 645.

185. PURA has not, however, conducted any inquiry or analysis in relation to this disallowance that meets the obligations imposed on PURA under § 16-19e(a) and CL&P v. DPUC, to review the Company's deferred conservation costs. Fundamentally, PURA's obligation under the law is to evaluate the prudence of the Company's deferred conservation expense from the perspective of whether the Company's implementation of the conservation program reflected good faith and reasonable decision-making by management based on the information gathered and known to the Company at the time of its decision-making. In the Final Decision, PURA utterly

fails to apply the applicable legal standard to the facts contained in the record and none of this type of legal and factual analysis is referenced in PURA's Decision.

186. In particular, PURA offers no basis for its conclusion that 50% of the expense is the product of "prudent and efficient management" and the remaining 50% is not prudent. Instead, PURA acknowledges that the Company demonstrated that it saved approximately $1.5 million in variable cost savings by virtue of the conservation program, but PURA claims it was not convinced that the program also enabled the Company to avoid making certain infrastructure investments due to the program's decrease in the overall consumption of water by customers. (Decision at 87-88).

187. There is simply no valid reason stated as to how the Company has failed the statutory recovery standard in § 16-19e(a) for only one half of the program expenses.

188. Accordingly, in its Final Decision, PURA has failed to apply the correct legal standard in § 16-19e(a) for recovery of deferred conservation expense and therefore has arbitrarily and erroneously reduced the approved revenue requirement by the amount of $1,498,050, amortized over five years for an annual amortization of approximately $249,675. The financial impact associated with the arbitrary disallowance of this expense is the product of PURA's arbitrary and capricious failure to follow or apply the applicable legal standard, as well as a departure from long-held ratemaking practice.

189. PURA's erratic action to reduce recoverable operating expense by approximately $1.5 million prejudices the Company's substantial rights because the determination is arbitrary and capricious, violates the Company's due process rights and constitutes an error of law by failing to apply the correct legal standard; and constitutes an abuse of discretion resulting in unjust and unreasonable rates and, as a consequence, unconstitutional confiscation.

COUNT NINE

PURA's Decision to Disallow Rate Case Expense Is an Error of Law Due to a Failure to Apply the Correct Legal Standard.

190. Aquarion incorporates herein by reference Paragraphs 1 through 189 above as if fully set forth herein.

191. PURA's disallowance of the Company's rate-case expense is arbitrary and capricious and an abuse of discretion prejudicing the Company's substantial rights. Under the UAPA, PURA's Decision is subject to reversal where there is a demonstration that the Company's substantial rights are prejudiced by the fact that PURA's administrative findings, inferences, conclusions, or decisions are: (1) in violation of constitutional or statutory provisions; (2) in excess of the statutory authority of the agency; (3) made upon unlawful procedure; (4) affected by other error of law; (5) clearly erroneous in view of the reliable, probative, and substantial evidence on the whole record; or (6) arbitrary or capricious or characterized by abuse of discretion or clearly unwarranted exercise of discretion. Conn. Gen. Stat. § 4-183(j). This outcome should be reversed by the Court.

192. In the Final Decision, PURA denied recovery of 65 percent of the Company's "rate case costs." (Decision at 83). Thus, PURA disallowed expenses totaling $685,820, stating that "in cases of expenditures that inure to the benefit of both ratepayers and shareholders, the Company must demonstrate that the cost sought to be recovered were incurred for the benefit of ratepayers." More specifically, PURA disallowed $390,000 for outside legal costs and $181,320 for expert witnesses on the basis that the Company "did not provide any direct evidence that these costs were prudent or benefitted ratepayers." PURA further stated that "these consultants and lawyers represented and advocated for the positions of Company and its shareholders during the

proceeding. As such, the Authority denies the recovery of these $571,320 in costs because they have not been shown to provide a benefit to ratepayers." (Decision at 83).

193. PURA's exclusion of $685,820 in rate-case expense is an error of law because PURA has failed to apply the correct legal standard to its consideration of these costs. The disallowance of $685,620 reflects $390,000 for outside legal costs, $181,320 for expert witnesses and $114,500 that represents a portion of the costs of transcript preparation, administrative costs and a Cost of Service/Rate Design study (in which $390,000 + $181,320 + $114,500 = $685,820.)

194. Under Conn. Gen. Stat. § 16-19e(a)(4), PURA is obligated to assure that the level and structure of rates is "sufficient, but no more than sufficient, to allow public service companies ***to cover their operating costs*** including, but not limited to, appropriate staffing levels, and capital costs, to attract needed capital and to maintain their financial integrity, and yet provide appropriate protection to the relevant public interests, both existing and foreseeable …" (emphasis added). Under Conn. Gen. Stat. § 16-19e(a)(5), PURA is to determine that the level and structure of rates charged customers shall reflect ***prudent and efficient management*** of the franchise operation. Moreover, the prudence of a management decision ***depends on good faith and reasonableness, judged at the time the decision is made***. CL&P v. DPUC, 216 Conn. at 645 (emphasis added).

195. Under Connecticut law, there is no such standard requiring a public-service company such as Aquarion to demonstrate that, "in cases of expenditures that inure to the benefit of both ratepayers and shareholders, the Company must demonstrate that the cost sought to be recovered were incurred for the benefit of ratepayers." PURA does not cite any source for this standard and PURA has no legal authority to apply this standard rather than the statutory standard in §§ 16-19ea(4) and ea(5).

196. Even if PURA had the discretion to apply such a standard, which it does not, it has not made even a cursory attempt to justify such dismissive positions, that "these consultants and lawyers represented and advocated for the positions of Company and its shareholders during the proceeding." Without any discussion or analysis whatsoever, PURA has concluded in its Decision that costs incurred by the Company to participate in base rate case proceedings are exclusively to the benefit of its shareholders. There is no legal standard that requires the Company to demonstrate there is no shareholder benefit in order to obtain recovery of its costs.

197. Accordingly, in its Final Decision, PURA has arbitrarily denied recovery of rate-case costs, erroneously reducing the approved revenue requirement by the amount of $685,820, amortized over five years for an annual impact of $137,164. The financial impact associated with the arbitrary disallowance of this expense is the product of PURA's arbitrary and capricious failure to follow or apply the applicable legal standard, as well as a departure from long-held ratemaking practice.

198. PURA's erratic action to reduce recoverable operating expense by approximately $700,000 is arbitrary and capricious, violates the Company's due process rights and constitutes an error of law by failing to apply the correct statutory standard, and constitutes an abuse of discretion resulting in unjust and unreasonable rates and, as a consequence, unconstitutional confiscation.

COUNT TEN

PURA's Decision on the Authorized Return on Equity Are Patently Founded on Information Not in the Record for the Proceeding and Not Noticed to the Company or Other Parties.

199. Aquarion incorporates herein by reference Paragraphs 1 through 198 above as if fully set forth herein.

200. In the Final Decision, PURA established an authorized return on equity of 8.7%, which PURA deemed to be the "just and reasonable ROE," with the stated basis being:

> The Authority examined several factors in determining a just and reasonable ROE, including current economic and market conditions, analytical models and cost of equity capital methodologies, such as the Discounted Cash Flow (DCF) Model and the Capital Asset Pricing Model (CAPM), ROEs of similar companies in other jurisdictions, and the Company's financial risk and credit rating. In reviewing these cost of capital methods, **the Authority made determinations regarding each method's input components and reviewed variations of the models**. Additionally, other relevant factors were analyzed in the process of evaluating and applying the cost of equity models. The Authority finds an 8.70% ROE **to be consistent with these cost of equity methodologies and the factors considered herein**.

(Final Decision at 39; emphasized).

201. Although PURA retains discretion to determine the authorized rate of return, PURA is not relieved of its obligations under Conn. Gen. Stat. § 4-183(j) to base its decisions on substantial evidence in the record. Reliance on extra-record material for important facts demonstrates substantial prejudice. Conn. Natural Gas Corp. v. Pub. Util. Control Authority, 183 Conn. 128, 140 (1981), stating that "[r]eliance on extra-record evidence for important facts demonstrates substantial prejudice." The inclusion of improper evidence in the record upon which the decision is based does not, by itself, invalidate the decision, but the use of improper evidence requires a remand where a party has affirmatively shown substantial prejudice. Id. at 139.

202. In this case, PURA states that its ROE determination rests on "cost of equity methodologies," including regarding "each cost of capital method" and "each method's input components." All of these methods are heavily reliant on information and data not in the record for the proceeding, causing PURA's conclusions to be unfounded and arbitrary and capricious.

203. First, the examination of ROE starts with a reasonable proxy group. In the Decision, PURA included York Water in the water utility group over the Company's objections,

stating, "in conducting its analysis, the Authority ***was able to ascertain credible financial information*** for York Water to keep it in the proxy group." (Decision at 33; emphasis added.) PURA provides no citation or statement as to what the "credible financial information" is that is relied on by PURA or any discussion of how the Authority was able to ascertain this information for York Water when other parties could not. The Company did not include York Water in its updated analysis in rebuttal testimony; OCC did not include York Water in its analysis and the financial information on the record that pertains to York Water was very limited. Further, EOE included York Water in its proxy group; however, EOE's witness noted significant data issues and filed corrected testimony dated November 30, 2022, observing:

> It was recently brought to my attention that the way Value Line data is brought into my model led to some unintended consequences when in-depth coverage data for YORK was not available as of July 2022, the date of the last available Value Line company reports I used for all of the other companies in the proxy group. In short, even though some of the no-longer-available data was referenced or calculated as "NA" as it should have been, some of the source data was inadvertently referenced as a value of 0, which caused these 0 values to be erroneously included in averages for the proxy group."

(Rothschild Comment on Updated Testimony, November 30, 2022, at 1).

204. Given the limited data on the record, and issues noted by EOE, it is significant that the "credible financial information" is not identified by PURA and non-existent in the record. Further, PURA drew a conclusion in the Final Decision at page 49 that, "the Company's exclusive reliance on EPS growth rates overestimates dividend growth by ignoring the impact of projected DPS, BVPS, and retention growth." There are no estimates of DPS, BVPS, and retention growth for York Water in the record evidence; yet PURA has arbitrarily included this company in the proxy group. PURA's stated reason for including York Water is that "the Company appears to have removed York Water from the proxy group after determining that its exclusion resulted in

increases in the Discounted Cash Flow Model and Capital Asset Pricing Model results favorable to the Company." (Decision at 33). The inclusion of York Water has a direct and substantial impact on the computation and the data for this utility was recognized by all parties as being problematic. In fact, PURA has recognized that the addition or removal of just one company from the proxy group used in a case can have a substantial impact on the outcome, admitting that "[w]ith only 13 companies in the proxy group, the elimination of one company has a significant impact on the mathematical averages." (Decision at 48). Therefore, the "credible financial information" found by PURA and not entered into the record is producing an arbitrary and capricious result and substantially prejudices the Company's rights to a reasonable outcome.

205. Second, in the Final Decision at 43, PURA states that, "in addition to determining the dividend yield using the 1+.5g factor approach, the Authority also considers the dividend yield calculated ***using commercially available data from Value Line*** that estimates the dividend for the next 12 months. Specifically, the Authority examines the dividend yield that results from dividing the projected 12-month dividend by the average daily stock price. The projected dividend is available at Value Line: Summary & Index's column (f), Estimated Dividend Yield Next 12 Months (Value Line Column (f)). However, the Value Line Column (f) data is based upon Value Line's proprietary algorithm that projects the timing and amount of dividend payments to estimate the dividend payment for the next 12 months rather than using the 1+.5g factor approach." (Final Decision at 43; emphasis added).

206. The Company, OCC, and EOE all relied on the "the proposed 1+.5g factor approach." However, the Authority's reliance on the "Value Line: Summary & Index, Column (f)" for expected dividends is not supported by the record as no witness relied on, produced a record of, or otherwise supported this methodology. The "Value Line Column (f) data is based

upon Value Line's *proprietary algorithm* that projects the timing and amount of dividend payments to estimate the dividend payment for the next 12 months" [emphasis added]. However, there is no record evidence or expert opinion as to the third-party data provider's "proprietary algorithm," or its reliability for use in the model approach. Accordingly, PURA's use of, and reliance on, this extra-record algorithm produces an arbitrary and capricious result and prejudices the Company's rights to a reasonable outcome.

207. Third, in the Final Decision, PURA states that "using the Value Line Column (f) estimates for 12-month dividends for the proxy group ***as of November 4, 2022***, Value Line Investment Survey Summary and Index and the 30-day average daily stock price as of *December 9, 2022*, the average expected dividend yield is 2.57% (median is 2.52%)" (Decision at 43). However, the most current market data submitted by the Company was the data presented in its rebuttal testimony, which relied on data as of October 31, 2022. OCC relied on market data as of October 2022 and EOE relied on market data as of September 30, 2022. No party provided market data as of the dates cited by the Authority in its decision – November 4, 2022 and December 9, 2022. Therefore, this market data is not established in the record of evidence, nor has the data been noticed by PURA to allow comment by the Company and other parties. Accordingly, PURA's use of, and reliance on, this extra-record data produces an arbitrary and capricious result and prejudices the Company's rights to a reasonable outcome.

208. Fourth, in presenting data in Table 17 of the Final Decision (a copy of which is reproduced below), PURA states that it has relied on the most current market data provided by the Company, which was the Company's rebuttal testimony using data as of October 31, 2022. OCC relied on market data as of October 2022, and EOE relied on market data as of September 30, 2022. No party provided market data as of the dates cited by the Authority in its decision –

November/December 2022. Therefore, this market data is not established in the record evidence, nor has the data been noticed by PURA to allow comment by the Company and other parties. Accordingly, PURA's use of, and reliance on, this extra-record data produces an arbitrary and capricious result and substantially prejudices the Company's rights to a reasonable outcome.

Table 17: DCF Dividend Yield Estimates (%)

	Mean	**Median**
Company (June)	2.60	2.52
Company (Oct.)	2.92	2.76
OCC (Oct.)	2.48	
EOE (Sept.)	1.83	
Column (f) Analysis (Nov./Dec.)	2.57	2.52

(Decision at 44)

209. Fifth, in the Final Decision, PURA states that the "stock price data examined by the Authority in December reflected an average stock price of $74.78." (Decision at 44). However, the most current market data provided by the Company was incorporated to its rebuttal testimony, which relied on data as of October 31, 2022. OCC relied on market data as of October 2022, and EOE relied on market data as of September 30, 2022. No party provided market data as of the dates cited by the Authority in its decision – December 2022. Therefore, this market data is not established in the record evidence, nor has the data been noticed by PURA to allow comment by the Company and other parties. Accordingly, PURA's use of, and reliance on, this extra-record data produces an arbitrary and capricious result and prejudices the Company's rights to a reasonable outcome.

210. Further, the calculation of "an average stock price of $74.78" is a very specific calculation of market data. If the argument is that stock price data is readily available from public sources and is not prejudicial to the Company even if not noticed to the parties or included in the

record, it is significant that the Company has not been able to replicate the result using publicly available market data. With respect to the ROE computation, there is at least the necessity of analysis being established as part of the record of evidence so it is transparent and can be validated by all parties. This analysis fails this basic test.

211. Sixth, in the Final Decision, PURA states that it:

> [E]xamined the 5-year projected EPS growth rates of the proxy group using estimates from Yahoo! Finance, Zacks, Value Line, ***as of November 25, 2022***, which ranged from 3.20% (Yahoo! Finance, Middlesex Water) to 14.00% (Value Line, SJW Group). The average growth rate based on EPS growth was 7.05%. Next, the Authority analyzed the Value Line projected DPS, BVPS, and retention growth rates, which ranged from 2.50% (Middlesex Water, BVPS) to 9.00% (American States Water, DVPS). The average projected growth was 5.23%. The lower growth rate based on DPS, BVPS, and retention is expected given that EPS growth rates can overestimate dividend growth. Applying an equal weighting to these two growth categories, the average growth is 6.14% (median of 6.21%)."

(Decision at 46; emphasis added.)

However, the most current market data provided by the Company was its rebuttal testimony, which relied on data as of October 31, 2022. OCC relied on market data as of October 2022, and EOE relied on market data as of September 30, 2022. No party provided market data as of the dates cited by the Authority in its decision – November 25, 2022. Therefore, this market data is not established in the record evidence, nor has the data been noticed by PURA to allow comment by the Company and other parties. Accordingly, PURA's use of, and reliance on, this extra-record data produces an arbitrary and capricious result and prejudices the Company's rights to a reasonable outcome.

212. Seventh, in the Final Decision, PURA states that:

> Accounting for DPS, BVPS, and retention growth rates in addition to EPS growth rates, the Authority calculates a ROE range of 5.55% to 10.30%, with a mean of 8.71% and a median of 9.02%. In its calculation, the

> Authority includes Yahoo!, Zacks, and Reuters' forecasts of EPS in the analysis, Value Line's five-year projected growth rate per share estimates for earnings dividends, and book values, as well as retention growth rates."

(Decision at 47).

Significantly, the mean result of 8.71% is established by the sum of a mean dividend yield of 2.57% and a mean growth rate of 6.14%. Both the mean dividend yield and the mean growth rate are apparently derived from data and/or associated analysis that is not part of the record evidence. Moreover, both elements were based on market data that does not exist in the record and was not noticed to the parties. In the Proposed Decision, PURA stated "the Authority finds a ROE that reflects the approximate mean of the DCF Model represents a reasonable ROE," establishing that the mean result of 8.71% is the primary foundation for the "just and reasonable ROE" of 8.7% (Proposed Decision at 50). However, this conclusion was removed in the Final Decision, after the Company raised the issue in Written Exceptions that data used for this computation was not in the record. Now, the Final Decision is vague as to the analytical basis for PURA's determination of ROE, with PURA concluding that "an ROE of 8.70% is reasonable and provides the proper balance between shareholders and ratepayers." (Final Decision at 58).

213. Notably, there are two fundamental alignments between the Proposed Decision and the Final Decision, suggesting that the determination as to the specific ROE determination (and PURA's reliance on the computation of the mean result of 8.71%) *has not changed*. Importantly, these two alignments are: (1) the mean of PURA's DCF model was 8.71% in both the Proposed and Final Decision; and (2) PURA's determination that the "just and reasonable ROE" is 8.70% is consistent in both the Proposed Decision and Final Decision. Accordingly, PURA's use of, and reliance on, this extra-record data produces an arbitrary and capricious result and substantially prejudices the Company's rights to a reasonable outcome.

214. Eighth, in the Decision, PURA states that "[i]n considering the various estimates, the Authority finds that, due to the dip in stock prices in the fall of 2022, the analyses using stock prices from that period (i.e., October) are biased high and are less representative of prevailing market conditions than the analyses conducted ***using June and December 2022 stock prices***." (Decision at 49). Data for December 2022 is not in the record for the proceeding. The most current market data provided by the Company was in its rebuttal testimony, which relied on data as of October 31, 2022. OCC relied on market data as of October 2022, and EOE relied on market data as of September 30, 2022. No party provided an analysis using "December 2022 stock prices." Since hearings were held in early December, and no party conducted an analysis using December 2022 stock prices, there is no record evidence to conclude how October prices compare to December stock prices. As a practical matter, the ROE witnesses appeared before PURA only four trading days into the month of December (December 5 and 6), making it impossible for the witnesses to opine on the performance of stock prices for the remaining 17 trading days of December. Accordingly, PURA's use of, and reliance on, this extra-record data produces an arbitrary and capricious result and prejudices the Company's rights to a reasonable outcome.

215. Ninth, in the Decision, PURA states "[c]onsequently, the Authority determined the Beta by averaging the Value Line Beta of all companies in the Authority's Proxy Group (0.82) and the Bloomberg Beta of all the companies in the Authority's Proxy Group (0.79), thereby resulting in a Beta of 0.805." (Decision at 50.) However, PURA does not indicate the date these average Beta coefficients were calculated or whether the averages include York Water in the proxy group. Since limited data was provided on York Water in the record evidence, it is not clear if the Authority relied on data as of June 2022, or updates that were outside the record evidence. Specifically, the Company provided York Water's Bloomberg Beta coefficient as of June 30, 2022

in Mr. Nowak's Direct Testimony, but it was not included in the Company's update submitted in Mr. Nowak's Rebuttal Testimony.

216. No other party provided Bloomberg Beta coefficients. Therefore, it is unclear as to whether the Authority: (1) excluded York Water from its average Bloomberg Beta calculations; (2) included York Water's June 30, 2022 Bloomberg Beta, which is inconsistent with the dates of other components of the Authority's ROE analysis; or (3) relied on an updated York Water Bloomberg Beta coefficient that was not established as part of the record of evidence. Each path raises concerns. Moreover, the Company has not been able to replicate the cited averages. This speaks to the issue of the necessity of analysis being established as part of the record of evidence so it is transparent and can be validated by all parties. This analysis fails this basic test. Accordingly, PURA's use of, and reliance on, this extra-record data produces an arbitrary and capricious result and prejudices the Company's rights to a reasonable outcome.

217. The use of improper evidence constitutes arbitrary and capricious action by an agency and requires a remand if a party affirmatively shows substantial prejudice, which has occurred in this case. In Written Exceptions on the Proposed Decision, the Company raised the issue to PURA that were numerous subsidiary findings in the determination of the return on equity of 8.7 percent resting on data and other information not in the record for the proceeding and/or not noticed to the record. Between the Proposed Decision and the Final Decision, the Authority substantially revised how its conclusion on the ROE determination was written to eliminate detail on how this data was used and relied on to set the extraordinarily low ROE of 8.7%.

218. In particular, in the Proposed Decision, PURA stated "the Authority finds a ROE that reflects the approximate mean of the DCF Model represents a reasonable ROE." (Proposed Decision at 50). However, this finding is removed in the Final Decision. The Final Decision is

vague as to the basis for its determination concluding "[i]n light of these and other factors discussed in more detail throughout this section, the Authority finds that an ROE of 8.70% is reasonable and provides the proper balance between shareholders and ratepayers." (Final Decision at 57-58).

219. The fact that PURA is relying on its DCF analysis in making its ROE determination is significant because the Authority's DCF analysis is based on market data as late as December 9, 2022 (Final Decision at 43), which is not in the record of the proceeding; was not noticed to the parties as data that PURA may rely on; and is a date *after* the ROE panels for all parties appeared at hearing. Therefore, the central basis for PURA's decision is based on information not included in the record evidence for the proceeding.

220. Above all else, PURA's analytical foundation is flawed due to the fact that there are differences in the cited dates of data sources for PURA's DCF analysis between the Proposed Decision and the Decision; yet, the mean result of 8.71% <u>is identical</u>, which is highly unlikely to be an accurate conclusion of actual data. For example, the Proposed Decision indicated that the "Value Line, Summary & Index was dated <u>*July 8, 2022*</u>. The Authority's Proxy Group companies' Stock Prices (Adjusted Close) were collected over the 30-business days ended <u>*August 12, 2022*</u>, from Yahoo!Finance" (Proposed Decision at 38-39, emphasis added) However, the Final Decision indicates that data was from a later period, stating "[u]sing the Value Line Column (f) estimates for 12-month dividends for the proxy group as of <u>*November 4, 2022*</u> ,Value Line Investment Survey Summary and Index and the 30-day average daily stock price as of <u>*December 9, 2022*</u>."

221. Because the Authority rested its decision on ROE on the mean of the DCF model and the basis for that computation is not founded on any data established in the record evidence, there is insufficient transparency as to determine the reasons that the DCF was updated between the Proposed Decision and Final Decision, and coincidentally yielded the exact same result to the

hundredth decimal, which is highly unlikely. PURA's decision to remove substantial amounts of detail from the Proposed Decision has the effect of further obscuring the basis for PURA's decision, perhaps intentionally. PURA has failed to provide a rational explanation for the DCF analysis on which it is relying as a central premise, and because the data that directly supports that analysis is not in the record for the proceeding.[39] Therefore, the court should sustain the appeal and reverse PURA's Decision, or remand the decision to allow parties an opportunity to exercise their due process rights under Conn. Gen. Stat. § 4-177c(a) to cross-examine and submit rebuttal evidence on the material, non-record evidence PURA relied on to calculate the authorized ROE for Aquarion.

222. Accordingly, in its Final Decision, PURA has arbitrarily and capriciously set a rate of return that is not founded on record evidence causing prejudice to Aquarion's substantial rights, including Aquarion's due process rights under the UAPA and to the Company's statutory right under Conn. Gen. Stat. § 16-19e(a)(4) to have an ROE that is sufficient to enable it to "attract needed capital and to maintain . . . [its] financial integrity". The financial impact associated with the arbitrary designation of 8.7% as a "just and reasonable ROE" is defective due to the fact that the rate of return is the product of PURA's arbitrary and capricious failure to base its decisions on record evidence reviewable by the court.

223. PURA's erratic actions setting ROE on the basis of extra-record evidence prejudices the Company's substantial rights because the determination is arbitrary and capricious, violates the Company's due process and statutory rights, and constitutes an abuse of discretion resulting in unjust and unreasonable rates and, as a consequence, unconstitutional confiscation.

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[39] No party has had the opportunity pursuant to Conn. Gen. Stat. § 4-177c(a) in this contested case to view, adopt, cross-examine or rebut that data, it is not possible to review this result.

COUNT ELEVEN

PURA's Decision to Impute Short-Term Debt to the Permanent Capital Structure Is an Error of Law and Clearly Erroneous in View of the Reliable, Probative and Substantial Evidence of Record.

224. Aquarion incorporates herein by reference Paragraphs 1 through 223 above as if fully set forth herein.

225. In the Final Decision, PURA imposed a capital structure consisting of 50.35% common equity, 47.07% long-term debt, *and 2.58% short-term debt*, although the Company's actual equity structure is 53.06% common equity and 46.947% long-term debt, *with no short-term debt* supporting permanent capital invested for the purpose of utility infrastructure. (Decision at 35-37). PURA's arbitrary inclusion of short-term debt in the Company's permanent capital structure reduces the Company's recovery of capital invested in the water system by $2,189,607 and substantially diminishes the Company's ability to maintain its credit rating, which has been proven in the days since PURA's issuance of the Decision.

226. PURA's stated basis for including short-term debt in the capital structure is an error of law because it does not adhere to the constitutional and statutory requirements embedded in Conn. Gen. Stat. § 16-19(e)(a)(4), which obligates PURA to assure that the level and structure of rates is "sufficient, but no more than sufficient, to allow public service companies ***to cover their operating costs*** including, but not limited to, appropriate staffing levels, and capital costs, to attract needed capital and to maintain their financial integrity, and yet provide appropriate protection to the relevant public interests, both existing and foreseeable …" The cost of short-term debt is substantially lower than the cost of equity and debt supporting the permanent capital invested for utility purposes. Therefore, by including short-term debt in the permanent capital structure, PURA

artificially lowers the Company's weighted cost of capital, arbitrarily depriving Aquarion of the ability to recover its actual cost of capital.

227. The Connecticut Supreme Court has reiterated that "the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks, and should also be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital." CL&P v. DPUC, 216 Conn. at 634, citing, Hope, at 603.

228. In rendering its decision to include short-term debt in the capital structure, PURA cited to the fact that "the equity ratio balances the average equity ratios ***for the proxy group companies*** (ranging from 46.5% to 49.08%) with those of ***the operating subsidiaries*** (ranging from 53.22% to 54.25%). (Final Decision at 36, emphasis added). PURA further relied on the premise that "it is also consistent with the most recent median equity ratios for ***the proxy companies***" (50.8% and 47.2%). (Final Decision at 35; emphasis added). Here, PURA fails to mention that the "proxy companies" are all public utility holding companies with higher risk levels and very different asset bases, whereas Aquarion is an "operating subsidiary" that is independently rated by credit-rating agencies for borrowing purposes and is recovering the cost of utility rate base through rates. None of the operating subsidiaries in the Proxy Group have short-term debt in the capital structure. This is a mistake of law given that PURA has failed to assure that Aquarion's capital structure, as an operating companies, is "*commensurate with returns on investments in other enterprises having corresponding risks*," as required by state law and the U.S. Supreme Court's Hope and Bluefield standards. (Final Decision at 36).

229. With respect to the rationale for including short-term debt in the capital structure supporting permanent rate base, PURA states only that its "determination with respect to the short-

term debt ratio acknowledges that the Company uses short-term debt for a variety of ***purposes but credits the testimony of the OCC and EOE witnesses*** that a portion of the short-term debt supports rate base." (Final Decision at 36; emphasis added). In fact, this does not exist..

230. Instead, with respect to OCC, the OCC's witness testified that the Company has consistently used short-term debt to finance its "operations" over the past three years and has consistently held short-term debt outstanding on a daily basis. OCC's witness also testified that, from 2018 through 2021, the Company consistently used short-term debt in the range of 1.32% to 10.25% on a quarterly basis from 2018 to 2021, with the exception of one quarter (quarter ending June 30, 2021). OCC's witness did not tie the use of short-term debt to the permanent financing of rate base.

231. The Company demonstrated on the record that it does not use short term debt to finance rate base (Tr., at 1311-1312; OCC-115, Att. A). The Company uses short term debt as working capital and it serves as a bridge until it can issue long-term debt to finance rate base assets (Exh. C-8-JCN-1, at 42). In fact, for approximately one-third of 2021, the Company was not carrying any short -term debt at all (id., at 41).

232. Additionally, because short-term debt does not support the investment in rate base and, instead, *changes continually to support cash flow in all aspects of the Company's operations,* there is no set "percentage" of short-term debt to identify for inclusion in the capital structure, objectively. Therefore, PURA had to select a percentage of short-term debt to include in the capital structure (i.e., 2.58%), which PURA states it derived on the basis of "a number of factors," including the Company's proxy group analysis showing 4.66% (utility holding companies not operating subsidiaries); the Company's daily short-term debt balance showing 5.47% (without

regard to what use it has been put), the EOE proxy group showing 3.7% (also utility holding companies, not operating subsidiaries) and the "Company's position that it does not use short-term debt for rate base, or 0%." (Final Decision at 36).

233. However, while citing these inputs, PURA provides no statement whatsoever as to how it has derived the specific number of 2.58% among the range cited for these factors, or 4.66% to 0%, respectively. (Decision at 36). As a result, PURA's quantification of the amount of short-term debt to be included in the capital structure supporting permanent rate base is entirely arbitrary and unsupported by any stated rationale.

234. PURA states in the Final Decision that it "analyzed the effect that the different capital structures and ROEs presented by the Parties would have on the Company's core metrics as it relates to the rating agency that provides ratings for the Company." (Final Decision at 36). However, PURA did not describe or delineate this analysis in its Decision. The Company demonstrates that credit metric analyses are subject to several assumptions and require significant guidance from the credit rating agencies. If the Authority analyzed various cost of capital components and the effect on credit metrics, there is no indication as to what other assumptions regarding cash flow from operations or other inputs that could affect cash flow from operations were used by PURA as part of its "analysis." Any such analysis must be transparent and subject to validation by those familiar with the rating agency evaluation processes and there is no such information on the record for this proceeding.

235. Notably, PURA did not include short term debt in the capital structure for Connecticut Water. See PURA Docket No. 20-12-30, July 28, 2021 Final Decision at 31-32. In addition, PURA has previously determined that "each individual water company should have the

flexibility to establish is capitalization mix that best maximizes its financial efficiency" and "reflects industry practice." Id. at 31.

236. Accordingly, in its Final Decision, PURA has arbitrarily and capriciously included short-term debt in the capital structure using a percentage that is not supported by record evidence or sufficiently supported with a statement of reasons by PURA. The financial impact associated with the arbitrary inclusion of 2.58% short-term debt in the capital structure is defective because there is no record evidence to support this conclusion and PURA's stated evidentiary basis is inaccurate. Thus, the capital structure is the product of PURA's arbitrary and capricious failure to base its decisions on record evidence reviewable by the court.

237. PURA's erratic actions including short-term debt in the Company's capital structure on the basis of extra-record evidence prejudices the Company's substantial rights because the determination is arbitrary and capricious, violates the Company's due process rights and constitutes an abuse of discretion resulting in unjust and unreasonable rates and, as a consequence, unconstitutional confiscation.

COUNT TWELVE

PURA's Decision to Require an Independent Audit and to Delay the EADIT Credit Is Clearly Erroneous in View of the Reliable, Probative and Substantial Evidence of Record.

238. Aquarion incorporates herein by reference Paragraphs 1 through 237 above as if fully set forth herein.

239. In the Final Decision, PURA states that when the 2017 Tax Cuts and Jobs Act (Tax Act) reduced the corporate tax rate from 35% to 21%, there was a corresponding reclassification of deferred taxes the Company had accumulated on its books as of the date of the change in the tax law. (Final Decision at 105). This reclassification resulted in a category of deferred taxes

called Excess Accumulated Deferred Income Taxes (EADIT). EADIT represent funds collected from Aquarion customers in the past that would have been paid to the IRS as tax expense at the higher tax rate, but are now owed back to customers based on the reduction of the corporate tax rate. PURA recognizes two categories of EADIT: (1) Protected EADIT and (2) Unprotected EADIT. (Id.) The EADIT amounts reported by the Company for return to customers are noted in the Final Decision, as follows:

Table 33: Unamortized EADIT as December 31, 2021

	Protected	Unprotected	Total
Aquarion	($49,750,714)	($1,020,029)	($50,770,743)
Valley	($636,100)	$0	($636,100)
Total	**($50,386,814)**	**($1,020,029)**	**($51,406,843)**

240. PURA acknowledged in the Final Decision that the speed in which these different categories of EADIT are refunded to customers is different from a legal perspective. (Decision at 105). Specifically, PURA acknowledged that IRS normalization provisions restrict how quickly Protected EADIT may be refunded to customers, while there are no such restrictions for Unprotected EADIT. PURA stated that "the additional restrictions placed on the timing of when Protected EADIT may be refunded to customers make the categorization of EADIT critically important to all stakeholders, including customers…" because, "due to these IRS restrictions, Protected EADIT is refunded to customers more slowly than Unprotected EADIT. (Id.) PURA further noted that "98% ($50,386,814 of $51,406,843) of the Company's claimed EADIT has been categorized by the Company as Protected EADIT." (Id. at 106).

241. The Company proposed to refund Protected EADIT to customers over an approximately 20-year period and to refund Unprotected EADIT over a four- to five-year period. (Final Decision at 105). The Company's proposed aggregate annual amortization was ($2,804,852).

242. In the Final Decision, PURA found that "in order for a public service company to adequately justify the burden of proof standard" in relation to the EADIT, "a necessary (though not necessarily sufficient) condition is that the subject company produces witnesses who are adequately experienced and knowledgeable in the subject areas they sponsor" and that the witness "*chose not to provide such a witness for this proceeding*." (Final Decision at 106; emphasis added). Similarly, PURA stated that "EADIT is a highly complex and unusual tax issue that has significant consequences to ratepayers [and] the Company offered no tax expert to support its EADIT quantification and categorization." (Id.) However, these two statements are categorically false and the premise that PURA can dictate to the Company that a specific type of witness must be presented in order for the Company to meet its burden of proof is patently flawed from a legal perspective. EADIT is simply excess ADIT that is being refunded due to a change in the tax rate. ADIT is the part of every rate case and is the product of a ratemaking process that every utility filing a rate case presents evidence on.

243. The Company's witness for the Revenue Requirement, Ms. Deborah Szabo, is a Certified Public Accountant in the State of Connecticut and is eminently capable of performing the computations and providing testimony on the same. Ms. Szabo's testimony addressed the computations of the EADIT refund and presented appropriate work schedules (Exhibit A-5-DAS/JAU-1, at 21-22, 28; see, also, Schedule WPC-3.8.). In the Final Decision, PURA states that "the Authority is not critical of the individual Company witness who sponsored this subject area; rather, the Authority's critique is *targeted at the Company* for choosing not to utilize alternative Company personnel" (such as the Company's Director of Taxes), who would have "been able to adequately respond to the Authorities inquiries on this issue." (Id. at 106).

244. PURA does not specify any substantive issue to which the Company was not "able to adequately respond." The ***only*** "inadequacy" cited by PURA is that certain workpapers were inadvertently not "provided with the original response" asking for "any and all workpapers that were developed and relied upon for purposes of establishing the EADIT regulatory liability." (Id.at 106). The workpapers were subsequently provided, but PURA states this is not enough since it was the same witness submitting the supplemental response. (Id.) PURA states that the workpapers were provided to the record, but several weeks after the initial response, and therefore the Company failed to produce a "tax expert" who could corroborate these calculations. (Id.).

245. PURA does not make any finding or provide any reference to any substantive question by PURA that did not get answered.

246. In the Final Decision, PURA found the following:

> For the protected EADIT, the Authority directs the Company to engage an independent third-party accounting firm (i.e., not the Company's current financial statement auditor) to perform a review to vet both the quantification and categorization of the Company's claimed protected EADIT. The Authority orders this review to be conducted as an agreed-upon procedures engagement in accordance with the attestation standards established by the ***American Institute of Certified Public Accountants***.
>
> The Authority directs the Company to have the review conducted and results of the review submitted to the Authority for review and approval no later than one year after issuance of the Decision. Because this review is necessitated ***by the failure of the Company to substantiate its burden*** herein to the detriment of ratepayers, ***the cost of this review shall not be recoverable in rates***.
>
> Upon satisfactory completion of the third-party review, the Authority will determine the appropriate method for returning the unamortized EADIT back to customers, which may include, but is not limited to, an immediate return to customers either through a distribution bill credit, a credit adjustment in the RAM calculation, or continuation of the regulatory liability until the Company's next rate case.

> The Authority further orders that the EADIT liability ***shall accrue carrying charges at the WACC rate*** until it is returned to customers.

247. There are three primary errors of law in this conclusion.

248. First, PURA has asserted that the Company has failed its burden because it has not produced a tax expert. However, PURA has been dealing with issues involving EADIT in several different dockets, for many different companies, since January 2018, including a tax docket conducted in 2018. See, Docket 18-01-15 (2018).[40] Before the issuance of the Final Decision, PURA did not ever indicate that a utility could meet its burden on the refund of EADIT only with the use of a tax expert. This is not a prerequisite that PURA has ever established, nor is it proper for PURA to make findings to the effect that a company cannot meet its burden unless the company provides testimony from a witness designated by PURA.

249. PURA has not identified any specific substantive information that the Company's witness, who is a Certified Public Accountant, was not able to answer. PURA refers only to the fact that certain workpapers were filed subsequent to the initial filing of workpapers. PURA did not identify any issue arising from those workpapers that was not answered. There is simply no valid reason cited by PURA as to the basis for a conclusion that there was "failure by the Company to substantiate its burden" regarding the computation of EADIT. PURA is requiring the Company to obtain an independent consultant that follows standards set by the "American Institute of Certified Public Accountants;" however, the Company's witness is a Certified Public Accountant

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[40] This is pursuant to Order No. 1 in Docket No. 18-01-15, PURA Review of Rate Adjustments Related to the Federal Tax Cuts and Jobs Act, issued January 23, 2019. Order No. 1 in Docket No. 18-01-15 required public-service companies "to create a regulatory liability as of January 1, 2018, to account for the reduced federal corporate income tax expense and defer treatment of the Tax Act issues until their next rate case filing." Docket No. 18-01-15, at 14.

and has direct audit experience with an independent accounting firm, which is a fact not recognized by PURA in the Final Decision.

250. In Written Exceptions responding to the Proposed Decision, the Company requested PURA to revise its conclusions on the need for an outside audit and to, instead, approve the Company's proposed amortization of its EADIT regulatory liability and to return the unamortized EADIT back to customers when rates change with the implementation of new rates in this proceeding. As discussed in the Company's Written Exceptions, the information in the record in the proceeding and PURA's final decision in Docket No. 18-01-15, *PURA Review of Rate Adjustments Related to the Federal Tax Cuts and Jobs Act*, the Company has met its burden of proof that the proposed amortization of its EADIT is just and reasonable, for several reasons.

251. First, PURA reviewed the Company's proposed amortization of its EADIT regulatory liability in Docket No. 18-01-15. In that docket, the Company filed with PURA the components of its EADIT computation as of December 31, 2017 and related amortizations.[41] Based on the information provided by the Company, the Authority's Final Decision directed Aquarion to:

> Establish liability accounts for the EDIT from January 1, 2018, going forward, which will be returned to customers commencing with [Aquarion's] next rate case. [Aquarion] shall provide EDIT balances and amortization schedules which will be the basis for the return of excess EDIT in [the] Company's next rate case filing or its next step adjustment to such rates under a multi-year rate plan authorized by a settlement.[42]

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[41] See Docket No. 18-01-15, PURA Review of Rate Adjustments Related to the Federal Tax Cuts and Jobs Act at LFE-8, Att. 2.

[42] PURA Docket No. 18-01-15, PURA Review of Rate Adjustments Related to the Federal Tax Cuts and Jobs Act, Jan. 23, 2019 Final Decision at 13.

252. No issues were raised by PURA with respect to the adequacy of Aquarion's supporting documentation for its EADIT liability in Docket No. 18-01-15, and the final decision in Docket No. 18-01-15 expressly concluded that Aquarion's EADIT balances and amortization schedules would be the basis for the return of excess EDIT in Aquarion's next rate case.[43] See, Docket No. 18-01-15, at 11.

253. PURA then had a second opportunity to review the Company's proposed amortization of its EADIT regulatory liability during the on-site audit in this proceeding. Specifically, as part of the September 30, 2022 on-site audit, the Authority's auditors met with Michael Appicelli, Aquarion's Director of Taxes, and reviewed with Mr. Appicelli, among other things, the Company's EADIT calculation. The EADIT methodology reviewed by the Authority's auditors was the same methodology filed in this docket (as discussed further below) and in Docket No. 18-01-05 (see above). At the end of the September 30, 2022 on-site audit, the auditors had no further questions for the Company about the EADIT calculation.

254. PURA had a third opportunity to review the EADIT in the Company's comprehensive responses to RRU-220 and LFE-12 in this docket, which provided all workpapers that were developed and relied upon for the purposes of establishing its EADIT regulatory liability. In Exhibit LFE-12 Attachment 2, the Company has provided adequate documentation showing its calculation of the EADIT liability. The actual EADIT calculation is based on the Company's

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[43] Id., Docket No. 18-01-15, Jan. 23, 2019 Final Decision at 13 (stating "UI, SCG, CL&P, AWC, HVWC, TWC, HWC, JCWC and VWS are not reflecting the amortization of the EDIT in current rates. Consequently, the Authority will direct them to establish liability accounts for the EDIT from January 1, 2018, going forward, which will be returned to customers commencing with the companies' next rate case. Each of these Companies shall provide EDIT balances and amortization schedules which will be the basis for the return of excess EDIT in each Company's next rate case filing or its next step adjustment to such rates under a multi-year rate plan authorized by a settlement."

existing deferred tax liabilities and underlying cumulative gross temporary differences at December 31, 2017. The Company's deferred tax liabilities reflect the tax effect of the Company's cumulative gross temporary differences at December 31, 2017. The main component of the Company's cumulative gross temporary differences is depreciation. Had the Federal income tax rate not changed, the Company's deferred tax liability would have measured the tax impact of these differences using the existing 35% Federal income tax rate. When the tax rate decreased to 21%, the Company remeasured its deferred income tax liability. Under Generally Accepted Accounting Principles, this difference would have normally been recorded as income in 2017. However, as a regulated utility, Aquarion reclassed this to EADIT as a regulatory liability due to its customers. Regardless of the reclass, the underlying cumulative gross temporary differences remained the same. As such, the only support to prove the accuracy of the EADIT calculation includes comparing deferred taxes using a Federal tax rate of 35% with the new rate of 21%.

255. Although the underlying cumulative gross temporary differences between book and tax basis have no impact on the actual EADIT calculation, the Company provided additional support in Exhibit LFE-12 Attachment 2 comparing the book basis in its assets with the tax basis. The differences represent the cumulative book vs. tax depreciation differences over time. The book basis is supported by the plant schedules as provided in the rate case filing. For the tax basis, the Company provided a detail fixed-asset and tax depreciation schedule at December 31, 2017, as part of the late file exhibit. The difference between the cumulative book and tax basis is then tax effected to come up with the Company's deferred tax liability, and ultimately its EADIT liability as described above. As such, the Company has provided ample evidence on the record in this docket to demonstrate that its EADIT liability is just and reasonable.

256. As reflected in Exhibit LFE-12 Attachment 2, the EADIT is simply determined by comparing deferred taxes using a federal tax rate of 35% with the new rate of 21%. Due to the simplicity of the calculation to derive the EADIT, there is no need to engage an outside firm to validate the calculation. Furthermore, the Company notes that its EADIT liability has also been intensely scrutinized by several other third parties since the Company's last rate case. Specifically, when the Company established its EADIT liability, the calculation was reviewed by the Company's external auditors, PriceWaterhouseCoopers. In addition, the deferred tax liabilities and underlying cumulative gross temporary differences are looked at every year by the Company's auditors so they can opine that deferred income taxes are adequately supported and properly stated in the Company's financial statements. For the annual audits of the Company's financial statements since the Company's 2013 rate case, the Company's auditors have never had an issue with the Company's measurement of its deferred tax liabilities, along with its calculation of the underlying book and tax basis in its assets. In addition, the Company and its parent were audited by the IRS in 2015 and the IRS had no issues with the Company's deferred tax balances. It is also important to note that the Company was under intense scrutiny during the due diligence process when its parent, Macquarie, was going through its divestiture of Aquarion and its subsidiaries. Several potential buyers and investment management firms have reviewed the Company's deferred income tax liabilities as part of the due diligence process and had no issues with how these balances are supported and recorded.

257. Based on PURA's Final Decision issued in Docket No. 18-01-15 following its review of the Company's EADIT liability and the extensive evidence provided on the record in the instant docket demonstrating that the Company's EADIT liability is just and reasonable, including an on-site Audit, Order Nos. 2 and 26. Thus, there is absolutely no reason that the

Company should have to conduct and pay for an independent audit on the basis that the Company has somehow failed its burden in this proceeding to demonstrate that the amounts are accurate, or that the Company should be ineligible to recover the costs of that audit, if it is conducted.

258. There is also a significant error in PURA's conclusion to require the Company to pay carrying charges at the weighted cost of capital while the independent audit is pending. PURA has already included the unamortized balance of EADIT in rate base in this proceeding. As a component of rate base, the unamortized balance is earning a return for customers based on the average weighted cost of capital applicable to rate base. Consequently, PURA's directive for the Company to apply carrying charges on top of the rate-base treatment is effectively imposing a penalty on the Company, mandating that the Company pay the carrying charge twice. PURA has not sustained its obligation to support its conclusions that the Company has not meet its burden of proof, nor has PURA justified why the carrying charges at WACC would be applicable to the outstanding balance while the independent audit is conducted and to be accrued in addition to the benefit already being provided to customers through lower base rates (by virtue of embedding the entire EADIT liability in rate base, as a reduction to rate base, thereby lowering the balance on which the Company is able to earn a return), for which there is no basis.

259. In Written Exceptions and oral argument responding to the Proposed Decision, the Company recommended that PURA revise the associated language in Section VI.E of the Draft Decision to approve the Company's proposed amortization of its EADIT regulatory liability and to return the unamortized EADIT back to customers when rates change commencing on March 15, 2023. An independent third-party accounting firm's review of Aquarion's EADIT is not necessary given the detailed documentation that the Authority has reviewed both in this docket and prior to issuing its final decision in Docket No. 18-01-15 and the intense scrutiny the Company's EADIT

liability has already undergone by third parties as discussed above. For these reasons, Aquarion's Written Exceptions to the Proposed Decision asked PURA to approve the Company's proposed EADIT liability as just and reasonable and to return the unamortized EADIT back to customers when rates change commencing on March 15, 2023. This will have the additional benefit of moderating bill impacts for customers at the time of the March 15, 2023 rate change.

260. Without a reasonable and warranted basis for the independent audit, PURA's decision to delay the start of the amortization until some point in the future is a penalty to avoid a more substantial reduction in rates as a result of this case (since there is already a rate reduction) and to obtain "earnings" for customers over the delay period in the form of double carrying costs at the WACC rate.

261. Accordingly, in its Final Decision, PURA has arbitrarily and capriciously required the Company to pay for and conduct an independent audit of the outstanding EADIT; denied any recovery of those costs; and required the Company to pay double carrying costs on the outstanding balance. Given that there is literally no reason for the Company's alleged failure to "meet its burden" or the associated independent audit, apart from the late filing of a single exhibit, PURA's decisions on EADIT are the product of PURA's arbitrary and capricious failure to base its decisions on record evidence reviewable by the court.

262. PURA's erratic actions on EADIT refund to customers is arbitrary and capricious, violates the Company's due process and statutory rights, and constitutes an abuse of discretion resulting in unjust and unreasonable rates and, as a consequence, unconstitutional confiscation.

CONCLUSION

263. Administrative agencies must wield their authority fairly, dispassionately and lawfully. Administrative agencies are created by statute and must exercise their authority within the bounds of those statutes while affording due process to the entities they are entrusted to regulate. When agencies stray from these basic norms and tenets, appropriate recourse to the courts for those aggrieved is guaranteed by the constitution.

264. The following table accurately summarizes the impact on Aquarion's annual revenues of PURA's unlawful decision by count in this administrative appeal:

Count No.	Count Description		Annual Impact on Aquarion Revenues ($)
2	Disallowance of $42.1 Post Test Year Capital Additions (September 1, 2022 through December 15, 2022)	$	3,471,076
3	Disallowance of $6M in Used and Useful Capital Additions (January 1, 2022 through August 31, 2022)	$	487,954
4	State and Federal Income Taxes	$	2,467,013
5	Improper Extension of Rate Base Components (Accumulated Depreciation	$	1,069,511
6	Improper Treatment of Rate Base Components (ADIT)	$	89,955
7	Disallowed 100% Variable Component of Employee Compensation	$	1,706,725
8	Disallowed 50% of Conservation Expense	$	249,675
9	Disallowed 65% of rate case expense	$	137,164
11	Inclusion of S/T debt in Capital Structure	$	2,189,607
	Total	$	11,868,680

265. For all of the foregoing reasons, Aquarion appeals PURA's Final Decision as it is in whole or in part:

a. In violation of statutory provisions;

b. In excess of PURA's statutory authority;

c. Made upon unlawful procedure;

d. Affected by errors of law;

e. Clearly erroneous in light of the substantial evidence in the record;

f. Arbitrary or capricious or characterized by an abuse of discretion or clearly unwarranted exercise of discretion.

266. Aquarion has exhausted all administrative remedies and is aggrieved by the Final Decision.

WHEREFORE, Aquarion appeals from PURA' s Final Decision as set forth above and prays judgment:

a. Sustaining this appeal;

b. Reversing or Vacating PURA's Final Decision in whole or in part;

c. Granting such other relief as the Court deems just and proper.

THE PLAINTIFF-APPELLANT
AQUARION WATER COMPANY OF
CONNECTICUT

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– Its Attorneys –

Exhibit A

STATE OF CONNECTICUT

PUBLIC UTILITIES REGULATORY AUTHORITY
TEN FRANKLIN SQUARE
NEW BRITAIN, CT 06051

DOCKET NO. 22-07-01 APPLICATION OF AQUARION WATER COMPANY OF CONNECTICUT TO AMEND ITS RATE SCHEDULE

March 15, 2023

By the following Commissioners:

Marissa P. Gillett
Michael A. Caron

DECISION

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XI. APPENDIX 1

DECISION

I. INTRODUCTION

A. EXECUTIVE SUMMARY

The Public Utilities Regulatory Authority (Authority or PURA) approves an annual revenue requirement for Aquarion Water Company of Connecticut (Aquarion or Company) in the amount of $195,561,690 for the rate year commencing on March 15, 2023. The approved annual revenue requirement represents a decrease of $1,969,517, or approximately 0.997%, from the Company's currently approved revenue requirement. While the Company requests a 10.35% return on equity, the Authority determines that an allowed return on equity of 8.70% is appropriate.

B. BACKGROUND OF PROCEEDING

Aquarion is a public service company within the meaning of Conn. Gen. Stat. § 16-1. Aquarion is a subsidiary of Aquarion Water Company (Parent Company). The Company currently provides water service, including fire protection service, to approximately 207,000 customer connections in 56 communities across Connecticut. Application, p. 5.

Aquarion previously increased its base rates in October 2013. Decision (2013 Decision), Sept. 24, 2013, Docket No. 13-02-20, Application of Aquarion Water Company of Connecticut to Amend Its Rates (2013 Rate Case).

On July 1, 2022, Aquarion submitted formal notice of its intent to file an application to amend its existing rate schedules.

C. CONDUCT OF PROCEEDING

On August 26, 2022, Aquarion filed an application to amend its existing rate schedules (Application) pursuant to Conn. Gen. Stat. § 16-19, Conn. Agencies Regs. § 16-1-53a, and the Standard Filing Requirements.

The Authority held a noticed scheduling conference on September 8, 2022, via teleconference.

The Authority conducted a noticed revenue audit on September 23, 2022, via remote access, and a noticed audit of the books and records of the Company on September 29 and 30, 2022, at the offices of the Company, 600 Lindley Street, Bridgeport, Connecticut.

The Authority held two noticed in-person public comment hearings; the first on September 8, 2022, at the Westport Town Hall and the second on October 12, 2022, at the Stratford Library. The Authority also held two noticed virtual public comment hearings on October 6, 2022, and on October 25, 2022.

The Authority conducted inspections of the Company's plant and facilities throughout Connecticut on November 8 and 9, 2022.

The Authority held noticed evidentiary hearings on November 22, 28, 29, and 30, and on December 1, 5, and 6, 2022, at PURA's offices, Ten Franklin Square, New Britain, Connecticut (PURA's Offices).

The Authority held late filed exhibit hearings on December 14 and 15, 2022, at PURA's Offices.

The Authority issued a Proposed Final Decision in this matter on February 16, 2023. All Parties and Intervenors were given the opportunity to file Written Exceptions to the Proposed Final Decision and to present Oral Argument. The Authority heard Oral Argument on March 3, 2023.[1]

D. PARTIES AND INTERVENORS

The Authority recognized the following as Parties to this proceeding: Aquarion Water Company of Connecticut, 835 Main Street, Bridgeport, CT 06604; Office of Education, Outreach, and Enforcement, Ten Franklin Square, New Britain, CT 06051; Office of Consumer Counsel, Ten Franklin Square, New Britain, CT 06051; and the Commissioner of the Department of Energy and Environmental Protection, 55 Elm Street, Hartford, CT 06106.

The Authority designated the following as Intervenors to this proceeding: the Office of the Attorney General; the City of Rye and the Villages of Port Chester and Rye Brooke, New York; Smart Water Westport; Veolia Water New York, Inc.; and all towns and municipalities in Aquarion Water Company of Connecticut's service territory. A list of the towns and municipalities designated as Intervenors is provided in the Appendix.

E. POSITIONS OF PARTIES AND INTERVENORS

The Company acknowledges that Connecticut continues to grapple with the COVID-19 pandemic and that the current economic and global political climate is impacting the cost of energy and other consumer goods. Aquarion Brief, p. 11. The Company asserts, however, that access to "a reliable, safe, and high-quality water supply" remains a public necessity. Id. According to Aquarion, its current rates are insufficient to cover the costs of providing safe and reliable service to customers. Id., p. 12. The Company also alleges that the rates are insufficient to cover the capital infrastructure investments the Company has made since the 2013 Rate Case. Id. Accordingly, the Company is requesting approval to increase base rates for a three-year period to address revenue deficiencies. Id., p. 1.

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[1] A majority of the Commissioners heard the matter and/or read the record of the proceeding; therefore, although the Authority provided the opportunity for written exceptions and oral argument, a proposed final decision was not required. Conn. Gen. Stat. § 4-179(a).

The Authority's Office of Education, Outreach, and Enforcement (EOE) actively participated in this proceeding,[2] issuing nearly 90 interrogatories, providing expert testimony, conducting cross examination during both the evidentiary hearings and late filed exhibit hearings, and filing a brief. EOE recommends that the Company update its customer notices to educate customers about the process of requesting a return of their security deposit and to identify regulatory security deposit exemptions. EOE Brief, pp. 5-6. EOE also provides suggestions to modify the proposed Low-Income Discount Rate Program. Id., p. 13. As stated by EOE's expert witness, Aaron Rothschild, the Authority should approve a return on equity (ROE) between 7.65% and 8.91%, as it reflects the Company's and ratepayers' needs best compared to other ROEs proposed by experts who testified in this proceeding. Id., pp. 14, 25. Specifically, EOE identifies deficiencies in the testimony provided by Aquarion's ROE expert, Joshua Nowak. Id., pp. 23-25.

OCC also actively participated in this proceeding, issuing over 350 interrogatories, providing expert testimony, conducting cross examination during both the evidentiary hearings and late filed exhibit hearings, and filing a brief. OCC states, among other issues raised, that the Company's proposed Low-Income Discount Rate Program fails to provide a measurable benefit to vulnerable customers. OCC Brief, p. 9. Further, the Company has not demonstrated that it has undertaken the necessary steps to understand why its customers fail to pay their bills and, therefore, should not be able to recover uncollectible revenues. Id., p. 25. OCC asserts that projects less than 100% complete by the last day of the hearing should be removed from the plant in service rate base calculation consistent with past PURA precedent. Id., p. 27. OCC does not support a multi-year rate increase. Id., p. 59. OCC does, however, support the proposed four-tier inclining block rate structure as it will provide relief for low-income residential customers by shifting costs to higher-volume residential users. Id., pp. 61-62.

DEEP actively participated in this proceeding, issuing over 30 interrogatories, conducting cross examination in the evidentiary hearings and late filed exhibit hearings, and filing a brief. DEEP supports an inclining block rate structure but recommends that the Authority approve a three-tier structure for residential single-family customers that more aggressively targets discretionary uses (e.g., lawn irrigation). DEEP Brief, pp. 2-3. DEEP also supports approval of a 15% Low-Income Rate Assistance Program (LIRAP), with suggested modifications. Id., p. 6. Additionally, DEEP requests that the Authority order the Company to submit a plan to bring non-compliant DEEP authorized diversion permits and registrations into compliance and to submit a study evaluating the impact of Aquarion's water withdrawals that may be potentially harmful to the environment. Id., pp. 9-11.

The Office of the Attorney General (OAG) objects to Aquarion's proposed rate increase on the basis that the Company has failed to meet its burden of demonstrating resulting rates are just and reasonable and specifically rejects the multi-year rate proposal. OAG Brief, pp. 1, 16. The OAG states that Aquarion's proposed ROE is unreasonably high, is based upon a biased analysis, and is inconsistent with market conditions and PURA decisions and, therefore, recommends an ROE in the range of

[2] Pursuant to Conn. Gen. Stat. § 16-19j(b), the Authority appointed EOE as a party to the proceeding.

8.33% and 9.00%. Id., pp. 1-2, 10. Further, the OAG finds that Aquarion has overstated its proposed costs and recommends adjustments to reduce the Company's proposed revenue requirement by more than $20 million in Rate Year 1. Id., p. 2. In addition, the OAG recommends that PURA reject the Company's proposed capital structure, in part because the cost of equity is unfairly high given that Eversource Energy (Eversource), Aquarion's parent company, maintains a lower equity level. Id., pp. 5-6.

The City of Rye and the Villages of Port Chester and Rye Brooke, New York (New York Municipalities or NYM) propose adjustments to the calculation of the resale rate by which Aquarion sells water to the New York Municipalities. New York Municipalities Brief, p. 2. The NYM do not take issue with the amended cost allocation methodology (ACAM) as approved in Docket No. 19-12-27, Petition of Aquarion Water Company of Connecticut for Approval of Amended Cost Allocation Methodology Under an Existing Water Supply Agreement with Suez Water Westchester (Docket No. 19-12-27); however, the NYM raise concerns that the corresponding adjustments to the inputs in the ACAM have not been updated in the cost of service. Id., p. 3. Aquarion is making improvements to the Southwest Regional Pipeline (SWRP) to increase water supply, but the allocation of capital costs puts a significant burden on the Greenwich Division. Id., p. 4. As such, the NYM request that the Authority reduce the allocation of capital costs for the SWRP to the Greenwich Division and assigned to Veolia, and flow through adjustments in the rate of return and cost of operations to the methodology used to set the resale rate. Id., p. 9.

Veolia Water New York, Inc. (Veolia) purchases water from Aquarion pursuant to a water supply agreement. The rate is determined by the ACAM, which was approved by the Authority in Docket No. 19-12-27. As proposed in the Application, Aquarion seeks to increase Veolia's rate by $1.6 million, or 41.63%. Given that this rate proceeding is the first time ACAM would be utilized, Veolia sought intervention to ensure that the Company was appropriately complying with ACAM. After conducting limited discovery, Veolia determined that Aquarion did comply with ACAM and is not recommending specific adjustments to the inputs Aquarion used. Veolia Brief, p. 3. Should PURA make any adjustments to Aquarion's proposed rate increase, Veolia requests that those adjustments flow through the ACAM. Id., p. 4.

Smart Water Westport (Smart Water), consisting of Westport residents, raised concerns about Aquarion's transparency in costs, use of data, and marketing as their rationale for opposing Aquarion's rate increase. Smart Water asserts that Aquarion has failed to demonstrate how its marketing benefited ratepayers and seeks a $3 million reduction in capital expenditures. Smart Water Brief, p. 22.

F. PUBLIC COMMENT

The Authority held four public comment hearings, two in person and two virtually. Sixteen people attended the in-person public comment hearing on September 8, 2022, at the Westport Town Hall; seventeen people attended the in-person public comment hearing on October 12, 2022, at the Stratford Library; approximately forty-two people attended the virtual public comment hearing on October 6, 2022; and approximately thirty-

three people attended the second virtual hearing on October 25, 2022. Aquarion provided a presentation via PowerPoint at the beginning of each of the public comment hearings.

The Authority received oral and written comments from forty-eight entities. Of those entities, five were elected officials,[3] two were organizations,[4] and the remaining forty-two were ratepayers. Of those who submitted written comments, four self-identified as senior citizens.[5] The American Association of Retired Persons Connecticut (AARP CT) also filed a petition opposing the rate increase, which was signed by 2,389 of its members. AARP Corresp., Oct. 26, 2022.

Opposition to Aquarion's application for a rate increase was unanimous. None of the comments received advocated for increased rates, and most comments were critical of Aquarion's proposal in full, with the limited exception being that, in some instances, commenters opposed the overall increase but supported one element of the proposal. For example, the Town of Simsbury opposed the rate increase but supported the tiered rate structure.[6] AARP opposed the increase but supported the creation of a low-income rate.[7] The Town of Greenwich opposed the rate increase because of its impact on customers, as well as the impact on municipal costs such as the rental of hydrants.[8] In one instance, a commenter did find Aquarion's response to the 2022 drought to be appropriate.[9]

The top reasons commenters opposed the increase included that the proposed increase was too high (60% of complaints);[10] and general opposition to the proposed rate structure (33% of complaints).[11] More specifically, the majority of these comments were opposed to the inclining-block structure for residential accounts.[12] Commenters also asserted that the proposed increase is due to corporate greed or otherwise not justified (11% of complaints),[13] and expressed general dissatisfaction with water quality (11% of complaints).[14]

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3 See Brenda Kupchick, First Selectman, Town of Fairfield, Corresp., Sept. 1, 2022; State Senator Tony Hwang, 28th District, Connecticut General Assembly, Corresp., Sept. 8, 2022 and Jan. 6, 2023; State Representative Joseph Gresko, Tr., Oct. 12, 2022, 17:13-19:22; Maria E. Capriola, Town Manager, Town of Simsbury, et al., Corresp., Sept. 30, 2022; Monica M. McNally, First Selectman, Town of Darien, Corresp., Oct. 20, 2022; Tr., Sept. 8, 2022, 25:17-26:1.

4 See Gary Wilcox, President, and James Baldis, Fire Chief, Simsbury Fire District Corresp., Oct. 11, 2022; Josh Erlingheuser, Advocacy Director, AARP CT Corresp., Oct. 3, 2022.

5 See, e.g., Cornelia Baker Corresp., Sept. 28, 2022; Teresita Pastorelle Corresp., Sept. 28, 2022.

6 Maria E. Capriola, Town Manager, Town of Simsbury, et al., Corresp., Sept. 30, 2022.

7 John Erlingheuser, Advocacy Director, AARP CT Corresp., Oct. 3, 2022.

8 Fred Camillo, First Selectman, Town of Greenwich, Dec. 2, 2022.

9 Tr., Oct. 12, 2022, 18:25-19:1.

10 See, e.g., Maryanne Joyce Corresp, Sept. 13, 2022; Bill Hunter Corresp., Sept. 13, 2022; Martha Durham Corresp., Sept. 20, 2022; Alistair Phipps Corresp., Sept. 26, 2022; Tr., Oct. 6, 2022, 27:3-6.

11 See, e.g., Tr., Sept. 8, 2022, 22:22-23:13; Tr., Oct. 12, 2022, 20:17-21:18; Tr., Oct. 25, 2022, 27:15-28:13.

12 See, e.g., James A. Landmon Corresp., Sept. 28, 2022; Tr., Oct. 12, 2022, 20:17-21:18; Tr., Oct. 25, 2022, 27:15-28:13.

13 See, e.g., Ronald J. Murray Corresp., Sept. 29, 2022.

14 See, e.g., Carlos DeCarvalho Corresp., Sept. 29, 2022.

Finally, one commenter raised questions regarding the prudency of two specific projects: the water tank storage in Westport, and Aquarion's recent water diversion project.[15] In the first instance, the commenter felt Aquarion overstated the need for tank storage in Westport, and in the latter instance the commenter questioned whether the diversion project was properly approved.[16]

II. STANDARD OF REVIEW

Aquarion is a public service company within the meaning of Conn. Gen. Stat. § 16-1. The Authority is statutorily charged with regulating the rates of Connecticut's public service companies. Conn. Gen. Stat. § 16-19. Consequently, Aquarion must "file any proposed amendment of its existing rates with the [A]uthority in such form and in accordance with such reasonable regulations as the [A]uthority may prescribe." Conn. Gen. Stat. § 16-19(a).[17] Once a proposed amendment has been filed, the Authority conducts an investigation "to determine whether such rates conform to the principles and guidelines set forth in section 16-19e, or are unreasonably discriminatory or more or less than just, reasonable and adequate, or that the service furnished by such company is inadequate to or in excess of public necessity and convenience, . . ." Id.[18]

The statutory prerogative to establish just, reasonable, and sufficient utility rates is based upon principles established in two landmark United States Supreme Court cases, as recognized by the Connecticut Supreme Court. See Connecticut Light & Power Co. v. Dep't of Pub. Util. Control, 216 Conn. 627, 635 (1990). Specifically, a regulated utility is entitled to an opportunity to recover prudent operating expenses as well as capital costs, including a fair and reasonable rate of return on capital investments. Fed. Power Comm'n v. Hope Nat. Gas Co., 320 U.S. 591, 603 (1944) (Hope); Bluefield Waterworks & Imp. Co. v. Pub. Serv. Comm'n of W. Va., 262 U.S. 679, 690 (1923) (Bluefield); see also Duquesne Light Co. v. Barasch, 488 U.S. 299, 310 (1989). "The prudence of a management decision depends on good faith and reasonableness, judged at the time the decision is made." Connecticut Light & Power Co, 216 Conn. at 645.

Ultimately, however, rate setting requires "a balancing of the investor and consumer interests." Woodbury Water Co. v. Pub. Utilities Comm'n, 174 Conn. 258, 264 (1978) (citing Hope, 320 U.S. at 603). Further, the Authority "is not bound to the use of any single formula or combination of formulae in determining rates. Its rate-making function . . . involves the making of 'pragmatic adjustments.'" Id. (citations omitted).

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[15] Tr., Sept. 8, 2022, 19:10-15.

[16] Tr., Sept. 8, 2022, 20:21-23:13.

[17] Conn. Agencies Regs. §§ 16-1-53 *et seq.* apply to rate amendment applications.

[18] Conn. Gen. Stat. § 16-19(a) also permits the Authority to "(A) evaluate the reasonableness and adequacy of the performance or service of the public service company using any applicable metrics or standards adopted by the authority pursuant to section 1 of Sept. Sp. Sess., Public Act 20-5, and (B) determine the reasonableness of the allowed rate of return of the public service company based on such performance evaluation."

In striking this balance and making pragmatic adjustments, the Authority is guided by Conn. Gen. Stat. § 16-19e(a), which states, in relevant part, that the Authority shall examine proposed rates in accordance with the following principles:

> (4) that the level and structure of rates be sufficient, but no more than sufficient, to allow public service companies to cover their operating costs including, but not limited to, appropriate staffing levels, and capital costs, to attract needed capital and to maintain their financial integrity, and yet provide appropriate protection to the relevant public interests, both existing and foreseeable . . . ;
> (5) that the level and structure of rates charged customers shall reflect prudent and efficient management of the franchise operation[.]

Importantly, the utility "has the burden of proving the proposed rate under consideration is just and reasonable." Conn. Gen. Stat. § 16-22. This burden requirement implemented by the General Assembly in rate cases is significant because it attempts to remedy a critical challenge in setting rates — asymmetric access to information. The utility retains the majority of the relevant and critical information necessary for the Authority to make findings of fact and associated determinations on rates. Therefore, the Authority and other parties are at an information disadvantage compared to the utility and must rely on the utility's application materials, the utility's responses to interrogatories, and the utility's witness testimony. The clarified burden under Conn. Gen. Stat. § 16-22 addresses this information imbalance by imposing an affirmative obligation on the utility to present sufficient evidence to support the proposed rate amendment.

In administrative proceedings, the appropriate standard of proof is the preponderance of the evidence. Jones v. Connecticut Med. Examining Bd., 309 Conn. 727, 734-735 (2013); Connecticut Light & Power Co. v. Connecticut Dept. of Pub. Util. Control, Docket No. CV094019951S, 2010 WL 797137, at *10 (Conn. Super. Ct. Feb. 5, 2010); Goldstar Med. Services, Inc. v. Dep't of Soc. Services, 288 Conn. 790, 821 (2008). Consequently, to carry its statutory burden, the utility must provide (or ensure the record contains) a preponderance of evidence that the requested rates are "sufficient, but no more than sufficient" and "reflect prudent and efficient management." See Tianti v. William Raveis Real Estate, Inc., 231 Conn. 690, 702, (1995) (finding that the preponderance of evidence standard is met when a fact is "more probable than not.").

Notably, this burden requires the utility to provide more than mere declarations of fact. Connecticut Nat. Gas Corp. v. Pub. Utilities Comm'n, 29 Conn. Supp. 379, 394 (1971)("[t]here is no sacrosanctity about the testimony of any company officer regardless of his position which gives such testimony any godlike fiat that must be accepted out of hand by the PUC."). More to the point, "[b]ald statements need to be covered with some evidential hair . . . ." Id. Further, "[a]n administrative agency is not required to believe any witness, even an expert." Goldstar, 288 Conn. at 830 (citations omitted). It is the Authority's province to "make determinations of credibility, crediting some, all, or none of a given witness' testimony." Id.

III. TEST YEAR AND MULTI-YEAR RATE PLAN

A. TEST YEAR

The test year is required to "consist of the most recent twelve-month period available ending at a calendar quarter. The data presented in any statement concerning any test year shall be limited to the actual income and expenses as determined on the accrual basis during the subject period without adjustment or alteration." Conn. Agencies Regs. § 16-1-54. Applicants are required to present financial data through the Authority's Standard Filing Requirements. See Conn. Agencies Regs. § 16-1-53a.

Here, Aquarion has proposed the 12-month period ending on December 31, 2021, as the test year. Morrissey Prefiled Test., Aug. 29, 2022, p. 13. Based on its review of the financial data provided, the Authority accepts the period beginning on January 1, 2021, and ending on December 31, 2021, as the test year (Test Year).

B. MULTI-YEAR RATE PLAN

The Authority approves an amended rate schedule effective March 15, 2023, but declines to approve the three-year rate plan requested by the Company.[19] Specifically, in addition to the initially requested $27.5 million rate increase effective March 15, 2023, the Company requested that the Authority approve subsequent rate increases totaling $13.6 million and $8.8 million effective March 15, 2024, and March 15, 2025, respectively, "based on forecasted plant additions for [Rate Years 2 and 3], exclusive of WICA." Morrissey PFT, p. 16.

The Company provides two rationales for a multi-year rate plan – neither of which are persuasive. First, the Company states that its "singular concern is the necessity of supporting the increasing capital requirements of the system." Id. However, as the Company acknowledges, the General Assembly has already established the Water Infrastructure and Conservation Adjustment (WICA), which "provides an opportunity for recovery of a portion of capital investment in between rate cases." Id.; Conn. Gen. Stat. § 16-262w. Specifically, under WICA, Aquarion is permitted to increase revenues to contemporaneously recover the costs of an expansive range of eligible capital projects. See Conn. Gen. Stat. § 16-262v(1) (defining "eligible projects"). This rate case resets Aquarion's WICA to zero, allowing the Company to increase its annual revenues by up to 5% per year and up to 10% between rate case filings. Conn. Gen. Stat. § 16-262w(i). The Company did not provide any explanation as to why these prospective additional WICA revenues are insufficient to address the Company's capital requirements.

Instead, the Company simply notes that the rate increases under WICA are capped at 10%. Morrissey PFT, pp. 17-18. However, the existence of a statutory cap on rate increases for capital expenditures between water rate cases is a strong indicator that the General Assembly disfavors substantial rate increases between regulatory reviews and

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[19] The Company proposed three rate years: March 15, 2023, through March 14, 2024 (Rate Year 1); March 15, 2024, through March 14, 2025 (Rate Year 2); and March 15, 2025, through March 14, 2026 (Rate Year 3). Morrissey PFT, p. 16.

weighs heavily against the Authority approving a rate plan that would essentially circumvent the statutory cap.

The Company also briefly notes that its proposed multi-year plan is similar to multi-year rate plans approved for Connecticut's electric and gas utilities. Morrissey PFT, p. 17. Even if true, the argument is a non sequitur. Water companies are not similarly situated because electric and gas utilities do not have a statutory mechanism equivalent to WICA that supports capital investments between rate cases. Consequently, there is no evidence to find that a multi-year rate plan is needed to support the Company's capital requirements.

Additionally, despite capital requirements being its "singular concern," the Company also posits that a multi-year rate plan provides rate stability for customers by "extend[ing] the time period between rate cases and mitigate[ing] the potential for more frequent rate cases." Morrissey PFT, p. 17. Importantly though, Aquarion was not previously on a multi-year rate plan, and its last rate case was nearly 10 years ago. See 2013 Decision. Consequently, there is no evidence in this record to support the argument that multi-year rate plans provide rate stability, or even that "more frequent rate cases" are necessarily to be avoided.[20]

In summary, the Company did not meet its burden of demonstrating that its proposed multi-year rate plan comports with Conn. Gen. Stat. § 16-19e(a).

IV. RATE BASE

A. SUMMARY

Rate base is a fundamental principle of cost-of-service ratemaking. Rate base is comprised of the investor-supplied facilities and other investments necessary to supply utility service to consumers in a safe, reliable, and cost-effective manner. For purposes of ratemaking, rate base is the capital on which the investor is able to earn a return. Bluefield, 262 U.S. at 690 ("This is so well settled by numerous decisions of this court that citation of the cases is scarcely necessary: What the company is entitled to ask is a fair return upon the value of that which it employs for the public convenience.")(citations and internal quotation marks omitted); Pub. Serv. Co. of New Mexico v. Fed. Energy Regulatory Comm'n, 653 F.2d 681, 683 (D.C. Cir. 1981) ("As a general proposition, a regulated utility is allowed to recover . . . a reasonable return on capital invested in the enterprise and allocated to public use.").

Cost-of-service ratemaking provides a return on the capital that has been invested by shareholders and put to public use. This capital invested for public use is known as

[20] Indeed, in its March 16, 2022 Decision rejecting the Company's unsolicited attempt to further delay a rate case proceeding by resetting Aquarion's WICA surcharge, the Authority concluded that the deferral of a general rate proceeding based on the available record offered "limited benefits and material risks for ratepayers." Decision, March 16, 2022, Docket No. 13-02-20RE06, Application of Aquarion Water Company of Connecticut to Amend Its Rates – WICA Reset Settlement, p. 11 (2022 Decision).

rate base. Consequently, to determine an appropriate return on capital, the Authority must first establish Aquarion's rate base.

Rate base is determined by taking the test year net book value of prudent capital investments and accounting for other factors, including accumulated depreciation, working capital, and non-rate base capital such as deferred taxes. The Authority will then allow certain pro forma adjustments to recognize capital investments and other changes to rate base that occur subsequent to the test year. Connecticut Nat. Gas Corp., 29 Conn. Supp. at 390 (utilities are generally "permitted to adjust the test year forward for a reasonable period of time where definitely ascertainable expenses are involved during such future period . . . .").

The purpose of the pro forma adjustments to rate base is to have rates that are reasonably reflective of the Company's actual rate base during the rate year, subject to the limitations of a prospective ratemaking process. Specifically, the adjustments are appropriate for "definite, ascertainable expenses maturing or certain to materialize [and such] expenses of course must not be based upon speculation or contingencies that are likely, but not certain, to occur . . . ." Id. Consequently, in addition to being prudent, the pro forma adjustments must be "known and measurable" and supported by substantial evidence, with the burden resting on the utility to make such a showing. Id.; Connecticut Nat. Gas Corp. v. Dep't of Pub. Util. Control, 51 Conn. Supp. 307, 322 (2009) (noting that the agency applied the "known and measurable" standard to pro forma adjustments).

Here, the Company proposed a Test Year rate base of $972,488,145 and pro forma adjustments, through December 15, 2022, of $76,531,208, for a total rate base of $1,049,019,354. Late Filed Ex. 1 Suppl. 2 (Dec. 19, 2022), Att. 1,[21] Sch. B-1.0A. As shown in the table below and described in the following sections, the Authority modifies certain components of the proposed rate base, resulting in a reduction of $57,349,471 in rate base for a total approved rate base of $991,669,882.

[21] Late Filed Exhibit 1, Suppl. 2 (Dec. 19, 2022), Att. 1, is hereinafter referred to as Final Late Filed Ex. 1 in the Decision.

Table 1: Pro Forma Rate Base ($)

	Rate Base Component	Company Pro Forma (12/15/2022)	Authority modification	Approved Pro Forma Rate Base
1	Plant in Service	1,875,384,344	(48,060,300)	1,827,324,044
2	Accumulated Depreciation	(620,956,042)	(5,318,731)	(626,274,773)
3	Net in service (1-2)	1,254,428,302	(53,379,031)	1,201,049,271
4	Working capital allowance	13,665,003	(1,966,338)	11,698,665
5	Amortization on CIAC	33,154,785		33,154,785
6	Deferred Tank Painting	10,788,711		10,788,711
7	Deferred Sales Tax	8,475,603		8,475,603
8	Other deferred debits	216,206		216,206
9	CIAC	(140,611,418)		(140,611,418)
10	Customer advances, etc.	(43,225,369)		(43,225,369)
11	Deferred taxes (ADIT)	(87,872,470)	(1,092,000)	(88,964,470)
12	Capitalized Expenses		(912,102)	(912,102)
13	**Rate Base Total**	**1,049,019,354**	**(57,349,471)**	**991,669,882**

B. PLANT-IN-SERVICE

1. Test Year Plant-in-Service

The Company has identified $1,776,894,698 of plant-in-service at the end of the Test Year. Application, Sch. B-2.0A. To determine the test year plant-in-service, the amount of completed capital investments made by the Company through the end of the Test Year is added to the Company's previously approved utility plant. The additional plant includes both WICA and non-WICA investments. Notably, the Company seeks approximately $600 million in new plant additions since its last rate case through the Test Year, one third of which was through the WICA program. Id. Table 2 summarizes the Company's purported plant-in-service through the Test Year.

Table 2: Company's Test Year Plant-in-Service Additions

Plant-in-service (Sept. 30, 2013)[22]	1,175,122,602
WICA Additions	202,312,780
Non-WICA Additions	399,459,316
Total Plant-in-Service	**1,776,894,698**

The plant-in-service includes five categories: (1) source of supply; (2) pumping; (3) water treatment; (4) transmission and distribution; and (5) general plant, as well as certain plant acquisition adjustments. Application, Sch. B-2.1A, B-3.1A, B-2.0A.

A water company may only include in rate base plant that which is in service and used and useful in providing water service. See Smyth v. Ames, 169 U.S. 466, 546 (1889), rev'd on other grounds; Hope, 320 U.S. at 605. ("We hold . . . that the basis of all calculation as to the reasonableness of rates to be charged by a [public utility] must be the fair value of the property being used by it for the convenience of the public."); Southern New England Telephone Co. v. Public Utilities Commission, 29 Conn. Super. 253, 259-260 (1970) (citation omitted) ("Generally speaking, property not employed in the public service should not be incorporated into the base to be used to compute the fair rate of return. It must be kept in mind, however, that whether utility property is used or useful for inclusion in the rate base is a factual determination rather than a legal question."); Decision, May 19, 2021, Docket No. 20-10-31, Application of the Jewett City Water Company to Amend Rate Schedules, pp. 23-24 ("The Authority does not allow for the inclusion of incomplete system additions or improvements into a Company's proforma rate base . . . . The Authority finds that the ratepayers benefit from the plant additions when they are in-service and that the ratepayers should not be responsible for providing a return on plant that is not in-service.").

In addition, and of equal import, the Company may only recover the cost of plant investments that were incurred prudently and reasonably. Conn. Gen. Stat. § 16-19e(a)(5) ("the level and structure of rates charged customers shall reflect prudent and efficient management of the franchise operation"). Specifically, "there exists a distinction between, on one hand, utility property and, on the other hand, the cost of utility property allowed in rate base, because only that portion of utility property that is the result of prudent and reasonable management is included in rate base." Connecticut Light & Power Co. v. Dep't of Pub. Util. Control, 219 Conn. 51, 67-68 (1991). With respect to timing, the prudency determination is typically the critical path because it requires a final accounting of and justification for the incurred costs, which can only occur after the project is completed and final invoices are paid.

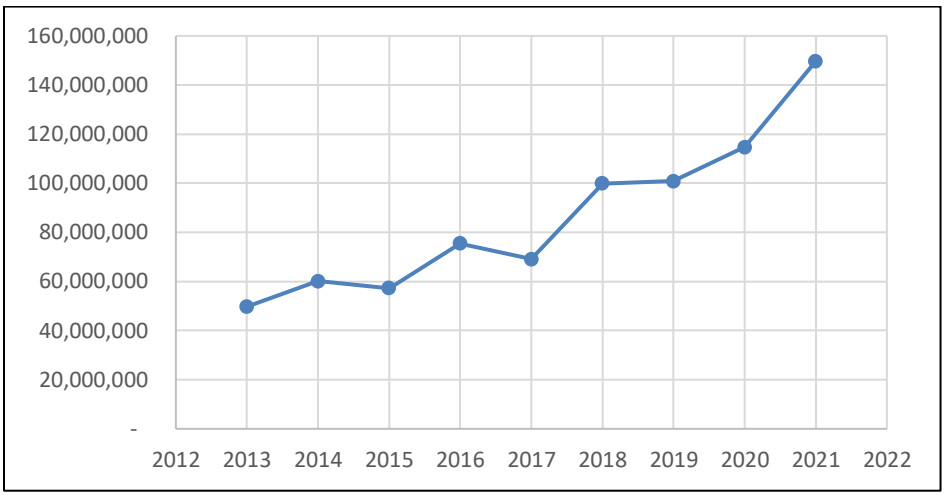
Consequently, for the costs of plant investments to be included in rate base, the Company bears the burden of demonstrating that: (1) the plant is in service; and (2) the costs were prudently and reasonably incurred. To meet this burden, the Company must provide actual supporting evidence. Notably, "[t]here is no sacrosanctity about the testimony of any company officer regardless of his position which gives such testimony

[22] 2013 Decision, pp. 20, 37.

any godlike fiat that must be accepted out of hand by the PUC." Connecticut Nat. Gas Corp., 29 Conn. Supp. at 394 ("Bald statements need to be covered with some evidential hair . . . .").

Since the Company's 2013 Rate Case, it has made approximately $800 million in plant additions through August 31, 2022. Lawrence Prefiled Test., Aug. 29, 2022, p. 28; RRU-127, Att. 1, Summary; Aquarion Interrog. Resp. OCC-6.[23] This is an astounding level of plant investment, averaging almost $100 million per year. Notably, the pace of investment has risen substantially in the last few years, averaging more than $116 million per year since 2018. The figure below illustrates the significant and increasing levels of annual plant addition since 2013.

Figure 1: Annual Capital Additions ($) by Year



Aquarion Interrog. Resp. RRU-127, Att. 1, Summary.[24]

Notably, this level of investment substantially exceeds the amount projected by the Company in the 2013 Rate Case. Specifically, at that time, the Authority expressed concern about the Company spending $287 million as part of its five-year capital plan covering 2013-2017. 2013 Decision, p. 24. In fact, the Authority cautioned the Company that annual capital improvement spending from 2011-2013 had already increased by almost 50% from the $40 million in annual investment for 2008-2010. Id., pp. 20-21. Nonetheless, despite the Authority's determination that the Company "should be scaling back," the Company exceeded even its own projections, spending $312 million ($57

[23] In the 2013 Rate Case, the Authority approved a pro forma (through September 30, 2013) utility plant-in-service of $1,175,122,602. 2013 Decision, p. 37. The Company states that its December 31, 2021 Test Year plant-in-service is $1,776,894,698, for a difference of about $600 million. Final Late Filed Ex. 1, Sch. B-2.0A. However, the Company testified that it had completed $763 million as of March 31, 2022, and approximately $800 million as of August 31, 2022. Lawrence PFT, p. 28.

[24] The annual addition of $50 million for 2013 is extrapolated based on $12.4 million for 4Q 2013.

tablyadditions have ballooned to $116 million per year on average. Id.[25] Although capital additions are within the Company's discretion, the rapid and substantial increases in spending, together with the Authority's prior admonitions, would normally signal to a utility that the prudency of such additions would be particularly scrutinized and, thus, would need to be adequately supported by record evidence and balanced against the parameters of Conn. Gen. Stat. § 16-19e(a).

The question before the Authority then is whether the Company has provided sufficient evidence in the record to satisfy its burden of demonstrating that the hundreds of millions of dollars of investments made through the end of the Test Year are in-service and that the costs were prudently and reasonably incurred. To put this in context, it is helpful to consider what level of documentation might be expected if a government agency were to expend, or to authorize the expenditure of, close to a billion (with a "b") dollars. With that in mind, the Authority turns to the evidence in the record.

To support its capital additions through the Test Year, the Company relies primarily on evidence located in two places: (1) the prefiled testimony of Daniel Lawrence, Exhibit A-3-DRL-1, and (2) the Company's response to Interrogatory RRU-127 as supplemented by Late Filed Exhibit 4. See Aquarion Brief, pp. 37-45. Mr. Lawrence's prefiled testimony includes 15 pages related to "Infrastructure Improvement and Pro Forma Plant Additions." Lawrence PFT, pp. 28-42. The testimony includes Table DRL-5, which identifies groups of "Major Additions to Utility Plant" through August 31, 2022, totaling $531.8 million. Id., p. 30. This amount is comprised of 18 relatively discreet projects totaling approximately $138.8 million (Items B, C, D, E, F G, H, I, M, N, O, P, Q, R, S, T, U and V) and five general categories of additions totaling $393 million (Items A, J, K, L, and W).

For each of the discrete projects, the Company provides 2-3 sentences generally explaining the completed additions and providing a cursory rationale for why the projects were undertaken. See, e.g., Lawrence PFT, p. 33 ($8.9 million "to increase the capacity of the raw water main"), p. 36 ($4.3 million to "optimize the performance of . . . filter units"), and p. 37, ($3 million "to replace an inadequate facility"). However, the testimony does not, for any of the discrete projects, specifically address why the chosen investment was the best option or why the incurred costs were prudent and reasonable. A review of the transcript from Mr. Lawrence's cross examination reveals limited details supporting a prudency finding as to the $138.8 million spent on these 18 projects. See, e.g., Tr., Nov. 22, 2022, 93:7-10 ("If you want the actual projects that go with that, I would need to give you a Late-File that actually explains what exactly was going on in each year, but it's varying.").

For the five general categories representing $393 million in plant additions, the prefiled testimony provides a similar paucity of detail despite the significantly larger expenditures. Lawrence PFT, pp. 31, 34-35, 39. The discussion for the $233 million in water main costs (Item A) consists of four sentences, none of which address specific projects or prudency of the costs. Id., p. 31. The Company notes that $149.8 million of

[25] Notably, the sharp increase in capital additions is coincident with Eversource Energy's 2017 acquisition of Aquarion.

the $233 million in water main projects was completed under the WICA program, Id.; however, the Authority does not make prudency determinations on WICA projects until the subsequent rate case.[26] Consequently, a project's eligibility as a WICA project is not evidence of prudency. Similarly, the explanation for $49.9 million to replace "aged and leaking service lines, inoperable valves, and obsolete fire hydrants" also spans four sentences, none of which apportion the costs between those activities or address the prudency of the expenditures. Id., p. 34. The hearing testimony also adds little, if any, evidence as to the prudency of these investments. Tr., Nov. 22, 2022, 72:9-14 ("[the meter replacement program is] going to be about 3 and a half million dollars. So things like that we don't need to devote a lot of time on in the project management process. Similarly, in terms of valves, hydrants and the like, they would follow that type of an approach.").

Notably, the word "prudent" does not appear anywhere in Mr. Lawrence's prefiled testimony. Further, the prefiled testimony is completely silent on approximately $268.2 million in additions. Mr. Lawrence stated that $800 million in additions were made through August 31, 2022; however, Table DRL-5 and the related testimony covers only $531.8 million. The remaining $268.2 million does not appear to be addressed elsewhere in the prefiled testimony.

The Company also cites to the Company's response to Interrogatory RRU-127, which was ostensibly supplemented by Late Filed Exhibit 4. The Company did not, either in the Application or prefiled testimony, provide an itemized list of projects it seeks to add to the Test Year rate base. Needless to say, the identification of the projects for which a utility seeks recovery is a bare prerequisite for any prudency review and determination. Consequently, the Authority requested such a schedule of capital improvements since 2013 through the 2021 Test Year. Interrog. RRU-127. In this request, the Authority required the Company to provide "the types of construction, the quantities, the actual and estimated costs" and a discussion of "the results of those improvements." Id. In response, the Company provided only a list of projects and associated costs but did not offer other information responsive to the interrogatory. Aquarion Interrog. Resp. RRU-127, Att. 1. The Company's Late Filed Exhibit 4 supplemented the RRU-127 Attachment 1 with "the list of projects 100% complete and closed to plant in 2022 through November totaling $94,897,843." Late Filed Ex. 4, Suppl. Att. 1 (Dec. 19, 2022).[27] Neither the response to RRU-127 nor Late Filed Exhibit 4 provide direct evidence in support of a determination that the investments, either individually or in aggregate, were prudent.

Notably, the Company offered evidence that it has a process for identifying and prioritizing capital investments. Lawrence PFT, pp. 3-16. Specifically, the Company

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[26] In a WICA proceeding, the Authority's determination is limited to WICA-eligibility only and is not a prudency finding regarding the final cost to complete each project. See Decision, April 30, 2008, Docket No. 07-09-09, DPUC Review and Investigation of the Requirements for Implementation of a Water Infrastructure and Conservation Adjustment, p. 5. The Authority makes a finding regarding the prudency of any project costs at the time of a rate proceeding. Id.

[27] Late Filed Exhibit 4, Suppl. Att. 1 (Dec. 19, 2022), is hereinafter referred to as Final Late Filed Ex. 4 in the Decision.

"follows a four-stage process to ensure the Company's capital project objectives are met." Id., p. 4.[28] In particular, during the planning stage, "each capital project goes through an alternatives analysis to identify the project alternative that meets the project objectives most cost effectively." Id. At the design stage, the project is sent out to bid and awarded to the lowest cost qualified contractor." Id., p. 5. Finally, the Company will "track progress against agreed upon budgets and schedules, and update and revise as appropriate" during the project delivery stage. Id. A Project Management Committee (PMC) oversees this process and provides a "quality control step to review proposed projects, costs, technical merit and benefits to the customer . . . ." Id., p. 4.

From this testimony, it can be inferred that a significant portion of capital projects will have documentation supporting, among other things, the project selection, budgeted costs, alternatives analysis, and customer benefits. All of the aforementioned materials would be relevant to a prudency review, and all would be within the Company's exclusive control; however, no such documents were provided by the Company during this proceeding. Consequently, the Company is asking the Authority to obligate ratepayers for almost a billion dollars of expenditures on a mere wisp of "evidential hair" covering "bald statements" of Company executives. Connecticut Nat. Gas Corp., 29 Conn. Supp. at 394.[29]

Neither OCC, DEEP, nor OAG took a specific position on the prudency of the approximately $600 million in additional test year plant-in-service. As a result, the Authority will allow the Company a Test Year plant-in-service of $1,776,894,698.

Prudency determinations on a utility's capital investments are an essential check on a utility's monopoly position. The burden is on the utility to demonstrate prudency; therefore, the utility must provide sufficient evidence. This task is complicated where, as here, the amount of annual investment is substantial, and the period of investment is extended.

2. Pro Forma Plant Additions

The Company has continued to make capital plant investments subsequent to the end of the 2021 Test Year. In recognition of these continued investments, the Authority permits utilities to make pro forma adjustments to the test year plant-in-service for a reasonable period of time for "definite, ascertainable expenses maturing or certain to materialize." Connecticut Nat. Gas Corp., 29 Conn. Supp. at 390. The Authority applies the same standard of review to pro forma plant adjustments as it does for test year plant-in-service. In other words, the Company must demonstrate that: (1) the plant is in service; and (2) the costs were prudently incurred. The pro forma adjustments must also be

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[28] All capital projects, with the exception of programmatic work and budgeted projects less than $100,000, are subject to the four-stage process. Id.

[29] The Company criticized the Proposed Final Decision for "threaten[ing] the financial integrity of Aquarion." Aquarion Exceptions, p. 4. However, it is Aquarion's decision to support over $600 million of capital investment with the evidence cited that exposes the Company to significant risk on administrative appeal.

"known and measurable" and supported by substantial evidence, with the burden resting on the utility to make such a showing. Id.

The Company initially identified a net $47,851,486 of pro forma plant additions and retirements as of the August 31, 2022 Application date. Application, Sch. B-2.2A. During the proceeding, the Company identified $75,015,929 in plant additions as of September 30, 2022, and projected an additional $54,092,201 in the fourth quarter of 2022. Aquarion Interrog. Resp. RRU-132. The total actual and projected additions for 2022 was $128,108,130. Id. On December 14, 2022, the Company submitted a supplemental late filed exhibit identifying approximately $88 million in pro forma plant addition activity as of November 30, 2022. Late Filed Ex. 1, Suppl. Att. 1 (Dec. 14, 2022), Sch. B-2.2A; Late Filed Ex. 4, Suppl. Att. 1 (Dec. 14, 2022). Several days later, on December 19, 2022, the Company submitted another supplemental exhibit identifying approximately $99 million in pro forma plant additions as of December 15, 2022. Final Late Filed Ex. 1, Sch. B-2.2A. In addition to these plant additions and retirements, the total plant-in-service adjustment is affected by "Utility Plant Acquisition Adjustments." Application, Sch. B-2.0A, and Final Late Filed Ex. 1, Sch. B-2.0A. The Company's proposed pro forma adjustments are summarized below.

Table 3: Proposed Plant-in-Service Pro Forma Adjustments ($)

	As of 08/31/2022	**As of 12/15/2022**
Plant Additions	60,898,937	109,105,585
Retirements	(13,047,451)	(9,867,393)
Subtotal	**47,851,486**	**99,238,192**
Acquisition Adj.	(551,216)	(748,546)
Total Adjustment	**47,300,270**	**98,489,646**

In the Application, the Company submitted a request for plant additions between the end of the Test Year (i.e., December 31, 2021) and August 31, 2022. Presumably, these pro forma additions are covered by the same limited evidential hair as the plant additions through the Test Year (i.e., Lawrence prefiled testimony and Aquarion Interrog. Resp. RRU-127). Consequently, the record contains some, albeit limited, evidence in support of the prudency and usefulness of these plant additions.

However, the evidence to support the inclusion of capital additions completed subsequent to August 31, 2022, is deficient. The Company did not offer any pre-filed testimony with respect to these additions. Instead, the Company cites to an interrogatory response (RRU-132), Final Late Filed Exhibit 4, Attachment 1, and hearing testimony. Aquarion Exceptions, p. 25.

In the response to Interrogatory RRU-132, the Company provides a table of year-to-date (i.e., September 30, 2022) actual and fourth quarter projected plant additions. Id. The table disaggregates the $128,108,130 into 15 groups (e.g., main replacement, blowoffs, asset purchase, etc.) and provides a summary table of $34.5 million in

investments greater than $1 million. Id. The response also includes two Excel file attachments that provide various accounting details (e.g., group code, asset number, cap. date, town, transaction type, etc.).

Final Late Filed Exhibit 4, Attachment 1 provides similar information with respect to $98,897,843 in plant additions from January 1, 2022, through November 30, 2022. The spreadsheets identify a variety of accounting information, including categories, asset numbers, divisions, locations, etc. Id. The Company notes that the "detail" sheet includes "a brief description of the project," which consists primarily of the location of the project along with a one-word descriptor such as "improvements", "settlers", "chlorination". Id.

Lastly, the Company refers to the transcript of the cross examination of Company witnesses Mr. Lawrence and Ms. Szabo by Authority staff (Ms. Szul) from the December 14, 2022 Late Filed Exhibit Hearing. Aquarion Exceptions, p. 25. The transcript indicates that Authority staff struggled to understand the Company's filings. Tr., Dec. 14, 2022, 11:18-20:23 ("it took me some time to find out where this number, almost $10 million, come from. So would you be able to clarify this attachment with exact numbers for accounts 340?"; "So this project cost almost $2.6 million. What was spent on this project?"; "the project service replacement in Fairfield, 1 inch cost twenty-three thousand five hundred dollars. Would you be able to explain why the service line replacement is so expensive?").

Notably, the Company highlights the quantity of data provided to the Authority. Aquarion Exceptions, pp. 25-26 ("One-hundred and four pages", "5,869 lines of data", "11 pages of oral testimony"). Based on the sheer volume of data, the Company concludes that the Authority cannot "simply reject the evidence . . . ." Id., p. 26.

The Company confuses quantity of evidence with quality and relevance of evidence. The Company has provided large volumes of data to support a finding that it has spent millions of dollars on capital improvements. Specifically, the Company provided hundreds of pages of spreadsheets containing detailed accounting information for each expenditure, including the division, class, asset number, project ID, WBS element, and transaction number. The Company also provided a variety of permutations of this data — as of September 30, 2022, as of November 30, 2022, and as of December 15, 2022. There appears to be little dispute that the Company spent over $99 million on capital plant in 2022.

However, to be included as a pro forma adjustment to rate base, a finding that the expenditures were made is simply not enough. Instead, the Authority must find that the expenditures were prudent and that the plant is used and useful. Here, the Authority is not rejecting any evidence, as the Company asserts; rather the Authority is searching for evidence that will support a finding on the prudency and usefulness of the purported capital improvements.

But none of the evidence cited by the Company is relevant to the prudency of the expenditures or usefulness of those plant additions. Nowhere in the transcript does a

Company witness describe the plant additions as prudent or useful. None of the evidence explains why the expenditures were made, which options were considered, how the costs were managed, or any of the other factors that would allow the Authority to assess the "good faith and reasonableness" of the management decisions related to the expenditures. Connecticut Light & Power Co., 216 Conn. at 645.[30]

By failing to submit material evidence as to the prudency of capital additions occurring between September 1, 2022, and December 15, 2022, the Company has failed to meet its burden demonstrating that these capital costs satisfy the standard for a pro forma adjustment to rate base. Indeed, there is simply *no* evidence (not even a bald statement) on which the Authority could make a prudency determination for these proposed pro forma adjustments. The Company offers that "no party or intervenor offered any testimony that rebutted or undermined this unrefuted evidence." Aquarion Exceptions, p. 38. Even if true, this assertion improperly seeks to shift the burden where the legislature has definitively concluded that it is the utility that has the burden to prove with substantial evidence that an expenditure was prudent.[31]

Consequently, the Authority will only allow a pro forma adjustment to plant-in-service for plant additions through August 31, 2022. To determine the amount of plant addition, the Authority filtered the data provided by the Company in Final Late Filed Ex. 4, Supplemental Attachment 2 for all projects noted as being completed ("Cap.date") between January 1, 2022, and August 31, 2022. Applying this filter, the Authority identified 673 projects constituting $52,315,630 of additions and $1,137,738 of retirements, for a total plant addition of $51,177,892. To verify this number, the Authority applied the same date filter to the list of projects contained in Final Late Filed Ex. 4, Supplemental Attachment 1. This process identified total plant additions of $51,708,342 for the same period; however, this data did not separately identify additions and retirements. Consequently, the Authority finds the $51,177,892 calculation to be more reliable.[32] The allowed pro forma plant additions are shown in the table below.

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[30] Citing to 2013 and 2022 rate cases, the Company asserts that the Authority has created a "new, heightened evidentiary burden of proof." Aquarion Exceptions, p. 28. However, neither the legal standard nor the evidentiary burden has changed — the Company must provide substantial evidence that the plant additions were prudent and are used and useful. Given that the Authority allowed $600 million of Test Year plant additions on a wisp of evidentiary hair, one could (and did) argue that the evidentiary burden has, instead, been lowered. See Smart Water Westport Exceptions, pp. 3-6. That the Authority may have found sufficient evidence as to prudency and usefulness in prior rate proceedings on different facts does not indicate a change in the Company's evidentiary burden here.

[31] The absence of evidence also makes a determination on the second prong of the rate base test (i.e., in-service, used and useful) impossible.

[32] The Company asserts that the Authority miscalculated the pro forma plant-in-service amount. Aquarion Exceptions, pp. 8-9. However, the new table attached to its written exceptions purporting to correct the miscalculation includes projects completed prior to January 1, 2022, including many projects with a "Cap.date" in years 2016, 2017, and 2018. These projects were completed prior to or during the Test Year and are not pro forma additions. As such, the Company's tabulation of $57,101,366 for pro forma plant-in-service appears to erroneously include projects that should be excluded. Therefore, in addition to being filed after the close of the evidentiary record, the Authority finds this data to be unreliable. In light of the Company's failure to otherwise provide an accurate tabulation of capital investments through August 31, 2022, the Authority finds the sorting of data provided by the Company in Final Late Filed Exhibit 4 to be the most reliable method for determining pro forma additions through August 31, 2022.

Table 4: Pro Forma Plant-in-Service Adjustment ($)

	Company Proposed (12/15/2022)	Authority Allowed (8/31/2022)	Authority Modification
Plant Additions	109,105,585	52,315,630	56,789,955
Retirements	(9,867,393)	(1,137,738)	8,729,655
Subtotal	**99,238,192**	**51,177,892**	**(48,060,300)**

Separate from the Authority's determination above, the Authority is concerned about the use of late filed exhibits as a vehicle for proposing substantial changes to the Application.[33] Here, the Company initially included $48 million in pro forma plant additions through August 31, 2022. Application, Sch. B-2.2A. During the proceeding, the Company provided year-to-date plant additions as of September 30, 2022, as well as projections for the remainder of 2022; however, the interrogatory response did not indicate a change to the Company's proposed pro forma plant additions. Aquarion Interrog. Resp. RRU-132.

Then, less than two days before the late filed exhibit evidentiary hearings, the Company increased its proposed pro forma plant additions from $48 million through August 31, 2022, to $109 million through December 15, 2022. Late Filed Ex. 1, Suppl. Att. 1 (Dec. 14, 2022), Sch. B-2.2A; Late Filed Ex. 4, Suppl. Att. 1 (Dec. 14, 2022).[34] At the Late Filed Exhibit Hearing, the Company acknowledged this $61 million change to its Application. Tr., Dec. 14, 2022, 29:18-23 (Ms. Szabo: "the application, which was a pro forma as of August, included estimates for projects being completed from the test year through August of 2022; and the [Late Filed Exhibit] supplemental update is for actual projects completed as of November 30, 2022, plus 100 percent complete through December 15th."). Further, the Company's witnesses were unable to provide responses with respect to five categories of data, requiring the Company to file additional supplemental information after hearings concluded. Aquarion Exceptions, p. 36.

By modifying the requested pro forma plant additions in its Application by $61 million immediately prior to the last evidentiary hearings, the Company deprived the Authority, other parties, and intervenors of a meaningful opportunity to review and challenge the information and the proposed changes to the Application. Therefore, although the Authority is not excluding Final Late Filed Exhibits 1 and 4, in future proceedings, substantial changes to an application and any supporting evidence should be presented prior to the close of the discovery period and normal evidentiary hearings.

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[33] For purposes of administrative efficiency, late filed exhibits are generally reserved for clarifying or correcting evidence previously introduced or addressed in pre-filed testimony or cross-examination. As such, the procedural schedules typically provide very limited durations for submitting and reviewing such exhibits. Using late filed exhibits to introduce significant new evidence is contrary to this administrative process.

[34] The Company filed Late Filed Exhibit 1 on December 12, 2022, but the file was not accessible. The Company refiled on December 14, 2022.

In addition, during the proceeding, a debate arose as to which pro forma capital additions should be eligible for inclusion in rate base. In this case, the sheer dearth of evidence with respect to capital additions alleged to be prudent and complete after the August 31, 2022 Application date, regardless of eligibility, renders the debate superfluous. However, for regulatory predictability in future rate cases, the Authority is compelled to address the issue.[35]

Citing the Authority's July 28, 2021 decision in the most recent rate case for a water utility, the Company took the position that eligibility should extend to projects that are 75% complete on the last day of evidentiary hearings (i.e., December 15, 2022). Aquarion Brief, p. 36. Conversely, citing to six prior rate cases, including a decision issued May 29, 2021, OCC argued that capital projects should be 100% complete by the last evidentiary hearing to be eligible. OCC Brief, pp. 26-27.

As noted at the outset of this section, the legal standard is clear — capital additions can only be added to rate base upon a determination by the Authority that the project is in service and that the costs incurred are prudent. The issue then is not only when and to what extent a project is complete; rather, the issue is at what point can the Authority review the evidence presented by the utility and other parties and reasonably make the requisite findings. Using a specific percentage complete as of the end of evidentiary hearings has been, at best, an imperfect proxy; however, such proxies cannot circumvent the applicable legal standard for pro forma adjustments, nor relieve the utility of its statutorily defined burden to provide substantial evidence on the issues of prudency and usefulness.

As this proceeding has demonstrated, a rate case requires the Authority to assess and make prudency findings on hundreds of millions of dollars in capital expenditures. For water utilities, the Authority has less than 200 days to issue a decision in a rate case. Accounting for the various administrative and procedural steps (e.g., a proposed final decision is typically issued a month in advance of the final decision), the Authority is left with a narrow window within which to review and process massive volumes of documentation, conduct hearings, and make prudency determinations. In addition, the relevant evidence needed for a prudency determination (i.e., final invoices and costs) is not typically available for several weeks or months after a project is placed in service.

Consequently, with respect to future water utility rate cases, the Authority finds that pro forma adjustments for plant-in-service should generally be limited to plant that is or will be placed in service as of the date of the rate amendment application – a date that is notably within a utility's sole discretion. The utility will be able to supplement the record for such completed projects through the proceeding as the financial and accounting information becomes available. This will provide the Authority with sufficient time to review and conduct sufficient inquiry into both test year and pro forma plant-in-service

[35] The Company asserts that the Authority is making a Post Hoc change; however, the Authority is simply providing guidance on how it intends to apply the relevant legal standard in the future. Aquarion Exceptions, pp. 30-31. As noted herein, the application of this guidance to the instant proceeding is superfluous as the Company did not satisfy its evidentiary burden for the expenditures in question.

additions. Exceptions may be warranted in certain circumstances (e.g., a major capital investment is placed in service shortly after the application filing date); however, utilities will still bear the burden of providing sufficient, reliable evidence for the Authority to determine that a project is both in-service and that the costs incurred were prudent.

3. IT Projects

The Company appears to have violated its procurement practices when choosing its suppliers and vendors for information technology (IT) investments. Specifically, six IT projects were subject to the Company's four-stage capital project approval process but were not competitively bid. Aquarion Interrog. Resp. RRU-165; Lawrence PFT, p. 4.[36] The Company's explanations for why these projects were not competitively bid generally focused on the Company choosing an existing vendor or using a "small group" of consultants rather than seeking out an alternative vendor through competitive bidding. Interrog. Resp. RRU-165 and RRU-376. This practice is not representative of a competitive bid and raises significant questions as to the prudency of the Company's IT expenditures. In this case, the projects were not in-service as of August 31, 2022, and were disallowed as a pro forma adjustment due to the lack of evidence supporting a prudency determination. However, to the extent the Company seeks recovery for these investment in the future, it will need to reconcile deviations from its procurement protocols.

C. ACCUMULATED DEPRECIATION

The Company originally filed a pro forma adjustment to its depreciation reserve of $15,089,370, for a total reserve for accumulated depreciation of $605,276,245. Application, Sch. B-1.0A. Subsequently, the Company increased its pro forma depreciation reserve adjustment to $30,769,168, for a total reserve for accumulated depreciation of $620,956,042. Final Late Filed Ex. 1, Sch. B-1.0A.

The Authority will make several adjustments to the Company's accumulated depreciation. The first adjustment is to account for pro forma additions and the disallowance of plant additions made after August 31, 2022, as explained in Section IV.B.2. Pro Forma Plant Additions. Second, the accumulated depreciation will include $577,287 to account for increasing the amortization period of the unrecovered reserve from the proposed five years to ten years. Finally, the Authority has also incorporated the $4,266,128 in depreciation expense as discussed in Section VI.C. Depreciation Expense. The result is an increase in reserve for accumulated depreciation of $5,318,731. The table below summarizes the adjustments.

[36] The six projects are: (1) Customer Portal; (2) Human Capital Management; (3) Project Portfolio Management; (4) supervisory control and data acquisition (SCADA); (5) S4 HANA Assessment; and (6) Meter Reading Software Upgrade. Aquarion Interrog. Resp. RRU-165; Lawrence PFT, p. 4.

Table 5: Adjusted Reserve for Accumulated Depreciation ($)

(A)	Reserve for Acc Dep. 12/31/21 Final Late Filed Ex. 1, Sch. B-3.1A	586,389,124
(B1)	Annual Dep. Expense Application, Sch. B-3.1A	40,186,159
(B2)	Amortization of general plant reserve	577,287
(C)	Balance prior to dep. on additions and reduction for Retirements C=A+B1+B2	627,152,569
(D)	Pro Forma Additions Final Late Filed Ex. 4	52,315,630
(E)	Depreciation For Additions Final Late Filed Ex. 4, Supp. Attach. 2	748,648
(F)	Retirements as of 8/31/2022 Final Late Filed Ex. 4, Supp. Attach. 2	(1,137,738)
(G)	Reserve for Acc Dep. G=C+E-F	626,763,479
(H)	Less: Dep adjustment Section IV.C.	(4,286,456)
(I)	Plus: SWRP Amort. Sch B-3.0A	3,797,750
(J)	Total Accumulated Depreciation Reserve J=G+H+I	626,274,773
(K)	Company Proposed	620,956,042
(L)	Adjustment L=J-K	5,318,731

In its written exceptions, the Company claims that, because the Authority excluded pro forma plant additions after August 31, 2022, the Authority should only account for accumulated depreciation of rate base up to the same date "to be internally consistent." Aquarion Exceptions, pp. 9-12. However, this argument arbitrarily conflates pro forma plant additions, which the Company must demonstrate are prudent and useful, and accumulated depreciation, which is a known and measurable quantity.

The Authority's disallowance of new plant additions for the September through December 2022 period was solely a result of the Company's failure to satisfy its evidentiary burden with respect to plant additions after August 31, 2022, as noted in Section IV.B.2. Pro Forma Plant Additions. Consequently, the August 31, 2022 date has no specific accounting relevance except that the Company provided no material evidence regarding prudency of plant additions made after that date. The Company's evidentiary failure does not suspend the depreciation of rate base, which continued through the entirety of 2022 in a known and measurable manner. Consequently, the Authority finds it reasonable to account for depreciation of Test Year and pro forma plant-in-service through December 31, 2022.[37]

[37] The Company's objection raises the issue of whether the Authority should account for the known and measurable accumulated depreciation up to the beginning of the Rate Year (March 15, 2023). Presently, the Company is recovering depreciation expense in current rates through March 15, 2023;

D. DEFERRED INCOME TAX

The Company proposed a pro forma accumulated deferred income tax (ADIT) of $87,872,470, including a pro forma decrease of $1,092,000 from the test-year ADIT of $88,964,470. As discussed in Section VI.E.4., the Authority rejects the Company's proposed annual amortization of $2,804,852 for excess accumulated deferred income tax (EADIT). There is no rate base adjustment required for this reversal as the Company has not reflected amortization of the ADIT in its request. Concerning the $1,092,000 pro forma decrease of ADIT, the Authority disallows this adjustment pending the outcome of the independent audit ordered in Section VI.E.4. Consequently, the approved pro forma ADIT is $88,964,470.

E. WORKING CAPITAL

Working capital is included in rate base and is a calculation of funds that the Company must provide to fund daily operations due to the timing difference between the payment of expenses and the receipt of payments from customers. The Company performed a lead/lag study as part of its application, which detailed the lead/lag period of expense and revenues and included a working capital allowance of $13,319,003. Application, Sch. B-4.0A. Subsequently the Company adjusted its working capital allowance to $13,665,003. Final Late Filed Ex. 1.

However, the Authority is disallowing approximately $10.7 million in operating expenses (see Section VI.B. Operations and Maintenance Expenses), which results in a lower working capital requirement. The Authority recalculated the working capital using the original lead/lag study, subject to the removal of the cost of chemicals.[38] Application, Sch. H-1.1. Consequently, the Authority will further reduce the required working capital by $1,966,338, for a total working capital allowance of $11,698,665.

F. CAPITALIZED EXPENSES

The Company's rate base includes the capitalization of a portion of its expense accounts. Specifically, the Company applies a 76.8% expense / 23.20% capitalization ratio to its expense accounts. Application, Sch. C-3.2. The Authority's disallowance of certain expenses as determined in Section VI.B. Operations and Maintenance Expenses also requires a concomitant reduction of the capitalized portion of such expenses. The table below identifies the capitalized portion of certain disallowed expenses and the total modification to rate base.

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however, accumulated depreciation for the Rate Year is accounted for only through December 31, 2023. Consequently, the Company is benefitting from depreciation expenses during a period in which depreciation is not accumulated. The Authority may re-examine this issue in a future proceeding.

[38] As discussed in Section VI.B.6.b. Chemicals, the Company included chemical expenses in both its cash working capital calculation and in rate base inventory, leading to a double recovery of the expense. OCC Brief, p. 27. The Company similarly included chemicals in both working capital and rate base in a previous rate proceeding; see Decision (2010 Decision), Sept. 8, 2010, Docket No. 10-02-13, Application of Aquarion Water Company of Connecticut for Amended Water Service Rate Schedules. The Authority's predecessor, the DPUC, determined a cash working capital amount by removing chemicals from the lead/lag calculation. 2010 Decision, p. 25.

Table 6: Disallowed Capitalized Portions of Expenses ($)

Expenses	Capitalized Amount
Payroll	285,129
Employee Incentive Comp	515,573
Employee Benefits	48,139
Payroll Taxes	63,261
Total	**912,102**

G. FIVE-YEAR CAPITAL PLAN

The Company provided a Five-Year Capital Improvement Program (Five-Year Capital Program) for projected construction and maintenance projects. Application, Sch. F-7.0. The following table summarizes the Five-Year Capital Program:

Table 7: Five-Year Capital Improvement Program Summary

FIVE-YEAR CAPITAL BUDGET SPEND ($ millions)						
Description	**2022**	**2023**	**2024**	**2025**	**2026**	**Total**
Mains	51.2	58.4	59.1	62.6	63.9	**295.2**
Dams	1.3	3.8	8.6	7.4	8.8	**29.9**
Trans. & Dist.	10.8	17.7	19.1	22.3	20.5	**90.4**
IT	6.6	9.6	8.1	5.1	4.7	**34.1**
Meters	4.6	3.6	3.7	3.7	3.6	**19.2**
Source of Supply	5.1	5.3	2.5	3.3	2.0	**18.2**
Treatment	31.8	18.3	24.2	25.7	39.3	**139.3**
Pumping	11.8	13.3	14.2	8.9	7.6	**55.8**
SWFC Supply Imp.	14.3	28.6	35.4	39.6	31.6	**149.5**
Housatonic WTP	0.3	1.2	1.2	6.0	18.0	**26.7**
General Plant	5.4	4.4	3.6	3.5	3.4	**20.3**
Total	**143.2**	**164.2**	**179.7**	**188.1**	**203.4**	**878.6**

Lawrence PFT, pp. 43-44.

Within the five-year planning period, the most significant facility upgrades for the Company will occur in the Pipeline Rehabilitation Program (Mains), Dams, Transmission and Distribution, Treatment, Pumping, and Southwest Fairfield County Supply Improvements categories.

Mains ($295.2M) - Most of this investment is for WICA-eligible water main replacement work.

Dams ($29.9M) - This work includes alternative analysis, design, and/or execution on up to 10 dam projects.

Transmission and Distribution ($90.4M) - The major capital investments in this category are Traps Falls Storage Tank, Mansfield HS Tank Replacement, Pine Street

Tank Replacement, Nichols Tank Replacement, Fairchild Wheeler Tank Replacement, Lead Service Line Replacement, and Service Line Inventory.

Treatment ($139.3M) – This category is for treatment improvements due to the increasing age of Aquarion's facilities, increasingly stringent water quality requirements, and regulations.

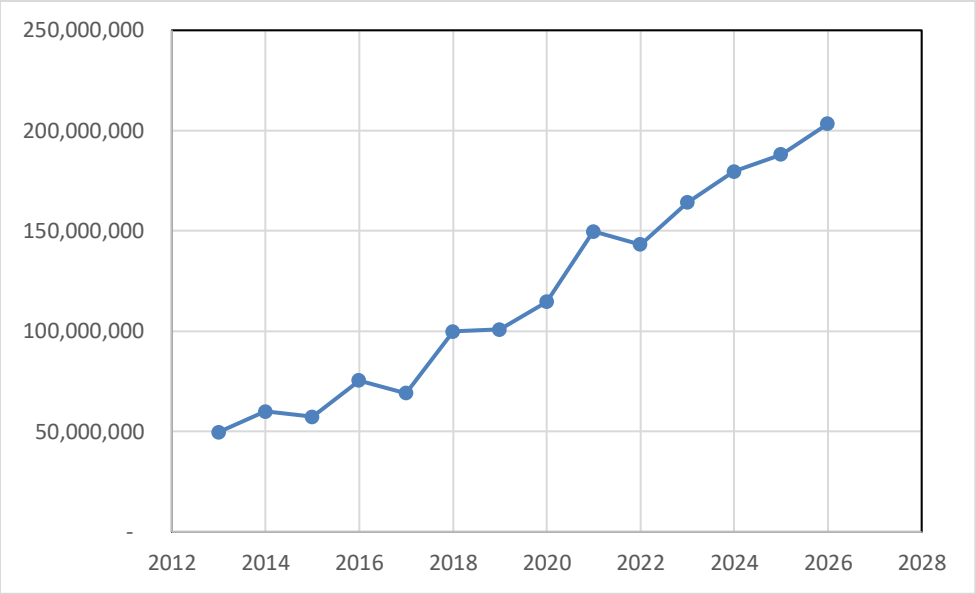
Pumping ($55.8M) – These investments would pertain to alternative analysis, design, and execution of pumping facilities.

SWFC Supply Improvements ($149.5M) – These investments are designed to increase the transfer capacity of the Southwest Regional Pipeline (SWRP) from the Company's Bridgeport Water System to the Southwest Fairfield County Water System to meet water supply demands, improve drought resiliency, and meet the Stream Flow Regulations that go into effect in 2029. Lawrence PFT, pp. 44-48.

Additionally, the Company has identified the following water systems where, in the next five years, increased storage is needed: Nichols Tank in the Greater Bridgeport water system; Pine Street Tank in the Greater Bridgeport water system; Fairchild Wheeler Tank in the Greater Bridgeport System; Mianus Low Service Tank in the Greenwich System; and Greenfield Hill Tank in the Greater Bridgeport System. Aquarion Interrog. Resp. RRU-143.

In summary, between 2022-2026, the Company plans to spend approximately $878.6M on capital improvements to its water systems. The figure below illustrates the Company's actual and projected annual expenditures since 2013.

Figure 2: Actual and Projected Annual Capital Expenditures



Importantly, this rapidly increasing level of capital investment may not be sustainable. At some level, individual projects may be prudent, but the aggregation of even prudent projects within a short time period may not be prudent, particularly when evaluated in the context of the parameters outlined in Conn. Gen. Stat. § 16-19e. As a monopoly, Aquarion does not face the usual market impediments to excessive capital investments; however, those investments (both individually and in aggregate) must be prudent and reasonable – the regulatory proxy for the free market. Importantly, the burden is on the Company to demonstrate prudency and reasonableness at both levels of investment. Yet, this proceeding has demonstrated that the Company's ability to justify the prudence of individual projects, let alone aggregate annual expenditures, is deficient.

The Company's Five-Year Capital Program provides no basis on which the Authority could conclude that the projected level of expenditures is reasonable or prudent. The Authority's prior admonitions about the Company's accelerating capital expenditures have gone largely unheeded. Consequently, the Authority will dispense with such perfunctory warnings and sanguine expectations for judicious capital expenditures. Instead, the Authority will simply, as it must, hold the Company to account. As noted previously, "there exists a distinction between, on one hand, utility property and, on the other hand, the cost of utility property allowed in rate base, because only that portion of utility property that is the result of prudent and reasonable management is included in rate base." Connecticut Light & Power Co., 219 Conn. at 67-68.

The burden will be on the Company to demonstrate that its future capital expenditures, both individually and in the aggregate, are prudent, reasonable, and protect the relevant public interests, both existing and foreseeable. There is certainly no evidence in this proceeding to support such a conclusion at this time.

V. COST OF CAPITAL

A. SUMMARY

The Authority approves a weighted cost of capital of 6.46% based upon an 8.70% return on common equity, a 4.28% cost of long-term debt, a 2.48% cost of short-term debt, and a capitalization mix of 50.35% common equity, 47.07% long-term debt, and 2.58% short-term debt. The Capitalization and Weighted Average Cost of Capital is depicted in the table below.

Table 8: Approved Weighted Average Cost of Capital

Capital Source	Allocation	Cost	Weighted Cost
Long-term Debt	47.07%	4.28%	2.015%
Short-term Debt	2.58%	2.48%	0.064%
Equity (ROE)	50.35%	8.70%	4.380%
Total	**100.00%**		**6.46%**

The determination as to the allocation and cost of each source of capital is provided below.

B. FINANCIAL CONDITION AND FLEXIBILITY

The Authority finds that the Company has maintained its financial condition and flexibility since the 2013 Decision; specifically, the Company has increased its operating income and rate base and reduced its embedded cost of debt. Overall, the Company achieved improved financial flexibility, from 2013 to 2022, since its last fully adjudicated rate proceeding. Based upon the review, the Authority determines Aquarion to be financially stable.

The Company's currently allowed ROE is 9.63%. 2013 Decision, p. 115. This ROE includes a 50-basis point premium awarded pursuant to Section 8 of Public Act 13-78,[39] and a 10-basis point subtraction for a reduction in risk as a result of the revenue adjustment mechanism. Id.

The Company maintains an A3 Stable Rating from Moody's Investor services. The Company's rating was upgraded to A3 following the completion of the Company's merger with Eversource. Aquarion Interrog. Resp. OCC-107, Att. 2, p. 5. The Company's corporate credit issuer ratings from Moody's, since January 1, 2018, are included in the following table.

Table 9: Moody's Rating, January 1, 2018 through May 19, 2022

Date	Moody's Rating
January 1, 2018	Baa1
March 2, 2018	Baa1
May 18, 2018	A3
May 17, 2019	A3
May 20, 2020	A3
May 14, 2021	A3
May 19, 2022	A3

Aquarion Interrog. Resp. RRU-59.

As part of the rationale for a rating upgrade, Moody's indicated that Aquarion benefits from being a part of Eversource, a large and financially low risk regulated utility holding company, after the merger in December 2017. Aquarion Interrog. Resp. RRU-59, Att. 1, p. 5. In its May 19, 2022 Credit Opinion, Moody's cited the Company's ownership by a large, diverse regulated utility holding company like Eversource as a credit positive. Id. Moody's further asserted that Aquarion benefits from synergies as part of a corporate family of regulated utilities with overlapping service territories through cost sharing services and risk mitigation opportunities. Id. Furthermore, Moody's stated that Aquarion benefits from the increased financial flexibility that comes with being part of a large corporate structure, which allows the Company to retain cash flow and reinvest in

[39] Section 8 of Public Act 13-78, An Act Concerning Water Infrastructure and Conservation, Municipal Reporting Requirements and Unpaid Utility Accounts at Multi-Family Dwellings, amended Conn. Gen. Stat. § 16-262s.

its operations when necessary. Id. The Company is owned by Aquarion Water Company, which is owned by Eversource.

Moody's listed several credit strengths in its most recent credit opinion: the Company has a low-risk business profile as a regulated water company; the Company operates in a credit supportive regulatory environment with timely cost recovery provided by key rate adjustment mechanisms; and the Company's financial metrics, although expected to be lower than historic levels (due to its elevated capital expenditure program), continue to support credit quality. Aquarion Interrog. Resp. RRU-59, Att. 1, pp. 1-2.

The following table provides the previous, as well as the most recent, credit ratings of Eversource (the ultimate parent company), Aquarion Water Company (Parent Company), and Aquarion.

Table 10: Current Credit Ratings

	Moody's			**Fitch**	**S&P**	
	Eversource	Aquarion Water Company	Aquarion	Eversource	Eversource	Aquarion Water Company
7/25/19	Baa1	Baa2	A3	BBB+	A-*	A-*
5/17/18	Baa2	Baa2*	A3*	BBB+	A+	A+
12/5/17	Baa3	Baa3	Baa1	BBB+	A+*	A+*
1/1/17	Baa4	Baa3	Baa1	BBB+	A+	BBB
* denotes ratings change						

Aquarion Interrog. Resp. OCC-107, Att. 1.

The Company provided a list of financial metrics that are followed by Moody's investor services. Aquarion Interrog. Resp. RRU-59, Att. 1, p. 1. Moody's indicated the factors that would lead to an upgrade, such as the Company's ratio of funds from operations (FFO) to net debt maintained above 21%, and, conversely, indicated that a ratio of FFO to net debt that is sustained under 16% is a factor that could lead to a downgrade. Id., p. 3. Moody's indicated that the Company's FFO to net debt will be within the 17%-18% range going forward versus its FFO to net debt of 20.4% last year. Id., p. 1.

The Company also provided results of several financial ratios that are core metrics typically reviewed by Moody's for 2019, 2020, and 2021, valued at December 31st. Aquarion Interrog. Resp. RRU-63. The Authority compiled the actual historical ratios for the Company in the table below.

Table 11: Historical Ratios for the Company

	Actual	Actual	Actual
	2019	**2020**	**2021**
FFO Interest Coverage	6.0x	5.9x	6.2x
FFO/ Net Debt	20.8%	21.2%	20.4%
Debt / Capitalization;	41.1%	38.3%	37.8%
Retained Cash Flow (RCF)/Net Debt.	15.3%	16.8%	14.0%

Aquarion Interrog. Resp. RRU-63.

The Moody's benchmarks for each of the above listed Aquarion historical results are included the table below. The Authority takes into consideration the effect the ROE has on these metrics and the revenue requirement.

Table 12: Moody's Rating Factor Benchmarks

Rating Factor	**Weight**	**Aaa**	**Aa**	**A**	**Baa**
Interest Coverage Ratio	12.50%	≥8x	4.5x-8x	2.5x-4.5x	1.5x-2.5x
OR					
FFO Interest Coverage		≥10x	7x-10x	4.5x-7x	2.5x-4.5x
Net Debt/Regulated Asset Base	10%	<25%	25%-40%	40%-55%	55%-70%
OR					
Debt/Capitalization					
FFO/Net Debt	12.50%	≥40%	25%-40%	15%-25%	10%-25%
RCF/Net Debt	5%	≥30%	20%-30%	10%-20%	6%-10%

Aquarion Interrog. Resp. RRU-63

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The Company also projected the financial ratios reviewed by Moody's and several other financial bank solvency ratios under the ROE scenarios proposed by OCC's and by EOE's cost of capital witnesses. The scenarios were as follows: OCC proposed ROE of (1a) 8.90% and (2a) 9.00% and the proposed capital structure of 50% Equity and 50% Debt; EOE proposed ROE within a range of (1b) 7.76%, (2b) 8.33%, and (3b) 8.91%, and the proposed capital structure of 48.43% Equity and 51.57% Debt. Aquarion Interrog. Resp. RRU-407, Att. 1 (Redacted).

Under all the recommendations offered by the Company, OCC, and EOE, the Authority concludes that the metrics remain in the range of the core metrics followed by Moody's to maintain its A3 rating. The Company stated that the metrics Moody's considers as "core" are: FFO interest coverage, debt to capitalization, FFO to debt, and retained cash flows to debt. Tr., Dec. 6, 2022, 1388:5-7. With regard to Moody's rating determination methodology, the Company indicated that 40% of the rating is based on the aforementioned core metrics, 50% is based on business profile, and 10% is based on

financial policy. Tr., 1388:14-19. Other metrics are considered supplementary. Tr., 1389:5-10. If these supplementary metrics fall outside of Moody's rating range, this is typically not a concern for the Company or for Moody's. Tr., 1389:20-25, 1390:1-4. Ultimately, the Authority's analysis concluded that some of the core metrics ratios are reduced when the lower range of ROEs are used; however, the ratios do not breach the lower bound ranges of the metrics.

The Authority weighted the multiple scenarios in its determination of the appropriate required ROE in its analysis to ascertain what the potential impact of various ROEs would have on credit metrics that are deemed significant to the credit rating agencies. The Authority concludes that under various ROE scenarios, as represented in Table 12, and under various pro forma scenarios presented in Attachment 1 of Aquarion's Response to Interrogatory RRU-407 (redacted), the Company's credit metrics remain in acceptable ranges set by the credit rating agencies. Hence, an ROE set within the ranges presented by EOE, OCC, and the Company (i.e., 7.765% to 10.35%) would not adversely affect the Company's credit rating.

C. PROXY GROUP

The methodology of arriving at a cost of equity for a regulated company begins with the selection of a proxy group of comparable companies that can be analyzed to ascertain what the market-based range of the cost of equity is for this group. The Authority typically applies the following criteria (Authority Screening Criteria) in the selection process: (1) predominantly in the same utility industry as the subject utility (70% for electric, 50% for gas) reported by Value Line; (2) publicly traded and reported by Value Line and augmented with AUS Utility Industry for water companies; (3) has paid consistent dividends for 8 quarters and is expected to continue; (4) the company cannot be in financial distress; (5) the company is not the target of an acquisition or merger activity; (6) credit ratings should be at least investment grade as determined by Standard & Poor's (BBB- and above) and/or (Moody's (Baa3 and above); and (7) the company has similar revenues to the company being analyzed.

The Authority considered the proxy groups presented by the Company, EOE, and the OCC. All parties recommended using proxy groups consisting of publicly traded water companies and gas companies followed by Value Line.

For the proxy group criteria selection, the Company started with 17 investor-owned domestic water utilities and natural gas utilities and then screened the companies based on specific criteria. Nowak Prefiled Test., Aug. 29, 2022, p. 24. The screening criteria evaluated whether the proxy company: (1) consistently pays quarterly cash dividends; (2) maintains an investment grade long-term issuer rating (BBB- or higher) from S&P; (3) is covered by more than one equity analyst; (4) has positive earnings growth rates published by at least two of the following sources: Value Line, First Call (as reported by Yahoo! Finance), and Zacks Investment Research (Zacks); (5) owns regulated assets that make up more than 60% of the consolidated company's assets (based on a 3-year average from 2019-2021); and (6) is not involved in a merger or other transformative transaction for an approximate six-month period prior to the analysis. Id. After applying the screening

criteria, the Company arrived at a proxy group of 13 investor-owned companies. Id., p. 25.

OCC used the proxy group developed by the Company. Woolridge Prefiled Test., Oct. 26, 2022, p. 21. OCC concluded that the risk metrics are mixed for the water and gas companies. Id., p. 23. The water and gas companies' relative average Beta (0.82 vs. 0.83), S&P issuer credit rating (A vs. A-), and earnings predictability (71 vs. 59), suggest water companies are less risky than the gas companies. Id. On the other hand, a comparison of the water companies' and gas companies' relative average financial strength (B++ vs. A-), safety measures (2.7 vs. 2.2), and stock price stability (89 vs. 92) suggests that the water companies are riskier than the gas companies. On balance, given the Beta and S&P issuer credit rating, OCC concludes that the water companies in the proxy group are slightly less risky than the gas companies. Id., pp. 23-24.

In addition to using the Company's proxy group, EOE applied the cost of equity models to the following three proxy groups: (1) RFC Water Proxy Group, which consists of publicly traded water utility companies for which Value Line provides quarterly full company reports; (2) RFC Electric LEAPS Proxy Group, which is comprised of the 12 companies that trade LEAPS (Long-Term Equity Anticipation Securities) out of the 36 publicly traded electric utility companies for which Value Line provides quarterly full company reports; and (3) Nowak's Proxy Group, which is comprised of 13 publicly traded water and natural gas utility companies used by Mr. Nowak in his cost of equity analysis. Rothschild Prefiled Test., Oct. 26, 2022, p. 11.

The Authority approves the Company's proxy group, which consists of the following 13 companies that are most closely aligned with Aquarion's business and financial characteristics and have met the specifications indicated in the Authority's Screening Criteria (Authority's Proxy Group):

(1) American Water Works Company,
(2) American States Water Co.,
(3) Atmos Energy Corporation,
(4) California Water Service Group,
(5) Essential Utilities, Inc.,
(6) Middlesex Water Company,
(7) New Jersey Resources Corporation,
(8) NiSource Inc.,
(9) Northwest Natural Gas Company,
(10) ONE Gas Inc.,
(11) SJW Group,
(12) Spire Inc., and
(13) York Water Company.

The Company took exception to the use of York Water Company (York Water) in the Authority's Proxy Group, citing data limitations. Aquarion Exceptions, p. 51. However, the Company included York Water in its original proxy group, stating that the

group of 13 water and natural gas utilities adequately reflects the broad set of risks that investors consider when investing in a U.S regulated water utility such as Aquarion. Nowak PFT, p. 25. After updating its financial models, the Company chose to exclude York Water from its proxy group, claiming "Value Line no longer provides full coverage with projections for [York Water]." Nowak Rebuttal Test. to Rothschild, Nov. 9, 2022, p, 10. However, in conducting its analysis, the Authority was able to ascertain credible financial information for York Water to keep it in the proxy group. Generally, a larger sample set proxy group provides a better holistic picture of what equity investors are requiring as a return for regulated utilities. Notably, the Company appears to have removed York Water from the proxy group after determining that its exclusion resulted in increases in the Discounted Cash Flow Model and Capital Asset Pricing Model results favorable to the Company. Tr., Dec. 5, 2022, 1323: 20-25. Consequently, the Authority's Proxy Group will be the same as the proxy group originally proposed by the Company.

D. CAPITAL STRUCTURE

1. Summary

The Authority finds that the evidence supports a capital structure consisting of 50.35% common equity, 47.07% long-term debt, and 2.58% short-term debt. The table below summarizes the allocation authorized herein.

Table 13: Approved Capital Structure

Capital Source	Allocation
Long-term Debt	47.07%
Short-term Debt	2.58%
Equity	50.35%
Total	**100.00%**

The Company's current authorized capital structure is 51.53% common equity, 48.23% long-term debt, and 0.23% short-term debt. 2013 Decision, p. 115.

2. Positions of the Parties

a. Aquarion

In its Application, Aquarion proposes a financial capital structure of 53.06% common equity and 46.94% long-term debt for determining its cost of capital. Nowak PFT, p. 53. The Company's proposal is based upon the "weighted average capital structures of each of the proxy group operating companies for the most recent year reported." Id., p. 54. Notably, the Company did not use the capital structure of the *proxy* companies; rather, the Company used the capital structure of the *operating subsidiaries*. As a result, the Company calculated a common equity range of 43.23% - 63.28% and a mean of 54.25% in 2019, and a slightly lower range of 41.92% - 60.04% and a mean of 53.22% for 2020. Id., p. 55 and Ex. A-8-JCN-13.

The Company did not propose short-term debt as a component of its capital structure. However, for the proxy group, the Company's witness calculated a range of 0.00% - 13.69% and a mean of 4.71% for 2020, and a range of 0.00% - 15.98% with a mean of 4.66% for 2019. Nowak PFT, p. 55 and Ex. A-8-JCN-13, p. 2.

b. OCC

OCC's recommended capital structure is 50.15% common equity, 44.37% long-term debt, and 5.47% short-term debt. Woolridge PFT, p. 5. OCC maintains that the Company's proposed capital structure of 53.06% / 46.94% includes a higher common equity ratio than maintained by the companies in the proxy group; is higher than approved for water utility companies in recent years; and is a higher common equity ratio than is employed by Aquarion's parent company, Eversource. Id.

According to OCC, the average common equity ratio for the water and gas companies in the proxy group is 46.8%. Woolridge PFT, p. 24.[40] The common equity ratio ranged between 36.0% and 61.9%. Id.; Ex. JRW-3.1. OCC used the capital structure ratios for the holding companies rather than the operating subsidiaries, noting that, unlike the operating companies, the holding companies' stock is traded in the market. Id. OCC further suggested that the operating company capital structure reflects an artificially higher equity ratio due to "double leverage." Id., pp. 27-28. Specifically, OCC pointed out that Aquarion's holding company, Eversource Energy, has a common equity ratio of 41.62% as of December 31, 2021, well below Aquarion's proposed 53.06%. Id. OCC avers that a proposed common equity of 50.15% is more reflective of the capital structures of other publicly held water companies, as well as those approved by state utility commissions for water companies. Id., p. 4.

With respect to short-term debt, OCC states that the Company has consistently used short-term debt to finance its operations over the past three years and has consistently held short-term debt outstanding on a daily basis. Aquarion Interrog. Resp. OCC-115, Att. A. Specifically, from 2018 through 2021, the Company consistently used short-term debt in the range of 1.32% to 10.25% on a quarterly basis from 2018 to 2021, with the exception of one quarter (quarter ending June 30, 2021). Tr., Dec. 6, 2022, 1445:12-23; Aquarion Interrog. Resp. OCC-111, Att. 1. The average use of short-term debt over the 2018 to 2021 time period was approximately 3.86%. See Aquarion Interrog. Resp. OCC-111, Att. 1. OCC computed the average daily amount of short-term debt outstanding for Aquarion of $37.5 million in 2020, $44.2 million in 2021, and $99.2 million in 2022, and averaged these figures to arrive at $60.3 million in short-term debt, which OCC then incorporated into the total capital structure of $1,096,374,574, resulting in a 5.47% ratio. Woolridge PFT, p. 31 and Ex. JRW-4.1. Based on Aquarion's consistent use of short-term debt, OCC determined that it would be appropriate to include short-term debt in the Company's capital structure. OCC Brief, p. 87.

[40] York Water is excluded from this proxy group.

c. EOE

EOE proposed a capital structure of 48.43% common equity, 48.99% long term-debt, and 2.58% short-term debt. Rothschild Supplemental Prefiled Test., Nov. 30, 2022, p. 47. EOE presented a proxy group common equity ratio range of 32.9% - 60.0% with a mean of 48.64% for 2020, and a range of 33.5% - 61.6% with a mean of 46.51% for 2021. Id., Ex. ALR-13, p 4. With respect to short-term debt, the data used by EOE indicated a proxy group range of 1.0% - 33.5%, with a median of 3.7%. Id.[41]

EOE asserts that the Company's current capital structure is not appropriate because it contains a significantly higher common equity ratio (51.53%) than the current common equity ratio of its parent, Eversource (45%), and it contains significantly more than the average common equity ratio used by other water utility companies in the country. Id., pp. 46-47. EOE included short-term debt in its recommended capital structure based on the average common equity ratio of the water utility companies in the proxy group and the Company's reported short-term ratio for the Test Year; EOE also observed that Aquarion did not explain why it excluded short-term debt in the Company's preferred capital structure. Id.

d. Capital Structure Analysis

The Authority establishes the ratemaking capital structure by carefully weighing several factors, including: the actual capital structure of the utility and its parent company; the range of capital structures of the proxy group; and the credit rating agency requirements for maintaining the current utility rating. In weighing these factors, the Authority considers the credibility of the expert witnesses on these issues.

Aquarion's proposed capital structure is 53.06% common equity and 46.94% long-term debt. Aquarion's capitalization reflects management choices and decisions related to the allocation of such items as common equity, dividend payments, and retained earnings. The more "equity rich" the capitalization structure is, the higher the Company's weighted average cost of capital (WACC). Aquarion's parent company maintains an equity ratio of 41.62% as of December 31, 2021. Consequently, although the Company's actual capital structure is a useful data point, it does not necessarily represent the optimal or most reasonable capital structure. To balance the interests of the Company with fairness to the ratepayers, the Authority broadens its analysis beyond the management decisions at the operating company level.

Another factor in determining a reasonable capitalization is the range of capital structures of the proxy group. As noted above, the Company calculated a common equity range of 43.23% - 63.28% and a mean of 54.25% in 2019, and a slightly lower range of 41.92% - 60.04% and a mean of 53.22% for 2020. Id. Nowak PFT, p. 55 and Ex. A-8-JCN-13. By contrast, OCC presented an average common equity ratio for the proxy group of 46.8% with a range of 36.0% - 61.9%. Woolridge PFT, p. 24; Ex. JRW-3.1. Consistent with OCC, EOE identified a common equity ratio range of 32.9% - 60.0% with a mean of 48.64% for 2020, and a range of 33.5% - 61.6% with a mean of 46.51% for 2021. Using

[41] York Water is excluded from this analysis as the financial ratios were not listed in the exhibit.

Value Line data for years 2020 and 2021, the Authority found equity ratios that were generally consistent with OCC and EOE. The table below summarizes the data.

Table 14: Proxy Group Equity Ratio

	Company		OCC	EOE		Authority	
	2019	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**
Low	43.23	41.92	36.0	32.9	33.5	32.90	33.50
High	63.28	60.04	61.9	60.0	61.6	60.00	61.60
Mean	54.25	53.22	46.8	48.6	46.5	49.08	46.96
Median						50.80	47.20

The key difference between the Company's proxy group ratios and those identified by OCC, EOE, and the Authority appears to arise from the fact that the Company does not use the available financial data for the proxy group but, instead, calculates the ratios using the consolidated financial information of the subsidiary operating companies. Nowak PFT, Ex. A-8-JCN-13. As previously noted, the capitalization of operating subsidiaries is the result of management decisions and, in some cases, the allocation of parent company debt to the subsidiaries as equity. In addition, the stocks of the operating companies are not publicly traded and, therefore, the financials are subject to less market scrutiny. Consequently, the use of operating subsidiary financial data for the proxy group raises questions as to whether this data is an accurate reflection of the market expectations.

The Authority also considers how the capital structure will impact the credit rating of the Company. The Authority analyzed the effect that the different capital structures and ROEs presented by the Parties would have on the Company's core metrics as it relates to the rating agency that provides ratings for the Company. (See Section V.B., Financial Condition and Flexibility for full analysis). The analysis concluded that the core metrics remained in the ranges that would allow the Company to maintain its current A3 rating by Moody's across all proposed and recommended capital structures.

Consequently, for ratemaking purposes, the Authority will use a capital structure consisting of 50.35% common equity, 47.07% long-term debt, and 2.58% short-term debt. The equity ratio balances the average equity ratios for the proxy group companies (ranging from 46.5% to 49.08%) with those of the operating subsidiaries (ranging from 53.22% to 54.25%). It is also consistent with the most recent median equity ratios for the proxy companies (50.8% and 47.2%). Additionally, the Authority's determination with respect to the short-term debt ratio acknowledges that the Company uses short-term debt for a variety of purposes but credits the testimony of the OCC and EOE witnesses that a portion of the short-term debt supports rate base. The 2.58% ratio reflects a number of factors, including the Company's proxy group analysis (mean ratio of 4.66%, Nowak PFT, Ex. A-8-JCN-13), the Company's average daily outstanding short-term debt balance (average of 5.47%, Woolridge PFT, p. 31 and Ex. JRW-4.1), the EOE proxy group (median of 3.7%, Rothschild PFT, Ex. ALR-13, p. 4), and the Company's position that it does not use short-term debt for rate base (0%).

In conclusion, the adopted capital structure is consistent with industry practice and was based upon a careful balancing of the actual capitalization mix employed by the Company, the range of equity employed by companies in the Authority's Proxy Group – both at the parent company and at the operating company level, credit rating agency requirements for maintaining an A3 rating, and the analysis and recommendations of Parties in this proceeding. Importantly, the capitalization mix is within the range employed by other companies in the Authority's Proxy Group.

E. COST OF DEBT

1. Long-Term Debt

Long-term debt is defined as debt that matures in more than one year. The Company proposes a cost of long-term debt cost of 4.28%. Application, Sch. D-3.0A. Both EOE and OCC employed the Company's cost of long-term debt of 4.28%. Rothschild PFT, p. 7; Woolridge PFT, p. 4. The proposed cost of debt includes $70 million of projected issuance of long-term debt. Aquarion Interrog. Resp. OCC-113. The actual financing was completed on August 29, 2022, with no variance to the assumed cost and rate of 4.69%. See Aquarion Interrog. Resp. OCC-116, Att. 1.

The Authority requires that ratepayers benefit from any opportunity that company management may have to reduce expenses, such as lowering interest rate payments by refinancing debt at lower rates during periods of declining interest rates. To that extent, the Company has successfully refinanced or replaced seven tranches of higher cost long-term debt totaling over $140 million, reducing the weighted average interest rate from 5.24% down to 4.28% as shown in Schedule D-3.0A of the Application and the table below. The Company's approach to managing its long-term debt has not changed since its last rate case, nor since the acquisition of Aquarion by Eversource. Aquarion Interrog. Resp. RRU-410.

Consequently, the Authority finds that the Company's actual cost of long-term debt is 4.28%. The table below summarizes the Company's long-term debt costs.

Table 15: Cost of Long-Term Debt

Debt Issue	Rate	Amount Outstanding	% of Debt	Net Rate	Weighted Rate
Series R Bonds	6.88%	5,000	0.00%	6.88%	0.00%
2004 Private Placement Issue	6.43%	8,500,000	1.75%	6.94%	0.12%
General Mortgage Bonds, 7.330%	7.33%	14,000,000	2.88%	7.38%	0.21%
General Mortgage Bonds, 9.290%	9.29%	4,500,000	0.92%	9.41%	0.09%
General Mortgage Bonds, 8.040%	8.04%	3,500,000	0.72%	8.15%	0.06%
2012 HIMCO Private Placement Issue	4.40%	30,000,000	6.17%	4.54%	0.28%
2012 Himco/ Babson Private Placement Issue	4.29%	60,000,000	12.33%	4.30%	0.53%
2013 Prudential Private Placement Issue Series A	4.00%	35,000,000	7.19%	4.31%	0.31%
2013 Prudential Private Placement Issue Series B	4.07%	15,000,000	3.08%	4.08%	0.13%
2015 MetLife/Omaha Private Placement Issue	3.75%	46,000,000	9.46%	4.47%	0.42%
2016 NYL Private Placement Issue	3.67%	25,000,000	5.14%	3.83%	0.20%
2017 NYL Private Placement Issue	3.57%	30,000,000	6.17%	3.93%	0.24%
2019 MetLife/NYL Private Placement Issue	3.54%	45,000,000	9.25%	3.55%	0.33%
2021 Met Life Private Placement Issue	3.31%	100,000,000	20.55%	3.32%	0.68%
2022 New Private Placement Issue	4.69%	70,000,000	14.39%	4.72%	0.68%
Total		**486,505,000**	**100%**		**4.28%**

Application, Sch. D-3.0A.

2. Short-Term Debt

The Company obtains cash through short-term loans from Aquarion Water Company at the same rate as Eversource pays through its commercial paper program. Aquarion Interrog. Resp. RRU-412. The Company uses cash available from the short-term loans to pay for capital expenditures until the proceeds of long-term debt financings are available to pay off those loans; in turn, the short-term loans are paid off with the

proceeds of long-term debt financings. Id. Since the Eversource acquisition of Aquarion, the only difference that has occurred is that Aquarion Water Company now borrows from Eversource as opposed to relying on its own revolving credit facility, resulting in interest rate spread savings. Id.

The Company provided the short-term debt and daily cost rates for the years 2020 through August of 2022. Aquarion Interrog. Resp. OCC-115, Att. 1. The Company paid an average rate of 1.13% from January 1, 2022, to August 29, 2022. Id., Column R Rate.

OCC's recommended cost of short-term debt is 2.48%, which was the most recent monthly (August) cost of short-term debt. Woolridge PFT, p. 4. EOE's recommended cost of short-term debt is 0.20%. Rothschild PFT, p. 7, Table 1; Application, Sch. D-2.0. The table below summarizes the short-term debt recommendations.

Table 16: Cost of Short-Term Debt

	Cost
Company	n/a
OCC	2.48%
EOE	0.20%
Approved	**2.48%**

The Authority finds OCC's recommended cost of short-term debt of 2.48% to be reasonable and will adopt it for calculating the Company's WACC.

F. RETURN ON EQUITY

1. Summary

The Authority examined several factors in determining a just and reasonable ROE, including current economic and market conditions, analytical models and cost of equity capital methodologies, such as the Discounted Cash Flow (DCF) Model and the Capital Asset Pricing Model (CAPM), ROEs of similar companies in other jurisdictions, and the Company's financial risk and credit rating. In reviewing these cost of capital methods, the Authority made determinations regarding each method's input components and reviewed variations of the models. Additionally, other relevant factors were analyzed in the process of evaluating and applying the cost of equity models. The Authority finds an 8.70% ROE to be consistent with these cost of equity methodologies and the factors considered herein.

2. Comparable Allowed ROEs

Allowed ROEs from other jurisdictions merely serve as a guide to establish the trends in allowed ROEs. Over the period 2021 through July 26, 2022, water company allowed ROEs ranged from 7.46% to 10.00%, with an average of 9.37%. Aquarion

Interrog. Resp. RRU-50.[42] The allowed returns for the regulated gas companies ranged between 8.80% to 10.24%, with an average of 9.50% and a median of 9.49% for that same period. Id. Importantly, the data did not indicate either an upward or downward trend on authorized ROEs over this period.

3. Treasury Rate Trends & Static Analysis

Throughout this proceeding, the Company and the Parties presented to the Authority the state of capital market conditions for the utility space. The Company indicated that capital market conditions have been significantly impacted by the economic repercussions of the COVID-19 pandemic and the subsequent reaction. According to the Company, federal measures taken to contain the economic fallouts from COVID-19 were extraordinary by any measure. Nowak PFT, p. 11. In order to moderate economic consequences of the pandemic, the federal government took a series of unprecedented steps to stabilize financial markets. Id. The Company indicated the Federal Reserve decreased the federal funds rate in March of 2020, resulting in a target range of 0.00% to 0.25%, purchased at least $80 billion per month in Treasury securities from December 2020 through November of 2021, began expansive programs to support credit to large employers, and supported the flow of credit to consumers and businesses through Term Asset-Backed Securities Loan Facilities. Id., pp. 11-12. In addition, U.S. Congress passed approximately $4.5 trillion in fiscal stimulus programs. Id. In March of 2020, for the first time on record, the 10-year treasury bond yield dropped below 1% and remained there for the duration of 2020. Id.

The Company claims that the cost of equity has been affected by these circumstances and claims that utility company stocks have traded more in line with the broader market since February 2020 when the COVID-19 pandemic began; thus, the Company cites higher beta coefficients for the proxy group. Nowak PFT, pp. 16-17. The Company goes on to cite the current economic recovery and inflation risk that has occurred after the pandemic. Id. The Federal Reserve, since March of 2022, started to raise interest rates and unwind its quantitative easing and the Company indicated projections for year-end Federal Open Market Committee jumped from 2.6% to 4.3%. Nowak PFT, pp. 20-21. According to the Company, inflation is at its highest level in approximately 40 years and if investors expect higher levels of inflation, they will require higher yields. Id., p. 22.

OCC contends that despite the 2022 increase in yields, interest rates and capital costs remain at historically low levels and long-term expectations on inflation remain in the 2.50% range. Woolridge PFT, pp. 5-9. Additionally, inflation and interest rates have increased significantly in 2022, due primarily to: (1) the recovering economy coming out of the height of the COVID-19 pandemic; (2) the production shutdowns during the pandemic, which led to supply chain shortages as the global economy recovered; and (3) the war in Ukraine, which has led to higher energy and gasoline prices worldwide. OCC Brief, pp. 71-72. While inflationary expectations have risen over the next five years, these

[42] Aquarion noted that the ROE listed for Blue Granite Water Company of 7.46% included a reduction for service quality issues; however, the amount of the penalty was not provided in the record. Nowak Rebuttal Test. to Rothschild, p. 7.

expectations are lower over ten and thirty years such that long-term inflationary expectations are still in the 2.25% to 2.50% range. Woolridge PFT, p. 13. Authorized ROEs have trended down with interest rates and capital costs in the past fifteen years, hitting an all-time low in 2020 and 2021. Id.

OCC argues that the greater financial burden on utility ratepayers associated with higher gas prices and interest rates should put increased pressure on regulatory commissions to look hard at utility rate increase requests. OCC Brief, p. 75. OCC concluded that studies provide evidence that authorized ROEs have not declined in line with capital costs over the past several decades and past ROEs have overstated the actual cost of equity. Id. To support this conclusion, OCC's witness indicated Moody's recognized that utilities and regulatory commissions were having trouble justifying higher ROEs in the face of lower interest rates and cost recovery mechanisms. Woolridge PFT, p. 71. Consequently, OCC's witness did not feel higher interest rates alone would justify higher ROEs for regulated water companies. OCC Brief, p. 75. OCC's witness referred to significant interest rate decreases during the pandemic, which have come back up. Id. Specifically, interest rates went down 150 basis points while ROEs went down only 20 basis points. Tr., Dec. 6, 2022, 1442:6-17. OCC's witness also indicated the reason ROEs have not increased with higher rates and capital costs is that they did not decline in line with risk free rates. Tr., 1443:1-19.

EOE asserts "that despite high current inflation and recent increases in interest rates, capital market conditions are favorable for utility companies to raise low-cost equity capital." Rothschild PFT, p. 14; Tr., Dec. 6, 2022, 1506-07. EOE notes the outperformance of water utility stocks in the market since March 28, 2013, which indicates a declining cost of equity, relative to the overall market. Rothschild PFT, pp. 14-15. According to EOE, data shows investors have continued to consider water utility stocks to be less risky than the overall market. Id. Since February 2022, there is a significantly lower chance that water utility stocks will experience a large drop as compared to the overall market, which indicates that the cost of capital of water utility stocks remains lower than the overall market. Id., p. 16.

The Authority acknowledges the increased volatility in rates and that this volatility is still present in market trends. As such, the Authority has taken that into consideration in its analysis. Notwithstanding this acknowledged volatility, however, the Authority finds persuasive the reasoning presented by both the OCC and EOE witnesses; particularly, that the correlation between interest rates and ROEs appears to be historically one-sided.

4. Discounted Cash Flow (DCF) Model

a. DCF Model Description

The DCF model is a market-based financial model that attempts to replicate the valuation process that sets the price investors are willing to pay for a share of stock. It is a valuation technique used by major financial institutions and well entrenched in finance theory and academia. The DCF assumes that investors evaluate stocks in a classical economic framework and buy and sell securities rationally at prices that reflect the assets

value assessment. Under the DCF model, the value of a financial asset is determined by its ability to generate future cash flows. Specifically, the present value of a financial asset equals the discounted value of its expected future cash flows. Investors discount these expected cash flows at their required rate of return (i.e., the cost of common equity or ROE). The traditional constant growth DCF Model requires the following assumptions: a constant growth rate for earnings and dividends; a stable dividend payout ratio; a constant price-to-earnings ratio; and a discount rate greater than the expected growth rate.

The DCF model is represented by the formula of K = D1 / Po + G, where:

K = the market-required ROE;
D1 = the forecasted dividend paid one period into the future;
Po = an estimate to the current market price of the stock; and
G = investors' long-run growth expectations.

Consequently, once the dividend yield (D1/Po) and the expected growth rate (G) are determined, an ROE can be calculated.

b. Dividend Yield

The Company used analysts' estimates based on market data on dividend yields and analysts' projected earnings per share (EPS) growth rates from reputable third-party sources. Nowak PFT, pp. 5, 29; Aquarion Interrog. Resp. RRU-52, OCC-118, and OCC-119. The Company provided three models using 30-day, 90-day, and 180-day average stock prices; however, the results were substantially the same. Nowak PFT, pp. 28-31, Ex. A-8-JCN-5. The Company calculates the expected dividend yield by escalating the actual dividend yield by one-half the expected growth rate in EPS. Id., p. 29. The Company used the average of EPS growth rates from Value Line, Yahoo! Finance, and Zacks.[43]

Using data as of June 30, 2022, and a 30-day average stock price, the Company projected a mean expected dividend yield of 2.60% (median of 2.52%). Id. In its rebuttal testimony, the Company, using data as of October 31, 2022, projected a mean expected dividend yield of 2.92% (median of 2.76%). Nowak Rebuttal Test. to Rothschild, Ex. B-8-JCN-3.

OCC determined a dividend yield in a similar manner using data as of October 2022. OCC calculated the dividend yield using the current annual dividend and the 30-day, 90-day, and 180-day average stock prices. Woolridge PFT, p. 43 and Ex. JRW-5, p. 2. Based on the mean and median dividend yields of the proxy group using the 30-day, 90-day, and 180-day average stock prices, OCC selected 2.40% as the dividend yield for the OCC Proxy Group. Wooldridge PFT, p. 43. OCC then adjusted the dividend yield by one-half the expected growth to reflect growth over the coming year. Id., p. 44. Using projected and historical growth rates from Value Line and projected growth rates from Value Line, Yahoo! Finance, Zacks, and S&P Cap IQ, OCC selected a growth rate

[43] The testimony cites to First Call; however, the models cite to Yahoo! Finance.

of 6.50%. Id., p. 53. The resulting adjusted dividend yield is 2.48%. Woolridge PFT, Ex. JRW-5.

Applying a similar approach, but using a smaller proxy group, EOE projected a dividend yield of 1.77% as of September 30, 2022. Rothschild PFT, p. 62, Ex. ALR-3. Adjusting for growth, EOE calculated an expected dividend yield of 1.83%. Id.

In addition to determining the dividend yield using the 1+.5g factor approach, the Authority also considers the dividend yield calculated using commercially available data from Value Line that estimates the dividend for the next 12 months. Specifically, the Authority examines the dividend yield that results from dividing the projected 12-month dividend by the average daily stock price. The projected dividend is available at Value Line: Summary & Index's column (f), Estimated Dividend Yield Next 12 Months (Value Line Column (f)). The Value Line Column (f) data is based upon Value Line's proprietary algorithm that projects the timing and amount of dividend payments to estimate the dividend payment for the next 12 months rather than using the 1+.5g factor approach. The Authority finds that this data is equally reliable (if not more reliable) than the growth assumptions supporting the 1+.5g factor. Notably, the Authority has previously expressed a preference for Value Line Column (f). See Decision, Dec. 14, 2016, Docket No. 16-06-04, Application of The United Illuminating Company to Increase Rates and Charges (2016 UI Rate Case Decision), p. 82; Decision, Aug. 14, 2013, Docket No. 13-01-19, Application of The United Illuminating Company to Increase Rates and Charges (2013 UI Rate Case Decision), p. 127.

Regarding the time period for averaging stock prices, the Authority finds a 30-business day average stock price to be sufficiently long enough to capture changes in stock price movements; it is also relatively simple to obtain from public sources online. See Decision (2021 CWC Rate Case Decision), July 28, 2021, Docket No. 20-12-30, Application of the Connecticut Water Company to Amend its Rate Schedules, p. 35 (citing 2016 UI Rate Case Decision, p. 82; 2013 UI Rate Case Decision, p. 127). In this proceeding, the 30-business day period is appropriate because it is devoid of stock market price shocks or other anomalies that could occur over the longer time periods (i.e., 90-day and 180-day).

Using the Value Line Column (f) estimates for 12-month dividends for the proxy group as of November 4, 2022, Value Line Investment Survey Summary and Index and the 30-day average daily stock price as of December 9, 2022, the average expected dividend yield is 2.57% (median is 2.52%).

Table 17: DCF Dividend Yield Estimates (%)

	Mean	Median
Company (June)	2.60	2.52
Company (Oct.)	2.92	2.76
OCC (Oct.)	2.48	
EOE (Sept.)	1.83	
Column (f) Analysis (Nov./Dec.)	2.57	2.52

The 32-basis point increase in Company's dividend yield from June to October is attributable to a decline in the stock prices of the proxy companies in the fall of 2022. The stock price is the denominator in the equation; therefore, as stocks decline, the dividend yield increases. Stock prices generally recovered by the end of the year. Specifically, the June data reflected a $72.24 average stock price, but the October data had a $68.17 average stock price. Nowak PFT, Ex. A-8-JCN-3; Nowak Rebuttal Test. to Rothschild, Ex. B-8-JCN-3. The stock price data examined by the Authority in December reflected an average stock price of $74.78.[44] Consequently, the analyses using the October and September data are skewed higher. Accordingly, there is a general consensus that the mean dividend yield rate is in the range of 2.50% - 2.60%.

c. Expected Growth Rate

The constant growth form of the DCF Model assumes a single growth estimate in perpetuity. To reduce the long-term growth rate to a single measure, one must assume a constant payout ratio, and that earnings per share (EPS), dividends per share (DPS), and book value per share (BVPS) all grow at the same constant rate. Over the long-run, dividend growth can only be sustained by earnings growth. Therefore, it is important to incorporate a variety of sources of long-term earnings growth rates into the Constant Growth DCF Model.

The Company only uses the consensus analyst five-year growth estimates in EPS from First Call and Zacks and EPS growth rate estimates published by Value Line. Nowak PFT, p. 29; Aquarion Interrog. Resp. RRU-52, OCC-118, and OCC 119. As a result, the Company initially calculated an average growth rate for the proxy group of 6.80% (median of 6.10%) as of June 30, 2022. Nowak PFT, Ex. A-8-JCN-5. In rebuttal, the Company calculated an average growth rate for the proxy group of 6.81% (median of 6.28%) as of October 31, 2022. Nowak Rebuttal Test. to Rothschild, Ex. B-8-JCN-3.

OCC noted that the better methodology to employ in estimating the growth component of the DCF Model is to examine a range of growth measures. By definition, the growth component represents investors' expectations of the long-term dividend growth rate. Investors use some combination of historical and/or projected growth rates for earnings and dividends per share and for internal or book-value growth to assess long-term potential. Woolridge PFT, p. 45. OCC analyzed a number of measures of growth for companies in the proxy group; specifically, Value Line's historical and projected growth rate estimates for EPS, DPS, and BVPS. Id. In addition, OCC utilized the average EPS

[44] Average stock prices exclude York Water, which the Company excluded from its rebuttal analysis.

growth rate forecasts of Wall Street analysts as provided by Yahoo! Finance, Zacks, and S&P Cap IQ. Id. These services solicit five-year earnings growth rate projections from securities analysts and compile and publish the means and medians of these forecasts. OCC also assessed prospective growth as measured by prospective earnings retention rates and earned returns on common equity. Id. OCC indicated the overall range for the projected growth rate indicators (ignoring historical growth) is 4.4% to 6.6%. Id. Giving primary weight to the projected EPS growth rate of Wall Street analysts, OCC concluded that the appropriate projected growth rate range is 6.50%. Woolridge PFT, p. 53, Ex. JRW5. OCC noted this growth rate figure is in the upper end of the range of historic and projected growth rates for the proxy group. Id.

EOE approaches the growth rate calculation differently, asserting that the growth rate "g" must be representative of the constant sustainable growth. Rothschild PFT, p. 59. To obtain an accurate constant growth DCF result, the mathematical relationship between earnings, dividends, book value, and stock price must be respected. Id., pp. 59-60. EOE also stated that growth rates such as five-year projected growth in EPS are not indicative of long-term sustainable growth rates in cash flow. Id., p. 112. As a result, they are not applicable for direct use in the simplified DCF Model. Id. Applying its methodology, EOE calculated an average proxy group growth rate of 6.27%.

The Authority has traditionally used a blended approach to analyze growth rates. While EPS growth is the primary contributing factor to overall growth of a company, there is not aways a direct correlation with the growth of dividends, book value, and EPS. Therefore, the Authority's analysis takes into consideration that dividend growth is the ultimate input factor of the DCF model because exclusive reliance on EPS growth can be misconstrued because dividends and book value may not grow at the same rates as EPS. A similar rationale was offered by the EOE witness, Mr. Rothschild, who credibly testified that EPS growth rates are not indicative of future sustainable growth rates, in part because the sources of cash flow to an investor are dividends and stock price appreciation. Rothschild PFT, p. 112. While both stock price and dividends are impacted in the long run by the company's earnings, earnings growth is rarely synchronized with cash flow growth from dividends and the stock price. Id.

Mr. Rothschild further explains that a raw, unadjusted, five-year EPS growth rate is usually a poor proxy for either short-term or long-term cash flow growth that an investor expects to receive, and further, that a five-year EPS growth is a poor indicator of five-year dividend growth expectations. Id., p. 113. In order for earnings growth to equal dividend growth, at a minimum, earnings per share in the first year of the five-year earnings growth rate period would have to be exactly on the long-term earnings trend line expected by investors. Since earnings in most years are above or below the trend line, the earnings per share growth rate over most five-year periods is different from what is expected for dividend growth. Id. Notably, this is one of the main contributing factors in the disparity between the ranges generated by the Company as compared to the Authority and other parties.

The Authority has previously considered the inclusion of Value Line's historical projected DPS and BVPS growth rates. In prior rate cases, the Authority reviewed but excluded the Value Line historical EPS, DPS, and BVPS rates. See, e.g., 2021 CWC Rate Case Decision, p. 36; 2013 UI Rate Case Decision, pp. 127-129; and 2016 UI Rate Case Decision, p. 83. However, the Authority has previously included Value Line *projected* DPS and BVPS growth rates in its analysis, primarily due to the Authority's expectation that investors will likely examine all the projected growth rate data available. 2016 UI Rate Case, p. 83.

Accordingly, the Authority will incorporate the analysts' 5-year EPS growth rates from Yahoo! Finance, Zacks, and Value Line. In addition, consistent with prior rate cases, the Authority incorporates Value Line's projected DPS, BVPS, and retention growth rates into its analysis. See 2021 CWC Rate Case Decision, p. 36; 2013 UI Rate Case Decision, pp. 127-129; and 2016 UI Rate Case Decision, p. 83. The Authority finds that historical growth rates can overestimate future growth of mature companies such as public utilities. The growth rate of public utilities is typically a function of the growth of the overall economy; as such, the Authority excludes historical growth rates from its analysis. With respect to retention growth rates, the Authority calculated the rates using the simple sustainable earnings/retention growth formula and respective data from Value Line's projections for 2025-2027.

Specifically, the Authority examined the 5-year projected EPS growth rates of the proxy group using estimates from Yahoo! Finance, Zacks, Value Line, as of November 25, 2022, which ranged from 3.20% (Yahoo! Finance, Middlesex Water) to 14.00% (Value Line, SJW Group). The average growth rate based on EPS growth was 7.05%. Next, the Authority analyzed the Value Line projected DPS, BVPS, and retention growth rates, which ranged from 2.50% (Middlesex Water, BVPS) to 9.00% (American States Water, DVPS). The average projected growth was 5.23%. The lower growth rate based on DPS, BVPS, and retention is expected given that EPS growth rates can overestimate dividend growth. Applying an equal weighting to these two growth categories, the average growth is 6.14% (median of 6.21%).

The table below summarizes the various growth estimates for the DCF analysis.

Table 18: DCF Expected Growth Estimates (%)

	Mean	**Median**
Company (June)	6.80	6.10
Company (Oct.)	6.81	6.28
OCC (Oct.)	6.50	
EOE (Sept.)	6.27	
EPS/BVPS/DVPS/Ret. Analysis	6.14	6.21

d. DCF Analysis

The Company, OCC, and EOE each performed a DCF model, using the constant growth form as well as a non-constant growth form. Nowak PFT, pp. 27-28; Woolridge PFT, pp. 39-42; EOE PFT, pp. 58-60.

The Company's model was based on a constant growth DCF model that assumed a (1) constant average growth rate for earnings and dividends, (2) a stable dividend payout, (3) a constant price-to-earnings multiple, and (4) a discount rate greater than the expected growth rate. Nowak PFT, pp. 27-28. The Company calculated the DCF results using the average stock price, over 30-, 90-, and 180- trading days through June 30, 2022. As discussed above, the Company projected a mean dividend yield of 2.60% and an average growth rate of 6.80%. Consequently, the Company's model calculated a proxy group mean ROE of 9.40% (9.78% excluding Middlesex Water). Nowak PFT, Ex. A-8-JCN-5. On rebuttal, the Company adjusted the numbers to reflect a proxy group mean ROE of 9.72% (10.15% excluding Middlesex Water). Id. The Company excluded Middlesex Water because the DCF ROE for the company was below the current cost of debt, which Aquarion deemed to not "meet [the] basic test of reasonableness." Nowak Rebuttal Test. to Woolridge, p. 23.

OCC's model was based on a constant growth DCF model that used a 2.48% dividend yield, a 1 + ½ growth adjustment on dividends, and a dividend growth rate of 6.50%. The result of the OCC DCF model is 9.00%, rounded up from 8.98%. Woolridge PFT, p. 54.

EOE used two constant growth DCF methods. One of those methods is based on the sustainable retention growth procedure and the other method is based on option-implied growth as indicated from stock option prices. EOE also used a non-constant DCF method. EOE's constant growth DCF Model results in a range between 7.71% and 7.87% when using a sustainable growth rate, and between 6.62% and 7.55% when using an option-implied growth rate. Rothschild PFT, p. 57. EOE calculated a non-constant DCF ROE between 6.54% and 6.87%. Id., pp. 57-58.

Accounting for DPS, BVPS, and retention growth rates in addition to EPS growth rates, the Authority calculates a ROE range of 5.55% to 10.30%, with a mean of 8.71% and a median of 9.02%. In its calculation, the Authority includes Yahoo!, Zacks, and Reuters' forecasts of EPS in the analysis, Value Line's five-year projected growth rate per share estimates for earnings dividends, and book values, as well as retention growth rates. The single-stage, constant growth DCF Model was applied to the companies in the Authority's Proxy Group over the most current 30-business day period on the stock price. The Authority's analysis is based on a company specific basis, not a point average as per OCC's approach.

A benefit of accounting for projected DPS, BVPS, and retention growth rates in the analysis rather than relying exclusively on projected EPS growth rates is that the inclusion of this additional data has a moderating effect on the range of ROEs. Specifically, the Company's range of mean ROEs for the proxy group is 4.99 – 14.42%, or 9.43%. Nowak

PFT, Ex. A-8-JCN-5. By contrast, the analysis of ROEs when including the broader set of growth data has a narrower range of 5.55% - 10.30%. Therefore, the result is a much more normal distribution of data and a smaller standard deviation. Given this type of data distribution, the Authority finds that the mean ROE (8.71%) is a more accurate reflection of the full ROE data set compared to the median (9.02%), which is a metric more appropriate for data that contains significant outliers or a skewed distribution.

The Authority also considered the issue of proxy group outliers. Notably, the Company removed Middlesex Water from its proxy group based on the premise that the Company's projected DCF ROE for Middlesex Water (4.99%) was too low. Nowak PFT, pp. 30-31. By contrast, OCC did not exclude Middlesex Water from its DCF analysis. Woolridge PFT, p. 74 ("this results in an asymmetric approach to identify outliers – throw out the low ones but not the high ones."). The Authority has previously applied bottom-end and top-end screens based on the cost of debt as represented by bond yields in order exclude outlier ROEs. Specifically, the Authority will examine those proxy group ROEs that are less than 400 basis point above or more than 750 basis points above the rated bond averages.

In this case, Middlesex Water's projected DCF ROE falls within the bottom-end screen and requires further consideration to determine if a change to the proxy group is warranted. One option is to simply exclude Middlesex Water from the proxy group, as the Company did, which increases the mean DCF ROE by 30-40 basis points. See Nowak PFT, Ex. A-8-JCN-5. This substantial upward shift is due not only to the ROE amount but to the relatively small size of the proxy group. With only 13 companies in the proxy group, the elimination of one company has a significant impact on the mathematical averages. In addition, the removal of the lowest ROE while retaining all other ROEs may unreasonably bias the proxy group data towards the higher range. Notably, the Company excluded the 4.99% ROE for Middlesex Water but retained the 14.42% ROE for SJW Group, resulting in an upward bias. Id. Consequently, a second option, which avoids this upward bias, is to exclude both the lowest and the highest ROEs of the proxy group. This results in a more pragmatic upward shift (approximately 15 basis points) in the mean ROE because it removes both ends of the statistical range. A key issue with this approach, though, is that it diminishes the proxy group even further to 11 companies, undermining the overall reliability of the resulting data.

Here, due to the relatively small size of the proxy group, the Authority is disinclined to exclude 2 of the 13 companies in the proxy group or to bias the mean ROE upward by excluding only the lowest ROE. Therefore, the Authority will use the results of the full proxy group. In reaching this conclusion, the Authority gives credence to the testimony of OCC's witness regarding the averaging out of errors by use of proxy groups. Tr., 1429:18-23 (Woolridge: "the way you deal with [outlier DCF results] is [to] put together a group. And you don't exclude one or another, you just say these errors are going to average out if you average a group. And that's why you always use a group in any type of valuation analysis or anything like that.").

Consequently, the Authority will consider the DCF ROE results that include the full proxy group. The results are summarized in the table below.

Table 19: DCF Results

Type	Mean	Median	Mean Range
Aquarion			
30-Day Const Growth (June)	9.40%	9.83%	4.99 – 14.42%
30-Day Const Growth (Oct.)	9.72%	9.96%	5.04 – 14.35%
OCC			
Constant Growth Rate (Oct.)	9.00%		
EOE			
Sustainable Growth Rate			7.71 - 7.87%
Option Implied Growth Rate			6.62 - 7.55%
Non-Constant Growth Rate			6.54 - 6.87%
EPS/BVPS/DVPS/Ret. Analysis	8.71%	9.02%	5.55% - 10.30%

In considering the various estimates, the Authority finds that, due to the dip in stock prices in the fall of 2022, the analyses using stock prices from that period (i.e., October) are biased high and are less representative of prevailing market conditions than the analyses conducted using June and December 2022 stock prices. In addition, the Authority finds that the Company's exclusive reliance on EPS growth rates overestimates dividend growth by ignoring the impact of projected DPS, BVPS, and retention growth. Consequently, the Authority finds that a mean DCF ROE of 8.71% and a range of 5.55% to 10.30% is reflective of the prevailing market conditions.

5. Capital Asset Pricing Model (CAPM)

a. CAPM Model Description

CAPM evaluates the relationship between the expected return and risk of investing in a security and is used to calculate the expected returns of an asset. To determine the cost of equity, CAPM first determines the appropriate risk-free rate and then adds a beta, or the degree of co-movement of the security's rate of return with the market's rate of return, multiplied by the expected equity risk premium, which is the amount by which investors expect the future return on equities, in general, to exceed that on the riskless asset.

The CAPM model is represented by the formula $Ke = Rf + \beta (Rm-Rf)$, where:

Ke= the required market ROE;
β = Beta coefficient of an individual security;
Rf = the risk-free rate of return; and

Rm = the required return on the market; the term (Rm – Rf) represents the equity risk premium (ERP).

Consequently, once the Beta (β) and ERP (Rm- Rf) are determined, an ROE can be calculated.

b. Beta Coefficient

The measure of Beta represents the volatility of a proxy group of companies as compared to the aggregate market. The Company noted that Beta coefficients increased substantially between January 2020 and May 2022 for the utility companies used in its cost of capital analysis. Nowak PFT, p. 17. The Company considered two measures of Beta for the proxy group companies: (1) the Beta coefficients from Bloomberg, which are calculated using ten years of weekly data against the S&P 500 Index; and (2) the Beta coefficients from Value Line, which are calculated using five years of weekly data against the New York Stock Exchange Composite Index. Id., pp. 34-35. The Company used Betas with a mean of 0.80. Id., Ex. A-8-JCN-7.

OCC noted that utility Betas as measured by Value Line have been in the 0.55 to 0.70 range for the past 10 years, but utility stocks were much more volatile relative to the market in March and April of 2020, which resulted in an increase of above 0.30 to the average utility beta. Woolridge PFT, p. 58. OCC used Value Line Betas in its CAPM. Id., p. 60. Specifically, OCC adopted a Beta of 0.80. Id., Ex. JRW-6.

The Authority has traditionally incorporated both Value Line and Bloomberg Betas into its analysis by taking the simple average of the two estimates on a per company basis for the companies included in the Authority's Proxy Group. See 2021 CWC Rate Case Decision, pp. 38-39. By incorporating the average of the two sources of Beta, the Authority finds that such approach is less likely to overstate or understate the reflective Betas in the proxy group. Consequently, the Authority determined the Beta by averaging the Value Line Beta of all companies in the Authority's Proxy Group (0.82) and the Bloomberg Beta of all the companies in the Authority's Proxy Group (0.79), thereby resulting in a Beta of 0.805. Consequently, there was general agreement on the applicable Beta.

c. Risk-Free Rate (Rf)

As part of the Company's risk-free rate variable in its CAPM analysis, it considered projected bond yields to provide a forward-looking perspective on the cost of capital of its long-term assets. Nowak PFT, p. 34. The Company considered the following three estimates of the risk-free rate: (1) the current 30-day average yield on 30-year U.S. Treasury bonds (i.e., 3.18%); (2) the projected 30-year U.S. Treasury bond yield for Q4 2022 through Q4 2023 (i.e., 3.74%); and (3) the projected 30-year U.S. Treasury bond yield for 2024 through 2028 (i.e., 3.80%). Id.

Conversely, OCC typically uses the Duff & Phelps recommended normalized risk-free rate, which currently stands at 3.5%. Woolridge PFT, 56. If the 20-year Treasury

spot rate is above 3.5%, the recommended risk-free rate is the spot on the 20-year, which is 4.5%. Id.

EOE's short-term risk-free rate is based on the yield of 3-month U.S. Treasury bills, while the long-term risk-free rate is based on the yield of 30-year U.S. Treasury bonds. Rothschild PFT, p. 73. EOE's spot and weighted average short-term risk-free rates are 3.33% and 2.98%, respectively, and the spot and weighted average long-term risk-free rates are 3.79% and 3.42%, respectively. Id., Ex. ALR-4, p. 2.

The Authority notes that this rate case was filed during a time of both increasing *and* fluctuating rates, with respect to both short-term and long-term rates. See Section V.F.3. Treasury Rates and Static Analysis. As such, the Authority took into consideration both the increase in rates and the volatility of Treasury Market rates in its analysis. Based upon the recent observed trend in interest rate yields, and in an effort to smooth out interest rate volatility, the Authority finds an acceptable and conservative proxy for the return on long-term risk-free asset (Rf) to be 3.70%.

d. Equity Risk Premium

The equity risk premium (ERP) is equal to the expected return on the stock market; the expected return on the S&P 500 (Rm) minus the risk-free rate of interest (Rf). In short, ERP = Rm-Rf. The ERP is difficult to measure because it requires an estimate of the expected return on the market (Rm). There was significant debate in this proceeding regarding the estimation of the equity risk premium.

In the Application, the Company calculated an expected return for the overall market of 13.41%. Nowak PFT, p. 35. Then, based on FERC convention, the Company considered a subset of S&P 500 companies with growth rates between 0% and 20%, which indicated expected market return of 12.37%. Id. Applying the Company's Rf estimates, the Company projected an ERP of 8.57% to 9.20% (FERC methodology). Id., Ex. A-8-JCN-7. The Rm value used by the Company in the rebuttal testimony was 15.61% (12.76% for FERC methodology). Nowak Rebuttal Test. to Rothschild, Ex. B-8-JCN-4. Applying the Company's Rf estimates, the Company projected an ERP of 8.76% to 8.96% (FERC methodology). Id., Ex. B-8-JCN-2.

OCC asserted that the ERP of 12.37% (FERC methodology) proposed by the Company was "excessive" because it assumes 25% higher returns in the future than in the past. Woolridge PFT, p. 79. OCC considers several market risk premium studies reflecting a range of 3.00% to 6.71%. Id., pp. 62-68. Applying the "more timely and relevant studies," OCC identified a range of 4.0% to 6.0%. Id., p. 68. Ultimately, OCC used an ERP of 5.5%, giving most weight to estimates of Duff & Phelps, KPMG, the Fernandez survey, and Damodaran. Id. During the evidentiary hearings, OCC stated that, under current market conditions, an ERP of 6% would be appropriate, coupled with a reduction in the risk-free rate to 3.8% to arrive at a CAPM of 8.6% (using a 0.8 beta). Tr., Dec. 6, 2022, 1447:1-9.

EOE calculated its ERP using option-implied return expectations. Rothschild PFT, p. 95. Under EOE's approach, once the option-implied growth rate of the S&P 500 has been estimated, the dividend yield is added and the risk-free rate is subtracted to arrive at the market risk premium. Id., p. 96. EOE used ERPs of 7.66% and 7.21% based on short- and long-term risk-free rates, respectively. Id.

Accordingly, the overall estimated ERP range is 5.50% to 9.20%. The Authority previously accepted OCC's methodology in arriving at the ERP. See 2013 UI Rate Case Decision, p. 133. Additionally, in past analyses, the Authority incorporated OCC's survey of methodologies (OCC ERP Survey) into the PURA analysis. Woolridge PFT, Ex. JRW-611. While the Authority considered the Company's approach of using a DCF analysis on dividend paying companies in the S&P 500 to back into the equity risk premium, the Authority took exception to such an approach in the 2013 UI Rate Case Decision. 2013 UI Rate Case Decision, pp. 131-133. Here, the Authority maintains that skepticism regarding the indicated CAPM results of this methodology and, instead, finds the methodology employed by OCC to be more credible. Specifically, the Authority places more weight on OCC's 6.0% ERP recommendation as it is derived from a careful review of financial literature and history and comports with the findings of other experts, while the Company's approach is in excess and out of step with peer reviewed studies and noted field experts such as Duff & Phelps. In sum, weighting the approach employed by OCC most heavily, the Authority finds an ERP of 6.3% appropriately reflects the market conditions.

e. CAPM Results

Using the components as determined above, the Authority's CAPM result is 8.77%, based upon the CAPM formula Ke = Rf + β (Rm-Rf). The Authority's components and result are summarized as follows:

Table 20: CAPM Results

Component	Rf	Beta	Rm	ERP	ROE
CAPM Calculation	**3.70%**	**0.805**	**10.00%**	**6.30%**	**8.77%**

6. Expected Earnings Model

The Company proposed using an expected earnings model for determining ROE. The Authority declines to apply this model for the same reasons it has declined to do so in prior rate cases.

First, the Company's Expected Earnings approach uses proxy company ROEs resulting from state and federal regulatory proceedings as input variables. These ROEs are not determined by competitive market forces, which set the standard for an investor's required return. Woolridge PFT, p. 96. Second, the approach is not widely accepted today in utility ratemaking as this benchmarking-comparison methodology has been replaced by regulators with market-based approaches, such as DCF, bond yield plus risk premium, or CAPM.

The Authority most recently rejected the Expected Earnings approach in the CWC Rate Case Decision. 2021 CWC Rate Case Decision, p. 41. In that Decision, the Authority reconsidered the version of the Expected Earnings/Comparable Earnings approach as applied by CWC and found the methodology as applied to be highly dependent on the number of companies included in the comparison group and the time period covered. Id. The Authority found that the Expected Earnings approach did not measure market cost of equity as it is accounting-based and not a measure of investors' market-based required returns. Id.

Consequently, the Authority rejects the Expected Earnings approach.

7. Other Factors

a. Company's Financial Risk

The Authority considers the financial risk of the Company as it relates to the Authority's Proxy Group to determine if there are unique financial risks or risk mitigations that should be considered in establishing an ROE.

The Company cites its capital expenditures and regulatory risks as components that have a direct bearing on Aquarion's risk profile. Nowak PFT, p. 39. OCC notes these risk factors are already considered by credit rating agencies in assessing the risk of an entity. Woolridge PFT, p. 98. EOE observes that the Company made no specific adjustments to the ROE recommendation to account for the capital investment program or regulatory risk despite claiming these factors impact the Company's risk profile. Rothschild PFT, p. 56.

The Authority did not find any evidence to suggest that the Company has a higher risk profile than the Authority's Proxy Group. Further, the Authority notes that, to the extent any perceived risk exists, ownership from a corporate family of regulated utilities mitigates some financial risk as the entity benefits from the increased financial flexibility and the synergies provided from the ownership structure.

Importantly, the regulatory framework in Connecticut, by design, also provides certain risk mitigation mechanisms that should be accounted for in setting a reasonable ROE. Specifically, the Company benefits from two statutory provisions — the revenue adjustment mechanism (RAM) and the WICA program.

RAM provides a more stable revenue stream by substantially reducing the risk of actual revenues diverging from the Company's allowed revenue. Specifically, the mechanism "reconciles in rates the difference between the actual revenues of a water company and allowed revenues." Conn. Gen. Stat. § 16-262y(a). In Aquarion's last rate case, the Authority found "there must be a reduction in risk from the revenue adjustment mechanism . . . when the Company has argued that historically, allowed revenues have been lower than actuals. The Authority takes into consideration the evidence that this reduction in risk cannot be measured and as such finds that only a nominal reduction of 10 basis points [in ROE] should be made to recognize this reduction in risk." 2013

Decision, p. 110. The Authority finds that RAM continues to reduce Aquarion's revenue risk to a similar extent and warrants consideration of a similar ROE reduction.

As discussed in Section III.B. Multi-Year Rate Plan, the WICA program "provides an opportunity for recovery of a portion of capital investment in between rate cases." Morrissey PFT, p. 16; Conn. Gen. Stat. § 16-262w. Specifically, under WICA, Aquarion is permitted to increase revenues to contemporaneously recover capital investments. This rate case resets Aquarion's WICA to zero, allowing the Company to increase its annual revenues by up to 5% per year and up to 10% between rate case filings. Conn. Gen. Stat. § 16-262w(i). By providing Aquarion the opportunity to increase revenues between rate cases, the WICA program, similar to RAM, reduces Aquarion's risk. As such, the Authority will consider this reduction in risk when determining the ROE.

b. Flotation Cost

The Company requests a 0.07% addition to the ROE to account for flotation costs. Nowak PFT, p. 4. Flotation costs are the costs associated with the sale of new issues of common stock. These costs include out-of-pocket expenditures for preparation, filing, underwriting, and other costs of issuance of common stock. To the extent that a company is denied the opportunity to recover prudently incurred flotation costs, Aquarion asserts that actual returns will fall short of expected (or required) returns, thereby diminishing the utility's ability to attract adequate capital on reasonable terms. Nowak PFT, p. 48. The Company contends that if it is denied the opportunity to recover prudently incurred flotation costs through its ROE, its allowed return will be insufficient, and equity share value will be diluted. Id. As such, the Company is requesting the inclusion of 7 basis points in the ROE to account for flotation costs. Nowak PFT, p. 4. The Company provided a breakdown of equity infusions from the parent company and dividends paid. Aquarion Interrog. Resp. OCC-110.

OCC argues that the Company did not provide any evidence that Aquarion has paid flotation costs and, therefore, should not be allowed to collect additional revenues in the form of a higher ROE for flotation costs that have not been identified or paid. Woolridge PFT, p. 98.

Similarly, EOE also does not think it is appropriate to increase Aquarion's ROE to account for flotation costs because the common stock of water companies is currently selling at a market price that is approximately 200% above book value. Rothschild PFT, p. 57 and Ex. ALR-3, p. 1. As a result, selling new stock becomes a net profit, rather than a contributor to costs, as the effect is book value per share increases. Id.

Flotation costs are reviewed on a case-by-case basis by the Authority, as each utility has a unique corporate structure. The Company stated that no flotation costs were paid over the period 2015-2022. Interrog. Resp. OCC-112. Equity is infused through the ultimate parent Eversource. Id. Floatation costs are incurred by Eversource and netted against the proceeds from the issuance equity at the ultimate parent. Aquarion Interrog. Resp. OCC-123. The Company was not able to quantify the direct costs to the Company as equity issued at the ultimate parent is infused to the holding company, then to the

Company itself. Consequently, the Authority finds that the Company has failed to meet its burden of demonstrating that the cost of equity will be specifically affected by the flotation cost incurred at the parent level. As such, the Authority will not factor flotation costs into the ROE determination based on this evidentiary record.

c. ROE Adder under Conn. Gen. Stat. § 16-262s

The Authority denies Aquarion's request, made pursuant to Conn. Gen. Stat. § 16-262s(b), for a 25-basis points adder to its ROE (ROE Adder) for acquiring and taking over the operation of four small water systems since 2013, which the Company asserts were economically non-viable: Bedrock Water Association (Bedrock),[45] Hickory Hills Corporation (Hickory Hills), Interlaken Water Company, Incorporated (Interlaken), and Litchfield Condominium Associates, Inc. (Litchfield). The Authority may award a water company that acquires another economically non-viable water company a ROE Adder if the acquiring water company can demonstrate that the proposed acquisition will provide benefits to customers by (1) enhancing system viability, or (2) avoiding capital costs or savings in operating costs, or as otherwise determined by the Authority. Conn. Gen. Stat. § 16-262s(b). Here, notwithstanding the issue of whether the Authority determined the acquired systems were economically nonviable, Aquarion did not demonstrate that the acquisitions would provide benefits to customers by enhancing system viability or by avoiding capital costs or savings in operating costs. Accordingly, Aquarion failed to sustain its burden of proof for any of the cited acquisitions.

Further, Aquarion did not incur any detrimental effects from the acquisitions. As part of the acquisitions, the Authority required the customers of the acquired water systems to pay surcharges and contributions in aid of construction (CIAC), which mitigated the financial impact on Aquarion.[46,47,48] Additionally, Aquarion acquired each of

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[45] Aquarion is not eligible for an ROE Adder for its acquisition of Bedrock as the Company has already been awarded a ROE Adder for this acquisition pursuant to the September 2, 2015 Decision (2015 ROE Adder Decision) in Docket No. 13-02-20RE03, Application of Aquarion Water Company of Connecticut to Amend its Rates—Premium ROE. 2015 ROE Adder Decision, p. 43.

[46] In the June 15, 2017 Decision (Litchfield Hills Decision) in Docket No. 10-01-16, Joint Investigation of PURA and DPH Regarding Litchfield Condominium Associates, Inc. to Cease Operations as a Water Supply Company, the Authority and the Department of Public Health (DPH; jointly, Agencies) ordered the customers of the Litchfield water system to provide a CIAC in the amount of $284,000 to Aquarion, which was approximately 70% of the estimated cost of the main extension from Aquarion's system to the Litchfield water system. Litchfield Hills Decision, pp. 10, 15.

[47] In the October 4, 2017 Decision (Hickory Hills Decision) in Docket No. 14-05-11, PURA and DPH Joint Review of the Petition of Hickory Hills Corporation to Cease Operations as a Water Company, the Agencies ordered the customers of the Hickory Hills water system to pay a capital surcharge of $29.78 per month for 13 years. Hickory Hills Decision, p. 8. In lieu of the capital surcharge, the Agencies authorized the customers of the Hickory Hills water system to provide a CIAC in the amount of $54,000 to Aquarion. Id.

[48] In the May 15, 2019 Decision (Interlaken Decision) in Docket No. 14-04-22, Petition of Interlaken Water Company, Incorporated to Cease Operations as a Water Supply Company, the Authority ordered the customers of the Interlaken water system to pay a surcharge of $69.33 per month, or $831.96 annually, over a 40-year period. Interlaken Decision, p. 12. The Authority asserted that the "surcharge prevents legacy ratepayers from paying for the full amount of improvements by recovering more than 60% of the revenue requirement from [the customers of the Interlaken water system]." Id., p. 12.

these systems for free, i.e., it did not pay a purchase price or other fee to acquire the systems. Aquarion had no financial disincentive to acquire these systems; therefore, an ROE adder is unnecessary to incent these specific acquisitions, or similarly situated ones.[49,50]

In addition, the acquisition of these systems helped Aquarion meet its growth metric, which in turn benefits both the Company's employees and its shareholders, rather than customers. Specifically, Aquarion has a growth metric that is built into the Company's short-term incentive plan that rewards employees with incentive compensation for increasing the number of customers served by Aquarion through the acquisition of systems. Tr., Nov. 29, 2022, 634:3-21. This approach also rewards shareholders by "[delivering] strong financial results to shareholders through focus on delivery of net income and growth initiatives," such as acquisition of new water systems. Aquarion Interrog. Resp. OCC-31, Att. 4, p. 4. Additionally, the acquisition of water systems is part of Aquarion's growth strategy. Tr., Nov. 30, 2022, 814:18-21, 815:6-13. Requiring the Company's ratepayers to fund an ROE Adder when the acquisition of the systems is part of Aquarion's growth strategy is illogical.[51]

Lastly, even if Aquarion had sustained its evidentiary burden that an ROE adder is warranted (which it did not), the Company failed to demonstrate that the amount of the ROE Adder, i.e., 25 basis points, is appropriate. Aquarion asserts that a 25-basis points ROE adder for the acquisition of 3 water systems[52] is appropriate when compared to the 50-basis point ROE adder that the Authority approved in the Company's 2015 ROE Adder Decision for the acquisition of 56 water systems. Nowak PFT, p. 53. This correlation, however, is not proportional and lacks any evidentiary or logical basis.

Accordingly, the Authority finds that Aquarion failed to provide sufficient evidence to support a 25-basis points ROE Adder for the acquisition of the Hickory Hills, Interlaken, and Litchfield Hills water systems.

d. Conn. Gen. Stat. § 16-19kk Factors

In establishing a company's authorized return, the Authority must consider:

> Quality, reliability and cost of service provided by the company, the reduced or shifted demand for electricity, gas or water resulting from the company's conservation and load management programs approved by the authority,

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[49] ROE Adders are supposed to be forward looking to encourage future management behavior. Tr., Dec. 6, 2022, 1556:8-10; 1556:24-1557:4. The ROE Adder in this construct, as Aquarion proposes it, is a reward for what a company did in the past, not to incentivize a company to do something in the future.

[50] ROE Adders shift the risk of the adjustment, which in this case is for the acquisitions, from the Company to its ratepayers so that it is the ratepayers who end up paying for the risk. Tr., Dec. 6, 2022, 1450:16-22. Here, the Company was made whole, or close to it, when Aquarion acquired the water systems. Therefore, shifting the risk to ratepayers by requiring that they pay an ROE Adder is not appropriate.

[51] Interestingly, ratepayers also pay the salaries of the Aquarion employees that search for and work on acquisitions. Tr., Dec. 1, 2022, 856-25-857:12.

[52] As stated above in footnote 45, Aquarion is not eligible to receive an ROE Adder for the acquisition of Bedrock as it has already received one.

> the company's successful implementation of programs supporting economic development of the state and the company's success in decreasing or constraining dependence on the use of petroleum or any other criteria consistent with the state energy or other policy.
>
> Conn. Gen. Stat. §16-19kk(c).

In determining the ROE, the Authority considered these statutory factors and finds that the record does not support an adjustment to the Authority-allowed ROE based on these considerations.

8. Approved ROE

In determining a reasonable ROE, the Authority considers the analytical models, the prevailing market conditions, and the Company's risk profile. A key determinant in setting an ROE is whether the ROE will allow the utility to maintain its current financial condition and credit rating. In Section V.B. Financial Condition and Flexibility, the Authority conducted a rigorous analysis of the effect of the proposed capital structures and ROEs on the Company's credit rating, concluding that "an ROE set within the ranges presented by EOE, OCC, and the Company (i.e., 7.765% to 10.35%) would not adversely affect the Company's credit rating."

To narrow this range, the Authority considers the two analytical models (DCF and CAPM). The Authority generally weighs the DCF model results more heavily than the CAPM results. Notably, the DCF model relies on directly observable market data and provides a better measure of the cost of equity for utilities given the relative stability of the utility business and the valuation process. Conversely, the CAPM relies primarily on risk-premium studies, which are more subjective in nature. Based on the proxy group and the various permutations of analytical models examined in the proceeding, the Authority finds that a reasonable ROE for the Company is in the range of 8.00% to 9.50%.

Within this range, the Authority must determine the ROE that is "sufficient, but no more than sufficient" for Aquarion to "cover [its] capital costs, to attract needed capital and to maintain [its] financial integrity." Conn. Gen. Stat. § 16-19e(a)(4). In doing so, the Authority "is not bound to the use of any single formula or combination of formulae" but must balance "investor and consumer interests" and make "pragmatic adjustments." Woodbury Water Co., 174 Conn. at 264. Cognizant of this legal framework, the Authority has analyzed a wide array of considerations in reaching a determination, including, without limitation, the Company's capital structure, its financial condition, ROEs from other jurisdictions, analytical models, testimony from the Parties and Intervenors, prevailing and anticipated market conditions, and the regulatory environment.

In brief, the Company is financially stable, maintaining an A3 Stable Rating from Moody's Investor services. Since its last rate case, the Company merged with Eversource, providing additional financial flexibility, and potential synergies for cost sharing and risk mitigation. In addition, the Company operates in a regulatory environment that reduces risk through the RAM and WICA programs. In light of these

and other factors discussed in more detail throughout this section, the Authority finds that an ROE of 8.70% is reasonable and provides the proper balance between shareholders and ratepayers.

VI. ALLOWABLE EXPENSES

A. LATE FILED EXHIBITS

At the November 22, 2022 hearing, the Company proposed submitting a customary late filed exhibit, marked as Late Filed Exhibit 1, to provide any corrections and agreed-upon adjustments to the Company's Application identified during the discovery process and evidentiary hearings.[53] In essence, Late Filed Exhibit 1 is intended to revise, as needed, all of the schedules contained in the Application to reflect discrepancies and errors identified during the proceeding.

On December 8, 2022, the Company submitted Late Filed Exhibit 1, which included the anticipated corrections and agreed-upon adjustments; however, Late Filed Exhibit 1 also included material changes to the Application. Late Filed Ex. 1, Att. 1 (Dec. 8, 2022). Subsequently, the Company submitted supplements and revisions to Late Filed Exhibit 1 on December 12 and 14, 2022. At the December 14, 2022 hearing, the Authority requested the Company submit a revised Late Filed Exhibit 1 consistent with the Company's proposal to include only corrections and agreed-upon adjustments, to which the Company agreed. Tr., Dec. 14, 2022, 66:22-67:13.

Notwithstanding these instructions, the Company filed a revised Late Filed Exhibit 1 (Final Late Filed Exhibit 1), which contained the corrections and agreed-upon adjustments, but also continued to include material modifications to the Application. See Final Late Filed Ex. 1.[54] Final Late Filed Exhibit 1 was submitted four days after the last

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[53] See Tr., Nov. 22, 2022, 23:15-24:5 (Attorney Pace: "Chairman, just one evidentiary matter, and that is before we start to take Late-File exhibits, I know in rate cases it's customary that the company provides as a Late-File all of the corrections we've made during the discovery process so there could be one Late-File where, if there are corrections, we would put it in one convenient place for all the parties. We'd like the Authority's permission to mark as Late-File 1 all the corrections identified during the discovery process as well as any that will identified during the hearing process for the benefit of the Authority and for the parties to have it in one convenient location. Is that acceptable to the Chairman?" Chairman Gillett: "That is."; see also Tr., 24:23-25:7 (Chairman Gillett: "And apologies, Attorney Pace, did you say this Late-File exhibit captures any corrections that were made during the discovery process including the prefile testimony?" Mr. Pace: "And also identified during the hearing. So Chairman, if we do identify any further corrections during the course of the hearing, we can always proceed to provide a supplement to the Late-File at the appropriate time.").

[54] The Final Late Filed Exhibit 1 includes two attachments: Supplemental 2 Attachment 1, which is referred to in the body of the Decision as Supplemental Attachment 1 and in citations as Suppl. Att. 1, and Supplemental 2 Attachment 2. According to Aquarion, Supplemental Attachment 1 to the Final Late Filed Exhibit 1 includes: (1) Corrections, agreed-upon adjustments, and material changes to the Company's B Schedules on rate base, which includes actual plant additions as of the end of November and projected closings (100% complete) as of December 15, 2022, and C Schedules on income statement, revenue adjustments, and expenses; and (2) corrections, agreed-upon adjustments, and material changes to Aquarion's Schedules B-4.0 through B-9.0, which are based on actual balances as of November 30, 2022. See Final Late Filed Ex. 1. The Company indicated that Supplemental 2

evidentiary hearing, which was held on December 15, 2022. Consequently, similar to the Company's substantial changes to pro forma plant additions, its material modifications to the expense portion of the Application shortly before, and again after, the late filed exhibit hearings, is not consistent with good administrative practice.[55]

B. OPERATIONS AND MAINTENANCE EXPENSES

1. Summary

Allowable operating expenses must "reflect prudent and efficient management of the franchise operation." Conn. Gen. Stat. § 16-19e(a)(5). Therefore, only those expenses that are reasonable and necessary to provide service to the public may be included as an allowable expense. To determine a utility's allowable expenses, the Authority will consider the Test Year expenses as adjusted for known and measurable changes. The Company has the burden of proving that such expenses under consideration are just and reasonable. See Conn. Gen. Stat. § 16-22.

For purposes of establishing a revenue requirement, the Company proposed operations and maintenance expenses of $80,261,512. Final Late Filed Ex. 1, Sch. C-3.0. The table below summarizes the Authority's modifications to the Company's proposed operations and maintenance expenses by category. The subsequent sections provide an explanation for each of the modifications.

Attachment 2 includes the corrections, agreed-upon adjustments, and material changes included in Supplemental 2 Attachment 1, plus the impact of plant additions for projects that are at least 75% complete as of December 15, 2022. See Late Filed Ex. 1, Suppl. 2 (Dec. 19, 2022), Att. 2.

[55] The Company asserts that Final Late Filed Exhibit 1 includes material adjustments to its Application, in addition to corrections and agreed-upon adjustments, "[b]ecause Conn. Gen. Stat. § 4-177c(a) authorizes [Aquarion] to submit evidence on 'all issues involved' in this rate case while the record is open – and because Conn. Gen. Stat. § 16-19e(a)(4) states that rates must be sufficient to enable 'public service companies to cover their operating costs.'" Aquarion Brief, p. 28. However, the question is not whether the Company can submit evidence; rather, the question is whether the Authority can rely on such evidence. The submission of new evidence shortly before and after the close of evidentiary hearings deprives the Authority and parties of a meaningful opportunity to review the evidence and to test its reliability and credibility.

Table 21: **O&M Expense Modifications**

Company Proposed	**$80,261,512**
Jobbing Income	(700,578)
Net Company Proposed	**79,560,934**
Employee Compensation – Salaries	(772,489)
Employee Compensation - COLA	(275,558)
Incentive Compensation – Aquarion	(97,716)
Incentive Compensation - Employees	(1,706,725)
Employee Service Awards Program	(17,632)
Management Fee	(205,338)
Employee Benefits	(159,359)
SERP	(401,010)
Purchases: Purchased Power Expense	(722,379)
Purchases: Chemicals	(3,149,286)
Merger Cost Recovery	(483,753)
Inflation Adjustment	(1,194,200)
Memberships and Affiliation Dues	(300,712)
Donations	(81,491)
Directors and Officers Liability Insurance	(31,097)
Rate Case Costs	(137,164)
Non-Revenue Water	(138,012)
Communications Expense	(265,948)
Deferred Conservation Expense	(249,675)
Annual Conservation Expense	(94,629)
Entertainment Expense	(37,812)
Relocation Expense	(22,500)
Maintenance, Non-SAP	(176,954)
Bad Debt Expense	(1,998)
Total Modifications	**($10,723,437)**
Total Allowed O&M Expenses	**68,837,497**

2. Employee Compensation

a. Full-Time Equivalent Positions and Open Positions

The Company requests $29,214,689 for employee salaries, which includes employee salaries for 320.6 full-time equivalent (FTE) employee positions and 12 open positions, for a total of 332.6 FTEs. Added to this amount is annualized payroll -part time ($652,016), incentive compensation ($2,222,298), and Overtime ($1,982,691), for a total request of $34,071,693. Final Late Filed Ex. 1, Sch. WPC-3.2. As of December 19, 2022, the Company had 320.6 FTEs. Id. In September 2022, Aquarion had 311 FTEs. Aquarion Interrog. Resp. OCC-260, Att. 2. In the previous five years, the Company has had an average vacancy rate of: 5.7, 6.1, 9.4, 10.4, and 11.5 in 2017, 2018, 2019, 2020, and 2021, respectively, for a five-year average vacancy rate of 8.6 FTEs. Aquarion Interrog. Resp. OCC-57, Att. 1-5. In 2022, the Company averaged 17.6 vacancies for the period from January through September. Aquarion Interrog. Resp. OCC-260, Att. 2.

Based on the evidence in the record, including the Company's five-year average vacancy rate, the Authority determines the appropriate number of FTEs is 324 (332.6 – 8.6), which is further reduced to 323 FTEs as a result of the additional FTE disallowance discussed below. The Authority concludes that this level of allowed FTEs is sufficient for the Company to provide safe and reliable service to its customers without burdening ratepayers with excessive wage expenses.

Additionally, the Authority notes that the Company currently has two Directors of Business Development, one of which previously worked for the New England Service Company (NESC) and, when the Company acquired NESC, joined Aquarion as a condition of their employment. Late Filed Ex. 35; Tr., Dec. 14, 2022, 133:6-15. Both Directors of Business Development have similar responsibilities, and the Company did not offer any evidence or explanation as to why two identical positions are necessary. Tr., 133:16-20. Accordingly, the Authority denies recovery for one of the two Directors of Business Development as this is a duplicative job title with duplicative job responsibilities.

Due to this disallowance and using the salary for the open position of Director of Customer Service as a proxy, the Authority adjusts employee compensation by $151,500. Additionally, the Authority is adjusting employee compensation for the Company's average vacancy rate of 8.6 FTEs. The resulting reduction in the Company's request for employee compensation expense is $772,489, which is the average pro forma FTE payroll expense of $76,295, excluding wage increases and incentive compensation, multiplied by the average vacancy rate of 8.6, plus the wage expense of $116,352 ($151,500 * 0.768) for the elimination of the duplicative position of Director of Business Development (($76,295 * 8.6) + (151,500 * 0.768)).

b. Wage Increase

The Company requests $1,135,723 for a 4% wage increase for non-union employees effective April 2023, as it "expects to provide a slightly higher general increase in 2023 of [4%]." Teixeira Prefiled Test., Aug. 29, 2022, p. 37; Szabo & Unger Prefiled Test., Aug. 29, 2022, p. 33; Final Late Filed Ex. 1, Sch. WPC-3.2. A wage increase of 3% was provided to non-union and union employees effective April 1, 2022. Teixeira PFT, pp. 36-37. The Authority finds that the Company did not substantiate its burden for the additional 4% wage increase, explaining only that it expects to provide a "slightly higher general increase in 2023" due to "current market trends." Id., p. 37. Accordingly, the Authority denies the Company's request for the 4% wage increase; however, the Authority will permit a 3% wage increase commensurate with the survey data cited to justify the 3% increase afforded to non-union employees effective the previous calendar year. Id. As such, the Authority allows $776,923 [($31,076,906[56]*.03)/12)*10 months] for a 3% wage increase effective April 2023. The adjustment to the requested amount results in a reduction of $358,800 ($1,135,723-$776,923). When multiplied by the expense ratio of 76.8%, this equals a $275,558 expense reduction.

[56] $31,076,906= $34,071,693-$2,222,298-$772,489

c. Officer Compensation

The Company requests $1,954,310 (($2,940,460 * 86.54%)[57](76.8%)) for Aquarion officer compensation in base rates, which includes Aquarion officers' base salary, incentives, and benefits. Application, Sch. G-2.12; Aquarion Interrog. Resp. RRU-441, Att. 1.[58]

The Authority approves the inclusion of 90%, or $1,758,879, of Aquarion officer compensation in base rates. Similar to Eversource officer incentive compensation, discussed infra in Section VI.B.4. Management Fee Compensation, the Authority approves the inclusion of 50% of the remaining 10%, or $97,716 (($1,954,310 *10%)(50%)), in base rates (but importantly, subjects such amount to reconciliation), and the inclusion of the other 50% of the remaining 10%, or $97,716, to be recovered through the revenue adjustment mechanism (RAM), *if* the Company meets the metrics discussed in Section VI.B.5. Performance Metrics. The amount the Company may ultimately recover from ratepayers is dependent on the percentage by which Aquarion meets the metrics. For example, if the Company meets 50% of the metrics, then the 5% of the Aquarion officer compensation included in rate base would be used to compensate the Aquarion officers. With respect to the 5% of the Aquarion officer compensation for which recovery is disallowed (due to the Company achieving only 50% of the defined metrics), the Company would take no action toward seeking recovery of the remaining 5% of the Aquarion officer compensation from customers in RAM. If, however, the Company fails to meet less than half of the metrics, then the Company is directed to return the proportional share of the Aquarion officer compensation included in rate base ($97,716) to customers through the RAM as a credit and will again forego recovery of the other 5% through the RAM. The Company may seek recovery from its shareholders of any portion of the Eversource officer compensation for which recovery from customers is disallowed. The Authority directs the Company, no later than February 1, 2024, and annually thereafter, to file as a compliance filing the amount of Aquarion officer compensation customers are paying through base rates and through the RAM, or conversely how much is being returned to customers through the RAM.

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[57] During the proceeding, the Company revised the Mass formula allocation to reflect Aquarion Company's acquisition of New England Service Company in December 2021 and Torrington Water Company in October 2022. Late Filed Ex. 17, Att. 1.

[58] The Company asserts that the Authority disallowed recovery of Aquarion officer incentive compensation two times, once in Section VI.B.2.c, Officer Compensation, when it disallowed recovery of Aquarion officer incentive compensation, and a second time in Section VI.B.2.d. Employee Incentive Compensation, when PURA disallowed recovery of employee incentive compensation. Aquarion Exceptions, pp. 19-20. First, contrary to the Company's assertion, the Authority did not disallow recovery of the Aquarion officer compensation. Second, it is unclear that the Aquarion officer incentive compensation included in Schedule G-2.12 of the Application is the same as the employee incentive compensation included in Schedule WPC-3.2 of Final Late Filed Exhibit 1. Further, if the Aquarion officer incentive compensation included in Schedule G-2.12 of the Application is also included in the employee incentive compensation in Schedule WPC-3.2 of Final Late Filed Exhibit 1, the Company sought recovery for the Aquarion officer incentive compensation twice, once in Schedule G-2.12 of the Application and a second time in Schedule WPC-3.2 of Final Late Filed Exhibit 1.

d. Employee Incentive Compensation

The Company requests $2,222,298 to fund its employee incentive compensation program (Incentive Program). Final Late Filed Ex. 1, Sch. WPC-3.2. According to the Company, the Incentive Program is designed to promote its mission by incentivizing employee behavior towards the achievement of the goals and objectives outlined in Aquarion's business plan. Teixeira PFT, p. 38. The Company asserts that by tying a portion of employee compensation to the employee's performance of the goals and objectives, Aquarion's total employee compensation package provides "great motivation for employees to increase operating efficiencies and productivity." Id., pp. 38-39. In addition, the Company asserts its "total rewards" approach is "designed to compensate employees competitively in comparison to the general industry sector." Id., p. 33.

The evidence in the record does not support a finding that the Incentive Program properly incentivizes employees or benefits ratepayers in such a way that it constitutes prudent and efficient management of the Company's operation. First, the Company failed to demonstrate that the Incentive Program is required to maintain competitive salaries and employee retention. Specifically, for non-executive compensation, the Company appears to use base wages when comparing Aquarion employee compensation to compensation offered by peer utilities. See, e.g., Tr., Nov. 29, 2022, 626:5-13 (Chairman Gillett: "Do you recall whether the survey gets into the granularity . . . of what the comp's breakdown between base and incentive is?" Ms. Teixeira: "For the senior team, yes it does." Chairman Gillett: "Not for all job classifications?" Ms. Teixeira: "Not for all job classifications."); Tr., 625-626:14-25 (Chairman Gillett: "Okay. So for all job classifications . . . are you comparing total compensation package to the results of the survey?" Ms. Teixeira: "We look at base wages, and then we look at what is a typical percentage of your base wages that is competitive to the market.").

Second, the Company provided no evidence to substantiate its burden that the Incentive Program incentivizes its employees. Almost 100% of eligible employees receive employee incentive compensation, which raises significant doubt as to the degree to which the program provides motivation to meet or exceed any goals set. See Aquarion Interrog. Resp. OCC-30 and OCC-32. The record evidence instead supports a finding that the Program has no discernable impact on the customer-facing metrics. See Aquarion Interrog. Resp. OCC-34, Att. 6 and 7.[59]

Third, employees only receive employee incentive compensation if the Incentive Program is funded.[60] Teixeira, Szabo, Unger Rebuttal Test., Nov. 9, 2022, p. 14. This

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[59] As noted by OCC, customer complaint targets and results for the years 2017-2020 for both categories of complaints (i.e., customer service complaints and customer quality complaints) indicate no discernible year-over-year sustained improvement. OCC Brief, pp. 36-37; Aquarion Interrog. Resp. OCC-34. More troublesome perhaps is that the "target" for each category was unchanged between 2017-2020. Id. In other words, not only is the plan yielding no demonstrable impact on these customer-facing metrics (and thus no quantifiable benefit to ratepayers), but the Company has also failed to appropriately incentivize any improvement in its employees' performance given that the targets remain unchanged year-to-year.

[60] For example, if the Company met only 60% of the 70% tied to financial goals and 100% of the 30% tied to operation goals, then the total pool of incentive funds would be adjusted downwards 10% to reflect meeting only 60% of the 70% tied to financial goals. See Tr., Nov. 29, 2022, 593:16-595:21.

funding approach protects shareholders at the expense of ratepayers. Specifically, if the Company does not meet its goals, the Company can reduce or eliminate Incentive Program funding for employees while retaining the funds provided by ratepayers through this line item. Tr., Nov. 29, 2022, 581:24-25 ("You have to have enough financial, you know, success in order to fund the plan"; 585:7-10 (Mr. Defever: "So if the company had a great year, incentive comp would be better than if the company had a bad year financially?" Ms. Teixeira: "Yes.").

Finally, since 70% of the employee incentive compensation is tied to achievement of financial goals, the Incentive Program primarily benefits the Company's shareholders, rather than ratepayers. See Teixeira, Szabo, Unger Rebuttal, pp. 12, 14; Aquarion Interrog. Resp. OCC-31, OCC-37, and OCC-208;

In sum, the program "is more accurately described as a bonus plan than an incentive plan." OCC Brief, p. 34. Accordingly, the Authority denies the Company's request to recover $2,222,298 from ratepayers to fund the Incentive Program as the program provides little, if any, benefit to ratepayers. Instead, the Authority suggests that the Company fund 100% of the Incentive Program using Aquarion's 50% share of its Earnings Sharing Mechanism (ESM), which is a more appropriate indicator of whether the Company has achieved financial goals that are mutually beneficial to shareholders and ratepayers. If there is no ESM triggered in any given year, then the Company's shareholders may opt to fund the Incentive Program, since it primarily incents achievement of shareholder-prioritized financial goals.

The adjustment to employee incentive compensation expense is a reduction of $1,706,725 ($2,222,298 * 76.8%). Final Late Filed Ex. 1, Sch. WPC-3.2.

In its written exceptions, the Company argues that "it is not sufficient for the Authority to simply declare it is 'unpersuaded' that the plan does not work." Aquarion Exceptions, p. 65. However, the Company does, in fact, have the burden to persuade the Authority through sufficient evidence that the Incentive Program is a prudent and efficient use of ratepayer funds, including that the program provides a direct or derivative benefit for ratepayers (e.g., improving consumer metrics, employee retention, etc.). Here, the Company has not met this burden. Even in its written exceptions, the Company continues to advance multiple strained and disparate characterizations of the Incentive Program, undercutting the credibility of the Company's proffered evidence. Aquarion Exceptions, pp. 65-66.

3. Employee Service Awards Program

The Company's Employee Service Award Program rewards employees for years of service. Aquarion Interrog. Resp. OCC-24. The awards start at $150 after the first 5 years of service and increase to a maximum of $1,250 after 50 years of service. Id. The Company asserts it developed the Employee Service Award Program for employee retention, though it is doubtful an employee will choose to stay with Aquarion for $150 after 5 years. Defever Prefiled Test., Oct. 26, 2022, p. 22. Since it is unlikely that the

small awards impact employee retention, the Employee Service Award program provides no benefit for ratepayers.

Consequently, the Authority denies recovery of $17,632 for the Employee Service Awards Program because it has not been shown to be a prudent expense that provides benefit to ratepayers.[61]

4. Management Fee Compensation

Aquarion requests recovery of $410,676 ($474,550 * 86.54%), which represents the Company's share (Management Fee) of the flat fee that Eversource charges Eversource's affiliates for a portion of the Eversource officers' compensation[62] (Flat Fee) based on the Massachusetts (MASS) Formula.[63] Aquarion Interrog. Resp. EOE-45; Late Filed Ex. 18, Att. 1; Final Late Filed Ex. 1, Sch. WPC-3.28(2). Aquarion pays 86.54% of the Flat Fee and the other Eversource subsidiaries pay the other 13.46%. Final Late Filed Ex. 1, Sch. C-3.28(2). The Management Fee equates to $7,898 per week, or $197 an hour (based on a 40-hour work week). The way in which Eversource determines the amount charged for the Flat Fee, which is set annually, is unclear. Tr., Nov. 28, 2022, 358:15-259:4. In addition, whether the Eversource officers track their time spent on the affiliates is unknown. Tr., Nov. 28, 2022, 358:15-259:4. The Company also does not know how the decision was made to include the 12 officers listed in the Management Fee. Tr., Dec. 14, 2022, 140:6-19.

Accordingly, if the Company seeks recovery of the Management Fee in a future rate case, Aquarion is on notice that the provision of evidence to support the imposition of such fees is a prerequisite to recovery; in other words, detailed documentation will be required regarding, at a minimum, how Eversource chose the officers included in the fee, the tracked time Eversource officers spend on Aquarion work, and examples of demonstrable benefits that accrued to the Company's ratepayers traceable to the direct management provided by each officer included in the Flat Fee.

Despite the lack of information regarding how Eversource determined the amount of the Flat Fee, the Authority approves the inclusion of $205,338 (50% of $410,676) of the Management Fee in base rates (but importantly, subjects such amount to reconciliation), and the inclusion of the remainder of the Management Fee, or $205,338 (50% of $410,676), in RAM, but only *if* the Company meets certain metrics discussed

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[61] Importantly, the Authority is not requiring the Company to cease employee programs. Rather, the Authority is requiring the Company to demonstrate these programs are a prudent and efficient part of its operations that benefits ratepayers or to use shareholder money to fund them in the alternative.

[62] The Eversource officers whose compensation is included in the Flat Fee are: executive vice president and general counsel; chairman, president, and chief executive officer; executive vice president-customer and corporate relations; executive vice president and chief operating officer; vice president, controller; vice president, investor relations; senior vice president, finance and regulatory and treasurer; corporate secretary and deputy general counsel; vice president, internal audit and security; senior vice president and chief financial officer; and director of taxes. Late Filed Ex. 18, Att. 1; Tr., Dec. 14, 2022, 138:24-140:5, 140:25-141:10.

[63] The MASS Formula is used to allocate current year expenses are based upon *prior year* actual revenues, gross plant, payroll, and customer counts.

infra in Section VI.B.5. Performance Metrics. The amount the Company may ultimately recover from ratepayers is dependent on the percentage by which Aquarion meets the metrics.

For example, if the Company meets only 50% of the metrics, then the 50% of the Management Fee included in base rates would be used to pay the Management Fee, while the Company would forgo seeking recovery of the other 50% from customers through the RAM. If, however, the Company fails to meet less than half of its metrics, then the Company is directed to return the proportional share of the Management Fee included in base rates ($205,338) to customers through the RAM as a credit and will again forego recovery of the other 50% through the RAM. The Company may seek recovery from its shareholders of any portion of the Management Fee for which recovery from customers is disallowed. The Authority directs the Company, no later than February 1, 2024, and annually thereafter, to file as a compliance filing the amount of the Management Fee customers are paying through base rates and through the RAM, or conversely how much is being returned to customers through the RAM.

5. Performance Metrics

The Authority is required in a rate case to "consider the implementation of financial performance-based incentives and penalties and performance-based metrics." Conn. Gen. Stat. § 16-19a(b). Additionally, in exercising its discretion regarding whether to allow the recovery through rates of any portion of the compensation package for executives or officers or of any portion of any incentive compensation for employees of a water company, the Authority is required to consider whether to require that any such compensation that is recoverable through rates be dependent upon the achievement of performance targets. Conn. Gen. Stat. § 16-19yy.[64] If the Authority approves such performance-based incentives and penalties for a particular company, PURA is required to include in the framework for periodic monitoring and review of the company's performance pursuant to metrics developed by the Authority. Conn. Gen. Stat. § 16-19a(b). Based on the record in this proceeding, the Authority determines that implementation of financial performance-based incentives is both appropriate and necessary.

The Authority is tying the Company's recovery from ratepayers of a portion of the Aquarion officer compensation expenses and the Management Fee expenses to the achievement of affordability metrics to appropriately motivate its executives to develop and faithfully implement programs that directly and meaningfully benefit the Company's low-income customers. In 2017, as a condition of approval for the merger between the Company and Eversource, the Authority directed the Company to "develop and propose in its next rate case a low-income program that could best benefit its customers in need." Decision (Merger Decision), Oct. 27, 2017, Docket No. 17-06-30, Joint Application of

[64] Given that the Company did not substantiate its burden with respect to the Management Fee in particular, as discussed in Section VI.B.4. Management Fee Compensation, the opportunity to recover these costs from ratepayers subject to achievement of certain performance metrics is more beneficial to the Company than the alternative, which is the disallowance of recovery of 100% of the Management Fee from ratepayers.

Eversource and Macquarie Utilities Inc. for Approval of Change of Control, p. 26 (emphasis added). Despite having over five years to compile and analyze data regarding its low-income customers to develop a program that would best benefit those customers, the Company instead proposed a program providing a 15% credit to low-income customers simply because the Authority approved a 15% credit for Connecticut Water Company in the 2021 CWC Rate Case Decision. Aquarion Interrog. Resp. RRU-325; Tr., Dec. 5, 2022, 1160:3-5; 1255:12-18.

In addition, rather than leveraging the experience of Aquarion's affiliated companies, The Connecticut Light and Power Company d/b/a/ Eversource Energy (CL&P) and the Yankee Gas Services Company d/b/a Eversource Energy (Yankee), both of which have extensive experience with implementing financial hardship programs, the Company instead elected to have only high-level discussions with them. See Aquarion Interrog. Resp. EOE-41; Tr., Dec. 1, 2022, 1028:9-10. Lastly, when asked about the Company's familiarity with the Authority's recent Decision in which PURA ordered the electric distribution companies in Connecticut, including CL&P, to implement a low-income discount rate, the Company replied that they were not aware of it. Tr., 1075:23-1076:7. The Authority is equally perplexed and disheartened by Aquarion's apparent lack of awareness considering CL&P was actively engaged in the proceeding, which occurred over an almost two-year period, and was ultimately ordered to implement a low-income discount rate. Accordingly, the Authority finds it is more than necessary and appropriate to connect the recovery of Eversource and Aquarion officer compensation to achievement of certain affordability metrics.

The Authority finds that the following metrics by which PURA will measure Aquarion's performance are reasonable and appropriate. Aquarion is deemed to have met or exceeded the performance metrics if the difference between the data for the calendar year for which the Company is reporting (Current Year) is equal to or greater than 10% of the data for the Historical Period, based on the average of the results of all four metrics. The Company is deemed to have met 90% of the performance metrics if the data for the Current Year is between 9% but less than 10% greater than the data for the Historical Period, based on the average of the results of all four metrics; 80% if the difference between the data for the Current Year is between 8% and 9% greater than the data for the historical, based on the average of the results of all four metrics; 70% if the difference between the data for the Current Year is between 7% and 8% greater than the data for the historical, based on the average of the results of all four metrics, etc. The Historical Period shall be the average of the data from 2017 through 2022, unless the Authority finds that such data is unreliable due to missing or incomplete data, in which case the Historical Period shall be data from the Test Year.[65]

1. Payment Regularity Ratio Metric: Aquarion shall calculate the payment regularity ratio (Payment Regularity Ratio) for its residential customers by using

[65] In the event that the Company is unable to supply baseline data for one or more metrics in any of the years, the Authority will be unable to assess the Company's achievement of the metrics for a given cycle; thus, the Company would be prohibited from recovering any portion of the compensation earmarked as contingent on these performance targets for the applicable year.

data for the Historical Period and comparing it to the data for the Current Year to determine how many payments the Company received for every 100 residential monthly bills rendered. The Payment Regularity Ratio is calculated by placing the number of payments in the numerator and the number of bills in the denominator. Late Filed Ex. 75, pp. 8-9.

2. Payment Coverage Ratio Metric: Aquarion shall calculate the payment coverage ratio (Payment Coverage Ratio) for its residential customers by using the data for the Historical Period and comparing it the Current Year to determine the amount of payments the Company received for every 100 residential monthly bills rendered. The Payment Coverage Ratio is calculated by dividing the dollars of payments by dollars of bills. Colton Prefiled Test., Oct. 26, 2022, pp. 21-22.

3. Nonpayment Disconnection Ratio Metric: Aquarion shall calculate the rate of nonpayment disconnections (number of nonpayment disconnections per 100 customers) for its residential customers by using data for the Historical Period and comparing it to number of nonpayment disconnections for every 100 customers in the Current Year. See Late Filed Ex. 75, p. 8.

4. Average Monthly Arears Metric: Aquarion shall calculate the average number of accounts in arrears monthly by using data for the Historical Period and comparing it to average number of accounts in arrears monthly in the Current Year. Id., p. 8.

The Authority directs the Company to submit as a motion for review and approval no later than May 1, 2023, the data for each year from 2017 through 2022 required to calculate the baseline for each of the performance metrics. In its ruling on the motion, PURA will approve the Company's use of either an average of the data from 2017 through 2022, or the data from the Test Year for Aquation's calculation of the various performance metrics in Rate Year 1, depending on whether the Authority finds the data submitted for 2017 through 2022 is unreliable due to missing or incomplete data.[66] In addition, the Authority directs the Company to annually, on or before January 15th, submit as a compliance filing detailed information regarding whether Aquarion met or exceeded each of the metrics during the preceding calendar year. The compliance filing shall include an unlocked workable Excel spreadsheet providing the data on which the Company relied in making its determination.

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[66] This determination will also affect whether the baseline used to assess achievement of the Company's progress in 2024 is calendar year 2023 data, or a rolling average between 2018-2023. For clarity, the February 1, 2024 RAM filing will assess whether the Company achieved its performance metrics during calendar year 2023, using the baseline of either the Test Year or the 2017-2022 Historical Average as determined by the Authority, and any necessary adjustments would be made to the RAM rate effective April 1, 2024. The February 1, 2025 RAM filing will assess whether the Company achieved its performance metrics during calendar year 2024, using the baseline of either calendar year 2023 data, or a rolling average between 2018-2023, as determined by the Authority, and any necessary adjustments would be made to the RAM rate effective April 1, 2025; and so on.

6. Benefits

a. Employee Benefits

As a result of the disallowance of 8.6 FTEs and the Director of Business Development position in Section VI.B.2.a., the employee benefits expense, which includes Group Medical and Dental, Life Insurance, and Long-Term Disability, is reduced by $159,359. This is the total of the average expense portion of the benefits per FTE ($16,599) multiplied by the 8.6 vacancy rate plus $16,599 for the disallowed Director position.

b. SERP

The Authority denies Aquarion's Supplemental Executive Retirement Plan (SERP) expense of $401,010, which is consistent with PURA's past precedent of denial of this optional employer sponsored benefit that accrues to only a select few highly compensated employees. See 2013 Decision, pp. 68-69. The Authority also finds that lack of clarity with which the Company identified the SERP expenses in the instant Application provides further support for the denial as the Company has not met its burden.

In its Application, the Company did not include a specific pro forma adjustment schedule for SERP. The Application included Schedule WPC-3.25, which made reference to SERP expense for Connecticut Business Tax purposes. See Application, Sch. WPC-3.25. OCC initially identified a disallowance of only the $13,746 for the defined benefit portion of the SERP and $97,728 (later corrected to $26,613) for the 401k portion of the SERP that were not included in the Management Fee. Defever PFT, pp. 15-16; Final Late Filed Ex. 1, Sch. 3.19(2) and 3.28; Late Filed Ex. 29 and 30; Suppl. Late Filed Ex. 30, Dec. 16, 2022; Tr., Dec. 14, 2022, 121:1-25.

Through discovery and testimony at the Late Filed Exhibit hearing, the Authority learned that the $13,746 and $26,613 amounts for Defined Benefit and Defined Contribution SERP, respectively, provided in the Application were related to the Connecticut Business Tax portion only. The Company indicates that the amounts questioned by OCC (i.e., $13,746 related to the SERP Defined Benefit portion and $26,613 related to the SERP 401k employer match portion) were a distinct part of the SERP expense excluded from the inflation adjustment of the Application. The remainder of the proposed SERP amount of $360,651 was included in the Management Fee. Final Late Filed Ex. 1, Sch. 3.19(2) and 3.28; Late Filed Ex. 29; Late Filed Ex. 30; Tr., Dec. 14, 2022, 121:1-25.

Aquarion's SERP currently covers three active participants hired prior to 2009 and eight retired employees that are eligible for the benefit. Aquarion Interrog. Resp. RRU-3; OCC-68. The purpose of SERP is to provide a two-pronged benefit[67] to eligible

[67] SERP allows an employee to contribute pre-tax dollars in excess of IRS Limits (savings benefit) and allows the employee to receive a credit for compensation in excess of the IRS Limits (pension benefit). Aquarion Interrog. Resp. OCC-67.

executives whose compensation exceeds the maximum level allowed[68] (IRS Limits) by the Internal Revenue Service (IRS) for consideration under Defined Benefit and 401k pension plans (jointly, Qualified Plan), which are both qualified retirement plans. Aquarion Interrog. Resp. OCC-67, OCC-69. Thus, if an executive's compensation exceeds the IRS Limits (which are indexed annually), then no benefit may be earned under the Qualified Plan. Aquarion Interrog. Resp. OCC-67. The SERP is an employer benefit that relates only to the compensation exceeding the IRS limits. Id.

OCC recommends that the Authority continue with its past precedent of disallowing both the Defined Benefit and 401k SERP expenses given that these expenses relate to the portion of salary of a few highly compensated executives whose salary exceeds the IRS salary limits for qualified pension plans.[69] Defever PFT, pp. 15-16.

Based on the evidence in the record, the Authority finds no reason to revise PURA's past precedent to instead allow this expense for customer ratemaking purposes. The SERP expense accrues to a few select executives and relates only to the portion of employee salary that exceeds IRS Limits for Qualified Plans. Therefore, the IRS Limits prevent a high earning employee from earning a pension benefit on the portion of their salary that exceeds the limit; thus, that portion of an employee's salary is essentially considered excessive for ratemaking purposes. Accordingly, the Authority denies in total Aquarion's SERP expense of $401,010 ($360,651+13,746+$26,613).

Moreover, the Authority is deeply concerned by the Company's convoluted presentation of the SERP expense through the course of this proceeding. It appears that the Company's initial Application only presented a small portion of SERP expense for Authority review. See Application, Sch. WPC-3.25. The Company buried the greater portion of the SERP expense in the Management Fee section of the Application, which had to be ferreted out by Authority staff. See Application, Sch. C-3.28. This led to much delay and confusion in the record as to what the Company was actually proposing to recover.

Furthermore, the Authority finds that there were other instances where the Company included pro forma O&M benefits-related expenses for ratemaking purposes but did not include separate schedules in the Application. Specific examples include the defined benefit pension plan expense, post-retirement health care benefit, and 401k pension expense. Accordingly, in future rate amendment applications, the Authority directs the Company to provide a separate schedule for each O&M expense item included in the Test Year and for pro forma ratemaking purposes in the Rate Year. In addition, the Authority directs the Company to provide, in future rate amendment applications, a

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[68] The 2023 IRS Limits are $265,000 for the qualified defined benefit plan and 401k plan. OCC Interrog. Resp. RRU-445. Furthermore, the 401k plan limits employee contributions and employer match to the lessor of 100% of compensation or $66,000 for 2023. OCC Interrog. Resp. RRU-446; Tr., Nov. 29, 2022, 522:1-9 and 527:1-20.

[69] OCC's disallowance initially identified only the $13,746 for the defined benefit portion of the SERP and $97,728 (later corrected to $26,613) for the 401k portion of the SERP that were not included in the management fee. Defever PFT, pp. 15 and 16; Final Late Filed Ex. 1, Sch. 3.19(2) and 3.28; Late Filed Ex. 29 and 30; Late Filed Ex. 30 Suppl. (Dec. 16, 2022); Tr. Dec. 14, 2022, 121:1-25.

separate schedule for the SERP expense that provides a detailed breakdown of the actual amount of SERP expense proposed, both direct and allocated.

7. Purchases

a. Fuel or Power Purchased for Pumping

The Company initially identified a total Test Year power purchase expense of $7,015,184. Application, Sch. C-3.19(2). The Company proposed pro forma inflation adjustments for a small portion of the Test Year power purchase expense because the majority of the Company's power is procured through multi-year contracts that extend through December 2023 and would remain fixed. Aquarion Interrog. Resp. OCC-221; Tr., Nov. 28, 2022, 330:14-18. Specifically, the Company applied the 10.625% inflation factor to $490,936 of "other" non-electric expenses, resulting in a pro forma increase of $52,161. Aquarion Interrog. Resp. OCC-221; Application, Sch. C-3.19. The total proposed pro forma expense was, therefore, $7,067,345 ($7,015,184+ $52,161). Id.

During the proceeding, Company stated that standard service rates for Eversource and United Illuminating were set to increase on January 1, 2023. Tr., Nov. 28, 2022, 330:14-25. Subsequently, the Company revised the Test Year amount to $6,689,504 and requested a proposed adjustment of $722,379 for the power purchase expense to reflect the new standard service electric generating prices going into effect January 1, 2023. Final Late Filed Ex. 1, Sch. C-3.0 A Adj, C-3.29.

Eighty percent of the Company's power is procured through a multi-year contract. Tr., Dec. 14, 2022, 70:16-21. According to the Company, its power consumption profile is attractive to bidders. Tr., Dec. 14, 2022, 70:21-23. The remaining 20%, which is power for the Company's smaller systems, is procured through standard service. Tr., 70:24-71:3.

The proposed adjustment of $722,379 is primarily the result of the standard service generation rates increasing by approximately 200% - 300%. Tr., Nov. 28, 2022, 330:20-26; Final Late Filed Ex. 1, Sch. C-3.29(2) (e.g., UI rate increasing from $0.7934 to $0.2097). However, there are two reasons that prevent the Authority from finding that the $722,379 adjustment constitutes a known and measurable change.

First, the standard service electric rate changes every six months, on January 1 and July 1 of each year. For this matter, the Rate Year commences in March 2023. Different (and possibly lower) standard service rates will go into effect in July 2023 and January 2024. Therefore, the standard service rates identified by the Company will only be in effect for a small portion of the Rate Year, but the proposed adjustment assumes, without any evidentiary basis, that the January 1, 2023 rates will be in effect during the entirety of the rate year. This assumption is improper, and the Authority is unable to conclude that the proposed adjustment reflects known costs.

Second, the Company could (and, in the current retail electric market, should) procure the non-fixed 20% portion of its electric portfolio in the competitive supplier

market. Surprisingly, the Company acknowledged that it was not aware of the retail market. Tr., Dec. 14, 2022, 89:15-16 (Mr. Ulrich: "I'm not sure what the rate board is."). Further, the Company misunderstands standard service rates, believing that "Eversource and UI roll us back and forth to what is the most attractive rate . . . ." Tr., 89:23-25. This is simply not true and exposes the Company (and ratepayers) to paying unnecessarily high electric rates. The Authority notes that retail electric rates well below standard service rates are and have been available to customers in the competitive market. Participating in the retail market requires a level of sophistication to obtain the best rates; however, a commercial customer like Aquarion should have the requisite capacity. Consequently, the Company has not shown that using the standard service rates for this portion of its energy portfolio reflects prudent or efficient management of this expense category.

Consequently, the Authority finds that the proposed pro forma adjustment of $722,379 for the increase in standard service rates on January 1, 2023, does not constitute a known and measurable cost nor reflect prudent management of the Company's energy cost. As such, the pro forma power purchase expense will be reduced by $722,379.

b. Chemicals

The Company initially requested recovery of $5,446,444 in chemical expenses, which represents an increase of $1,375,420 to the Test Year amount of $4,071,025. Application, Sch. C-3.4. Subsequently, the Company submitted an updated chemical expense of $8,595,730, which represents an increase of $4,524,706 to the Test Year amount. Aquarion Interrog. Resp. OCC-136, Att. 1; Final Late Filed Ex. 1, Sch. C-3.4.

Below is a table indicating the Company's actual chemical expense over a five-year period. Aquarion Interrog. Resp. OCC-136, Att. 1.

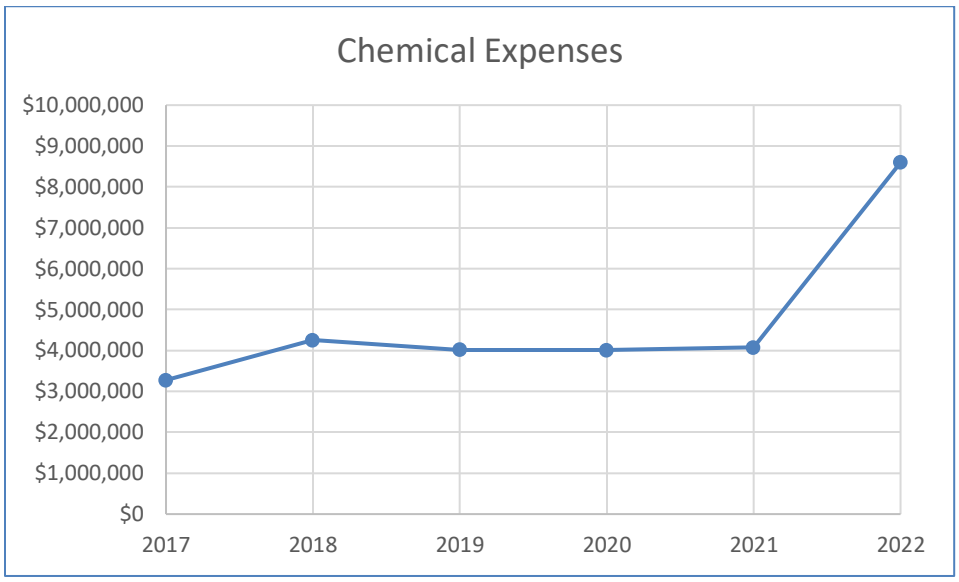
Table 22: Annual Chemical Expenses

Year	Cost	Change
2017	$3,276,584	
2018	$4,253,537	29.8%
2019	$4,014,018	-5.6%
2020	$4,005,415	-0.2%
2021	$4,071,025	1.6%
Pro forma (initial)	$5,446,444	**33.8%**
Pro forma (final)	$8,595,730	**111.1%**

The Company's chemical expenses between 2017 and 2021 were largely unchanged, with the Test Year amount of $4,071,025 statistically identical to the expenses in 2018 and 2019. Given this uniformity of cost, the Authority finds the Test Year amount represents an accurate quantification of the Company's annual chemical expense.

The issue, then, is whether there are known and measurable changes that warrant a pro forma adjustment to the Test Year chemical expense. Notably, the Company requests a 111% increase in the Test Year expense — more than doubling a cost that has remained static for the five previous years. The chart below illustrates the substantial increase in the pro forma expense (indicated as 2022) from the historical expenses.

Figure 3: Historical and Pro Forma Chemical Expense



The $1,375,420 adjustment to the Test Year amount initially proposed by the Company appears to reflect fourth quarter 2022 costs based upon competitive bids conducted in October 2021 for 2022 contracts. Aquarion Interrog. Resp. OCC-136, OCC-235, and OCC-236. As such, this adjustment reflects actual pricing that is known and measurable.

By contrast, the revised pro forma adjustment of $4,524,706 is based on estimates from several vendors. Aquarion Interrog. Resp. OCC-136 ("In August 2022, Aquarion contacted several chemical vendors and requested budgetary price forecasts for next year."). A review of evidence provided by the Company indicates that the price forecasts are not particularly precise. Among other things, the correspondence include statements such as "Budgetary 2023 number only . . . future pricing will depend on market"; "Given the volatility in the market, we are unable to quote and hold a price for the year . . ."; "With the market being so unpredictable, we are not even getting much of an outlook from our suppliers for more than 90 days."; and "whatever info we share is speculative . . . ." Aquarion Interrog. Resp. OCC-237, Att. 2, 4, 5, and 11. The evidence indicates that the chemical market is volatile and that various disruptions in the markets have created a high degree of unpredictability. Id. However, the mere anticipation of a price increase is inadequate. Given the "speculative" nature of these forecasts, there is insufficient evidence to conclude that a 111% increase in chemical costs is known and measurable.

Accordingly, the Authority will adjust the Test Year amount of $4,071,025 for known and measurable costs of $1,375,420, resulting in a reduction in the Company' pro forma chemical expense of $3,149,286.[70]

8. Eversource Merger

a. Merger Costs

The Authority denies recovery of Aquarion's share of the costs associated with the Company's merger with Eversource.[71] In the Merger Decision, the Authority stated that "Eversource will only recover transaction costs to the extent savings from [the Merger] exceed costs as adjudicated in future rate cases." Merger Decision, p. 13. The Authority further conditioned recovery on such request being submitted in a rate proceeding within a seven-year timeframe from the closing date of the transaction, Id., which the Company purports to do here; however, Aquarion failed to substantiate its burden. Accordingly, the Authority denies recovery of Aquarion's share of the merger costs.

The Company requests recovery of $4.9 million (Aquarion Merger Costs) out of approximately $5.3 million in total merger costs, as Aquarion's share of the merger costs.[72] Szabo & Unger PFT, p. 42. Rather than recover the Aquarion Merger Costs from customers all in one year, the Company proposes to amortize the costs over 10 years, which results in a pro forma adjustment expense of $483,753 for the Test Year. Id.; Final Late Filed Ex. 1, Sch. WPC-3.13. The Company asserts that the savings it experienced as a result of the merger exceed the amount of the Aquarion Merger Costs. Szabo & Unger PFT, p. 44. The table below provides a breakdown of the total merger costs, including the Aquarion Merger Costs.

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[70] While the Company is permitted to recover this expense, as discussed in Section IV.E. Working Capital, the Authority will adjust the Company's cash working capital by removing chemical expenses from the lead/lag study. The Company improperly included chemical expenses in both its cash working capital calculation and in its rate base inventory, leading to a double recovery of the chemical expense. OCC Brief, p. 27.

[71] The Authority approved the merger of Aquarion and Eversource in 2017. See Merger Decision.

[72] The total amount of Eversource's merger costs is $5.3 million. Aquarion Interrog. Resp. Suppl. RRU-413. By contrast, for the Kelda/Yorkshire Water's (Kelda) acquisition of Aquarion in 2000, and the Macquarie Utilities acquisition of Aquarion from Kelda in 2006, the Company stated that "[t]here were not transaction costs requested or permitted related to the two acquisitions of Aquarion prior to Eversource." Late Filed Ex. 50.

Table 23: Aquarion's Share of the Merger Costs

Category	Costs
Investment Banker	$3,017,000
Legal Services	$1,417,128
Other Outside Services	$717,287
Application approval fees	$125,000
Environmental Outside Services	$27,177
Printing services for customer bill inserts	$9,486
Other	$1,581
Total	**$5,314,659**
Costs allocated to AWC MA	($163,679)
Costs recovered in AWC NH rate case	($249,671)
Costs allocated to non-utility	(63,776)
Aquarion's Total Share of Merger Costs	**$4,837,534**

Final Late Filed Ex. 1, Sch. C-3.13.

b. Claimed Merger Savings

The Authority finds that Aquarion has failed to provide evidence demonstrating savings as a result of the merger.

The Company asserts it achieved net savings in the amount of $2,563,000 annually (Merger Savings) as a result of the merger and, therefore, argues that the Authority should approve recovery of the Aquarion Merger Costs. Late Filed Ex. 44. According to the Company, the Merger Savings are the result of specific cost reduction initiatives undertaken by management personnel in the following five areas, with savings quantified through the comparison of pre-merger cost levels to current cost levels: employee benefit costs (medical insurance); consolidation of corporate insurance policies; legal costs provided by Eversource's in-house counsel, which Aquarion previously out-sourced at a higher cost; migrating the Company's external auditor to Eversource's auditor; and engaging Eversource's internal auditor to provide internal audit reviews, which were performed pre-merger by an external auditor. Szabo & Unger PFT, pp. 39-40. Aquarion asserts that it also achieved costs savings in other areas, such as procurement and fleet vehicles, but is unable to discretely identify and quantify these savings as direct benefits to customers; therefore, they are not included in the claimed Merger Savings. Id. The table below provides a breakdown of those claimed annual savings as a result of the merger, followed by the Authority's analysis with respect to each category.

Table 24: Aquarion's Claimed Annual Merger Savings

Category	Savings
Medical Insurance	$1,571,000
Other Insurance	$548,000
Long-Term Debt	$161,000
Rating Agency	$99,000
Audit – internal	$108,000
Legal	$76,000
Total	**$ 2,563,000**

Late Filed Ex. 44.

The Company claims it saved $1,571,000 in employee medical insurance costs as a result of the Merger. Szabo & Unger PFT, p. 40; Late Filed Ex. 44, Att. 2 (supplementing Interrog. Resp. RRU-185). Prior to the Merger, the Company routinely solicited requests for proposals for medical insurance but elected to self-insure because a fully insured plan from a third-party provider was not financially viable for the Company to purchase on its own. Szabo & Unger PFT, p. 40; Tr., Nov. 30, 2022, 792:17-793:1. In 2020, however, the Company states that CIGNA, a previous insurer for Eversource, offered Aquarion medical insurance for $7,723,000, which the Company asserts is $1,571,000 less than the Company's self-insurance plan. Szabo & Unger PFT, p. 40.

While the Company asserts it experienced costs savings in employee medical insurance as a result of the merger, Aquarion did not provide any evidence with which to support that assertion. Specifically, when asked how CIGNA's bids compared with bids received prior to the merger, Aquarion responded that it does not have any analysis related to marketing done for fully insured medical plans pre-merger as the Company switched vendors and did not retain any physical reports. Late Filed Ex. 43. Accordingly, the Authority finds that the Company did not produce evidence to support its claim that Aquarion experienced cost savings in medical insurance after the merger or, if it did experience any costs savings, that the merger was directly responsible for the cost savings.

The Company also asserts it experienced $548,000 in costs savings with respect to other types of non-medical insurance, including property insurance, auto liability, excess liability, and workers compensation. Szabo & Unger PFT, p. 42; Late Filed Ex. 44, Att. 2. When the Authority requested evidence to support the claimed savings, the Company stated that it did not have any quotes, but rather based the claimed savings on Aquarion's "experience of what the policy premium was prior to the merger and the impact of consolidating policies [post] merger. Tr., Nov. 30, 2022, 800:8-21. While the Company did provide a spreadsheet showing a calculation of insurance savings, Late Filed Ex. 44, Att. 2, the corresponding narrative failed to include an explanation of or evidence for the various inputs and assumptions in the spreadsheet. Accordingly, the Authority finds that the Company did not produce sufficient evidence to support its claim that it experienced

savings in non-medical insurance costs after the merger or that, if it did experience any costs savings, the merger was directly responsible for the cost savings.

The Company indicated that the merger resulted in approximately $260,000 related to debt costs and rating agency fees. Late Filed Ex. 44, Att. 2; Szabo & Unger PFT, pp. 41-42. As with the other purported merger savings, the Company relies on a cursory description of the savings and a tabulation based on unknown and unexplained assumptions. Consequently, there is insufficient evidence in the record to support a finding that these savings will accrue.

The Company asserts it saved $76,000 annually in legal costs as a result of the merger. Late Filed Ex. 44, Att. 2; Tr., Nov. 30, 2022, 805:22-806:3. However, the general explanations provided by the Company and the submitted spreadsheet comparing external and internal legal costs for 2021 are insufficient to support a finding that the Company has been or will be saving $76,000 per year in legal costs. Among other things, there is no explanation as to why 2021 is representative of average legal costs; nor is there evidence supporting the assigned hourly rates of external or internal counsel. Accordingly, the Authority denies the Company's $76,000 in claimed savings in legal costs and removes it from overall claimed Merger Savings.

Lastly, the Company asserts it saved $108,000 by migrating Aquarion's external auditor to Eversource's auditor and by engaging Eversource's internal auditor to provide internal audit reviews, which were performed pre-merger by an external auditor. Szabo & Unger PFT, pp. 39-40; Aquarion Interrog. Resp. RRU-185, Att. 1, Supp. The general explanations provided by the Company along with a spreadsheet purporting to show audit savings is insufficient to support a finding that the Company has been or will be saving $108,000 per year, as neither provide actual evidence of savings. Among other things, while Eversource is now performing some of the audit services, there is no indication as to how much the Company is paying Eversource for such services through allocated costs or the Management Fee. Accordingly, the Authority denies the Company's $108,000 in claimed savings in audit costs and removes it from overall claimed Merger Savings.

Based on the evidence in the record, or rather the lack thereof, the Authority finds the Company has not demonstrated its claimed Merger Savings.[73]

c. Benefits of the Merger to Aquarion and Eversource Shareholders

The Authority finds that the merger benefitted Aquarion, Eversource, and their shareholders, not the Aquarion ratepayers. Specifically, any savings that did accrue to

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[73] As noted by OCC, in other merger and acquisition proceedings of financially viable companies, the companies have either not requested, or the Authority has not allowed, recovery of transactions costs. OCC Brief, p. 51; see Decision, Nov. 10, 2010, Docket No. 10-07-09, Joint Application of UIL Holdings Corporation and Iberdrola USA, Inc. for Approval of a Change of Control of Connecticut Natural Gas Corporation and The Southern Connecticut Gas Company, p. 26. ("The Department's position remains that any goodwill or acquisition adjustment and other acquisition related expenses resulting from an acquisition or a merger of a public service company will not be recorded as reductions to income for regulatory accounting purpose nor included in rates charged to customers.")

the Company by virtue of the merger also likely increased the earnings of Aquarion, which is a benefit to the Aquarion shareholders, not its ratepayers. For example, prior to the merger in 2017, Aquarion's earned ROE was 8.35%, whereas in 2018, 2019, and 2020, the Company's realized ROE was 9.44%, 8.81%, and 8.68%, respectively. Aquarion Interrog. Resp. RRU-58. When asked about the increase in Aquarion's ROE in the years following the merger, the Company stated that it was "certainly reasonable to think that some of the increase is due to synergy, but I would also think there is a lot of variables, a lot of pieces that may have led to that increase." Tr., Nov. 30, 2022, 818:1-5. The Company also agreed that in the absence of the merger, Aquarion's earned ROE would likely have been lower.[74] Tr., 819:1-5. Accordingly, the Authority finds that the increase in Aquarion's ROE was reasonably attributable to the merger and, thus, the merger benefitted Aquarion and its shareholders through increased earnings, not the Company's ratepayers.

Additionally, the Authority finds the merger benefitted Eversource and its shareholders in other ways too. In communications with its Board of Trustees, Eversource states that it viewed the acquisition of Aquarion as a "unique investment opportunity" that "provides entrance into a new, regulated utility segment and a platform for future growth." Aquarion Interrog. Resp. RRU-416, Att. 1, p. 5. The merger also furthered Eversource's strategic plan to expand into the regional water utility realm. Aquarion Interrog. Resp. RRU-416, Att. 1, p. 12; Tr., Nov. 20, 2022, 814:15-816:1, 816:4-19. Accordingly, since Eversource's acquisition of Aquarion furthered Eversource's growth strategy, to the benefit of Eversource and its shareholders, Aquarion ratepayers should not have to pay for the Company's share of Eversource's acquisition costs.

In addition, the merger benefitted Eversource as it was the most advantageous use of the proceeds from Eversource's sale of generation assets in New Hampshire as the merger would provide $0.07 in EPS in the first year. Aquarion Interrog. Resp. RRU-416, Att. 1, p. 5; Tr., Nov. 30, 2022, 813:19-24. From an EPS perspective, Eversource's investment banking advisory firm stated in its market value opinion of the merger that acquiring Aquarion is accretive compared to the alternative use of the proceeds to pay down debt, but is dilutive to EPS when compared to using the proceeds to buy back shares. Aquarion Interrog. Resp. RRU-416, Att. 1, p. 5; Tr., 813:9-13. The Company testified, therefore, that the long-term prospects of purchasing Aquarion were more favorable to Eversource than the other two options under consideration. Tr., 813:14-18. Accordingly, the acquisition of Aquarion benefitted Eversource and its shareholders, not the Aquarion ratepayers.

Lastly, the Aquarion ratepayers likely already paid for the Aquarion Merger Costs, at least in part, by paying the salaries of the Company's employees who worked on the

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[74] The Company states that as a result of the higher ROEs, it avoided coming in for a rate case sooner, which it asserts benefitted ratepayers. Tr., 819:25-820:1. The Company did, however, acknowledge that it continued to pursue a WICA surcharge increase during those intervening years. Tr., 820:5-8. Further, as discussed supra in Section III.B.2. Multi-Year Rate Plan, the Authority has previously articulated that a rate case deferral may not necessarily be to the benefit of ratepayers. See 2022 Decision, p. 11.

merger. Since, however, Aquarion employees do not track their time spent on acquisitions, including the merger at issue here, there is no way to quantify these costs. Aquarion Interrog. Resp. RRU-415; Tr., Dec. 1, 2022, 855:14-22, 855:23-856:7, 863:1-7. The Authority finds this practice to be unacceptable, and thus directs the Company to track all employee time spent on future acquisitions, including mergers. As an addendum to the Company's next rate case filing, the Company shall append an unlocked, workable Excel spreadsheet that details the requested information for each year between 2023 and the test year proposed in the next rate proceeding.

9. Inflation Adjustment

a. Inflation Rate

The Company requests a 12.150% inflation factor. Final Late Filed Ex. 1, Sch. WPC 3.19. According to Aquarion, the 12.150% inflation factor is based upon its adoption and application of the methodology (2021 CWC Rate Case Methodology) used in the 2021 CWC Rate Case Decision. Szabo & Unger PFT, pp. 33, 34.

Initially, the Company used the 2021 CWC Rate Case Methodology to calculate a composite factor and calculated a proposed composite inflation factor of 10.625%. Id., p. 34. The Company used the Gross Domestic Product Price Index (GDP-PI) from the Blue Chip Financial Forecast, Vol. 41, No. 4 (BCFF), dated April 29, 2022, to calculate the composite. Id. The Company subsequently revised the inflation factor based upon an updated BCFF dated November 1, 2022 (Aquarion Methodology). Late Filed Ex. 19.

The Aquarion Methodology develops a GDP-PI composite inflation factor that spans nine financial quarters – the period from the mid-point of the Test Year through and including the mid-point of the Rate Year (i.e., Q3 2021 through Q4 2023). Id., Atts. 1 and 2. Essentially, the Company summed up nine quarterly GPD-PI inflation factors to arrive at the 12.150% proposal.

The Authority subsequently requested that the Company update Aquarion's proposed inflation factor using the methodology approved in the 2013 Decision. Tr., Nov. 28, 2022, 410:19-411:12. The methodology from the 2013 Decision also uses the GDP-PI inflation factor but instead computes a percentage change of inflation from the mid-point of the Test Year to the mid-point of the Rate Year (i.e., compares Q2 and Q3 2021 with Q1 and Q2 2023).[75] The application of the 2013 Decision methodology to today's GDP-PI inflation figures results in an inflation factor of 6.814%. Late Filed Ex. 19, Suppl. Att. 1; Tr., Dec. 14, 2022, 74: 21-25; 77:20-25 and 78:1-6:

OCC recommends denying all proposed inflation based upon its assessment that the Company was applying inflation to O&M expenses that do not consistently increase. Defever PFT, pp. 7-8. OCC did not, however, take a position as to the validity of the method used to compute the proposed inflation rate. OCC Interrog. Resp. RRU-442, RRU-443, and RRU-444; Tr., Nov. 28, 2022, 450:20-25, 451:1-12.

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[75] The source of this data is the US Bureau of Economic Analysis (BEA) and Moody's Analytics Forecasts. Late Filed Ex. 19, Suppl. Att. 1.

The Authority rejects the Company's proposed 12.150% inflation factor derived from Aquarion's modified application of the 2021 CWC Rate Case Methodology. The Authority finds the approach is flawed because it incorrectly provides for inflation to accrue during the interim regulatory lag period dating from the first quarter of 2022 through the first quarter of 2023. Instead, the Authority finds the simple percentage change methodology used in the 2013 Decision to be appropriate for ratemaking purposes. Accordingly, the Authority adopts a 6.814% inflation rate, as the methodology is consistent with the 2013 Decision methodology, and because the accrual of inflation during the interim regulatory lag period is inappropriate for ratemaking purposes.

b. Inflation Expense Items

The Company requests recovery of an inflation adjusted expense of $3,191,826. Final Late Filed Ex. 1, Sch. WPC-3.19.

The Authority determines that the Company included expenses in Aquarion's calculation that should not be increased for inflation. Specifically, the Authority determines that $557,172 of the $21,652,752 inflation adjusted expenses ($21,091,735 + $561,017 Valley) should not be adjusted for inflation. The $557,172 consists of disallowed expenses for membership dues ($270,712), conference ($20,512), and communications expense ($265,948), which are disallowed for reasons discussed in subsequent sections. Accordingly, the Authority adjusts the expenses subject to inflation downward by $557,172 to $21,095,580.

Further, based upon the adopted inflation rate of 6.814%, the total inflation expense is reduced from $3,191,826 to $1,997,626. Therefore, the Authority reduces the Company's requested inflation adjusted expense by $1,194,200. Accordingly, the Authority allows the recovery of an inflation adjusted expense of $1,997,626 ($3,191,826-$1,194,200). The table below summarizes the changes to the inflation calculation and expense reduction.

Table 25: Approved Changes to the Inflation Calculation and Expense Reduction

Company's proposed inflation adjustment for eligible items	$21,652,752
Expenses not subject to inflation adjustment.	($557,172)
Items eligible for inflation adjustment	$21,095,580
Allowed Inflation Rate	6.81%
Inflation Adjustment for Aquarion	$1,436,609
Valley Jan.-Nov. 2022 unadjusted expenses	$561,017
Subtotal Inflation Expense	**$1,997,626**
Company's Proposed Inflation Expense	$3,191,826
Inflation Expense Adjustment	$**1,194,200**

10. Administrative and General Costs

a. Industry and Non-Industry Dues

The Company requests recovery for $210,750 in industry membership dues and $89,962 in non-industry membership dues, for a total of $300,712. Late Filed Ex. 34, pp. 1-2.

To support a prudency determination for the industry membership dues, the Company provided a dues schedule depicting the amount paid to each industry organization, invoices, and a general explanation of possible benefits the membership dues provide to Aquarion and its customers. Aquarion Interrog. Resp. OCC-19; Late Filed Ex. 34, Att. 1. When asked to quantify the benefit of the industry dues to ratepayers, however, the Company witness stated: "I don't know that I'm able to put a dollar figure on it because [I am not able to] quantify what would be the cost of not providing this…." Tr., Nov 29, 2022, 563:7-10. Additionally, a portion of the industry membership dues of at least one of the organizations "were for expenditures paid or incurred in connection with lobbying activities," for which the Company itself has no expense. Aquarion Interrog. Resp. OCC-19.

Similarly, to support a prudency determination for the non-industry membership dues, which include dues to chambers of commerce and business organizations, the Company provided a dues schedule depicting the amount paid to each organization and invoices. Aquarion Interrog. Resp. OCC-20; Late Filed Ex. 34, Att. 2.[76] The Company also stated that the non-industry organizations "work to engage and promote overall economic growth and development in the communities that they serve and in which [Aquarion] serves...," which Aquarion asserts benefits customers. Aquarion Interrog. Resp. OCC-20. While economic growth and development benefits Aquarion and its shareholders through increased growth, it is unclear how it benefits ratepayers. In addition, when asked to quantify the benefit of the non-industry dues to ratepayers, the Company witness stated: "I'm not able to quantify what the cost would be or detriment to a customer if we didn't engage in these activities. These are organizations that are in our service territories that the company supports, that our customers engage in as well." Tr., Nov. 29, 2022, 564:11-15. Accordingly, the membership dues paid to chambers of commerce and business organizations provide little, if any, benefit to ratepayers and are not needed for the Company's provision of water service.

Therefore, the Authority finds that the Company failed to demonstrate that memberships in these industry and non-industry organizations provide a quantifiable benefit, if any, to the ratepayers. Accordingly, the Authority disallows recovery of 100%, or $300,712, of the Company's requested industry and non-industry membership dues from ratepayers. The Authority does not prohibit the Company from engaging in such activities, but rather directs the Company's shareholders to bear these costs should the shareholders support such continued engagements.

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[76] One of the non-industry membership dues invoices is an invoice requesting a $7,500 contribution for an employee's corporate membership in the Housatonic Valley Association. Late Filed Ex. 34, Att. 2, p. 5.

b. Charitable Donations

The Company requests recovery of $81,491 in civic and community related activity expenses (Charitable Donations). Aquarion Interrog. Resp. OCC-11. This amount includes the $73,644 Test Year amount plus an inflation adjustment. Id.; Application, Sch. G-2.9.

The Authority finds that the Company failed to demonstrate that the Charitable Donations benefit ratepayers. For example, when asked how ratepayers benefit from donations to the Beardsley Zoo, the Company testified that it believes in supporting non-profits in Aquarion's service area. Tr., Nov. 28, 2022, 414:5-11. The Company also conceded, however, that it is ratepayers, not the Company or its shareholders, who are paying for the donations. Tr., 414:12-17. In addition, when asked about the Company's internal review process for providing such donations, the Company stated that approval for donations under $1,000 is not required as long as the donations fall within the approved operating budget. Tr., Dec. 14, 2022, 137:18-138:6; Tr. Dec. 15, 2022, 6:5-9. Further, the Authority has historically disallowed recovery of charitable donations in the Company's previous rate cases. 2013 Decision, p. 51; Decision, Sept. 8, 2010, Docket No. 10-02-13, Application of Aquarion Water Company of Connecticut for Amended Water Service Rate Schedules, p. 69; Decision, Dec. 12, 2007, Docket No. 07-05-19, Application of Aquarion Water Company of Connecticut for Amended Water Service Rate Schedules, p. 56.

Accordingly, the Authority denies recovery of the $81,491 Charitable Donations expenses, as well as the inflation adjustment associated with such expenses, from ratepayers. The Authority does not prohibit the Company from engaging in such activities, but rather directs the Company's shareholders to bear these costs should the shareholders support such continued donations.

c. Directors and Officers Liability Insurance

The Company requests recovery of the Company's share of the $35,936 policy for Directors and Officers Liability insurance (DOL Insurance) maintained by Eversource, which Aquarion includes as part of the corporate expenses for the Test Year. Final Late Filed Ex. 1, Sch. C-3.28. The $35,936 represents Aquarion's share of Eversource's DOL Insurance costs, which is then allocated to Aquarion Water Company of Connecticut at 85.64% based on the MASS Formula. Id.; Aquarion Interrog. Resp. OCC-18. The Company does not carry separate DOL Insurance. Aquarion Interrog. Resp. OCC-18.

The Authority denies recovery of the Company's share of the $35,936 policy for DOL Insurance because it is the directors and officers who are protected by and benefit from the DOL Insurance, not the ratepayers. Aquarion's shareholders, who are the ones who typically bring the cases against the officers and directors, also benefit from the DOL Insurance if the shareholders win their case and receive a payout from the insurance. Accordingly, the Authority denies recovery of 100% of Aquarion's allocated portion of DOL Insurance expense, or $31,097 (35,936*85.64%), as the Company's ratepayers are not

the beneficiaries of the DOL Insurance; rather, the direct beneficiaries are Aquarion's officers, directors, and shareholders.[77]

d. Rate Case Costs

The Company requests recovery of $1,050,320 in expenses related to this rate case. Final Late Filed Ex. 1, Sch. WPC-3.12. The Company is proposing to recover the costs over a period of five years, which results in an amortization expense of $210,064 per year. Id. In cases of expenditures that inure to the benefit of both ratepayers and shareholders, the Company must demonstrate that the cost sought to be recovered were incurred for the benefit of ratepayers.

As part of the rate case expense, the Company includes $250,000 for PURA and OCC consultants. Id. The retention of these consultants benefits ratepayers and is, therefore, recoverable. The Company also seeks recovery of transcript preparation ($35,000), administrative costs ($125,000) and Cost of Service/Rate Design costs ($69,000). The Company did not provide direct evidence that these costs benefit ratepayers; however, the Authority will split these $229,000 of costs equally and allow recovery of $114,500 from ratepayers in this instance barring further legislative direction. Finally, the Company has allocated $390,000 for outside legal costs, $104,360 for its Cost of Equity consultant, and $76,960 for its depreciation consultant. Again, the Company did not provide any direct evidence that these costs were prudent or benefitted ratepayers. Further, these consultants and lawyers represented and advocated for the positions of Company and its shareholders during the proceeding. As such, the Authority denies the recovery of these $571,320 in costs because they have not been shown to provide a benefit to ratepayers.

In sum, the Authority will allow recovery of $364,500 ($250,000 + $114,500) in rate case expenses from ratepayers. As a result, the annual amortization for rate case expenses to be recovered from ratepayers is $72,900. [$364,500 / 5 years]. This equates to a reduction of $137,164.

11. Conservation

a. Non-Revenue Water

Non-revenue water (NRW) is the difference between the volume of water produced or purchased by a company's water system and the volume of water delivered to its customers. Aquarion Interrog. Resp. OCC-85; Tr., Nov. 20, 2022, 686:25-687:8. NRW losses may be due to theft and illegal connections, water used at unmetered connections, fire hydrant usage, overflowing tanks, and water leakage within the distribution system. Tr., 689:1-20. A company can reduce NRW by implementing leakage management techniques, carrying out main replacement programs, and calibrating all large production meters on an annual basis. Id.

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[77] Both OCC and OAG recommend denial of recovery of at least 75% of DOL Insurance expense. OCC Brief, p. 44; OAG Brief, p. 14.

At a minimum, 85% of the water produced by a water system should be used to supply water to its customers. Therefore, a water system should not have more than 15% of NRW, which is the guideline recommended by the National Association of Regulatory Utility Commissioners (NARUC). Tr., Nov. 30, 2022, 691:16-692:1. All water companies should continue to initiate supply and demand management techniques to curtail high NRW levels. When a company has more than 15% NRW loss within the system, the Authority recommends that the company investigate various ways to reduce the operating cost associated with the power and chemicals required to supply the water, including the NRW.

Separate but related is the concept of unaccounted for water (UAW), which put simply is the water that cannot be accounted for; therefore, the Company discounts the NRW amount slightly given that some sources of NRW are identifiable. Tr., Nov. 30, 2022; 687:9-11. In other words, UAW is the difference between the NRW and the Company's water usage, such as flushing hydrants, flushing of the water mains, water main breaks, and any other Company water usage of the system. Aquarion Interrog. Resp. RRU-139; Tr., 687:11-22. The Company has some control over the amount of its UAW. Tr., 689: 9-15. For example, when the Company flushes its mains or when a water main breaks, Aquarion is in control and can quantify the amount of water expended during those planned or unplanned events, but the Company does not have control over the actions of fire departments or landscapers that use fire hydrants. Tr., 689:1-15. To calculate the total amount of UAW, the Company subtracts from the amount of NRW the amount of UAW over which it has control. Tr., 689:11-18. For example, in 2021, Aquarion's NRW was 15.2%, but the Company knew about a main break and the approximate usage attributable to it, and thus discounted the NRW percentage resulting in 11.8%. Application, Sch. G-6.0; Tr., 690:4-18.

The Company has not performed any specific studies of the causes of NRW in its systems. Aquarion Interrog. Resp. OCC-85. In order to reduce its NRW, Aquarion did, however, purchase and install acoustic loggers in 2020 for $774,000 as part of a pilot program. Ulrich Prefiled Test., Aug. 29, 2022, p. 20; Aquarion Interrog. Resp. RRU-117. As a result of installing loggers, Aquarion asserts it saved approximately $126,000 in 2020, and $44,000 in 2021, in cost of water production. Aquarion Interrog. Resp. RRU-117. The Company also performs leak surveys on an average of approximately 3,600 miles of main each year. Ulrich PFT, p. 18.

The Authority reviewed the impact that installing loggers has on reducing NRW and concludes that the loggers are a useful tool for leak detection, *in water deficient areas*. Although Connecticut experiences drought conditions, they are not chronic and if a drought occurs during warmer months, Connecticut usually recovers from drought conditions during cooler months. Moreover, loggers are just one of the tools used for water conservation and leak detection. Aquarion has other tools that can help to conserve water and reduce NRW, some of which are presented in the Company's water conservation plan (WCP). Application, Sch. H-3.0. As such, the Authority recommends that the Company review all options before making expensive investments, including the investment in loggers, moving forward. Specifically, as a prerequisite to cost recovery

associated with prospective logger investments, the Authority will require the Company to conduct a cost/benefit analysis of the installation of loggers compared to other leak detection tools or mitigation measures, and to submit the results of such analysis coincident with any rate amendment application through which associated cost recovery is sought.

The Company provided the five-year history of NRW and UAW for the Company as a whole, as well as for 13 of its water systems with annual production of over 20 million gallons (MG). Ulrich PFT, p. 14; Application, Sch. G-6.0. Over the past five years, the Company's systemwide NRW has ranged between a low of 13.79% (11.2 million gallons per day (MGD)) in 2016, up to a high of 19.3% (15.1 MGD) in 2019. Ulrich PFT, p. 14. Between 2019 and 2021, 48 water systems exceeded the 15% NRW threshold. Aquarion Interrog. Resp. RRU-125.

The Company's overall variable cost of production of NRW is $420 per MG, which represents the average of the variable cost metric for 2019, 2020, and 2021. Id. Aquarion allocates the cost of production of NRW to all customer classes within the cost-of-service study according to their relative average water consumption. Aquarion Interrog. Resp. OCC-86.

For each of the Company's water systems, the Authority calculated a historical five-year average NRW using data for years 2017-2021, as well as the average water produced for these same years, finding a number of water systems to have exceeded the 15% NRW threshold based on averages derived for years 2017-2021. Based on these calculations, as detailed in the below table, the Company spent $138,012 on the production of water above 15% of NRW. For many of the water systems in the following table, such as the Chimney Heights, Newtown, and Arlington Acres water systems, the Company acquired the systems and did not seek surcharges or CIAC from the customers to cover the costs to own and operate the systems. See, e.g., Decision, May 13, 2009, Docket No. 08-10-09, DPUC and DPH Joint Investigation into the Application of United Water Connecticut, Inc. to Acquire Assets of Bethel Consolidated Company, Inc.; Decision, Aug. 22, 2012, Docket No. 12-03-08, PURA and DPH Review of Joint Application of Aquarion Water Company of Connecticut, United Water Works, Inc. and United Water Connecticut, Inc. for Approval of a Change of Control of United Water Connecticut Inc. and Merger of United Water Connecticut Inc. into Aquarion Water Company of Connecticut; Decision, Jan. 30, 2019, Docket No. 17-08-10, PURA and DPH Review of the Application of the Aquarion Water Company of Connecticut and Arlington Homes, LLC, and Valleywood LLC for Aquarion Water Company of Connecticut to Acquire the Assets of the Arlington Acres and Pleasure Valley Systems. In addition, the Company does not plan to install advanced metering infrastructure (AMI), which would positively impact NRW and conservation efforts. Tr., Nov. 28, 2022, 284:3-8. Therefore, despite having ways in which to reduce NRW and its costs to customers, the Company has not done so. Accordingly, the Authority denies recovery of $138,012.

Table 26: Calculation of the Cost Associated with NRW above 15%

Water System	NRW (%)			Production (MG)		Cost ($/MG)	
	Total	Allowed	Excluded (2-3)	Total	Excluded (4x5)	Cost ($/MG)	Reduced (6x7)
1	2	3	4	5	6	7	8
Greenwich	17.86	15	2.86	5,324.6	152.3	420	63,966
Simsbury	20.38	15	5.38	755.6	40.6	420	17,052
New Canaan	21.42	15	6.42	582	37.4	420	15,708
Mystic	17.68	15	2.68	479.6	12.9	420	5,418
Ridgefield	15.76	15	0.76	333.8	2.5	420	1,050
Newtown	28.74	15	13.74	229.2	31.5	420	13,230
Lakeville/ Salisbury	17.08	15	2.08	108	2.2	420	924
Woodbury	24.0	15	9	59	5.3	420	2,226
Chimney Heights	18.5	15	3.5	67.2	2.6	420	1,092
East Derby	16.88	15	1.88	50	0.9	420	378
Norfolk	32.88	15	17.88	31.4	5.6	420	2,352
Other < 20 MG	24.78	15	9.78	356	34.8	420	14,616
Grand Total					**328.6**	**420**	**138,012**

See Application, Sch. G-6.0; Aquarion Interrog. Resp. RRU-125.

b. Deferred Conservation Expense

The Company requests approval of its deferred conservation costs in the amount of $2,996,101 to be amortized over six years. Aquarion Suppl. Interrog. Resp. OCC-151; Final Late Filed Ex. 1, Sch. C-3.18. The Authority authorized deferred regulatory asset treatment for any new conservation expenses approved in the July 6, 2016 Decision (Conservation Decision) in Docket No. 13-08-16, PURA Investigation of Water and Energy Conservation Programs Eligible for Costs Recovery during General Rate Cases,[78] and incurred prior to the company's next rate case, provided that the company "implements [such programs] and demonstrates that the expenses for such programs were reasonable and prudent." Conservation Decision, pp. 2-3 (emphasis added).[79]

[78] The Authority initiated Docket No. 13-08-16 on its own motion pursuant to Section 2 of Public Act 13-78, An Act Concerning Water Infrastructure and Conservation, Municipal Reporting Requirements and Unpaid Utility Accounts at Multi-Family Dwellings (Public Act 13-78), which required PURA to identify water and energy conservation programs that would be eligible for recovery by any water company in a general rate case, provided that the company implements them and demonstrates that the expenses for such programs were reasonable and prudent. Public Act 13-78, § 2.

[79] The Authority allowed deferred regulatory asset treatment until a formal conservation expenditure budget is established in the Company's next rate case. Id., p. 3.

The Company's deferred conservation costs consist of: (1) communication costs, including costs incurred for television ads, radio spots, social media, print media, including its Water Watch bill insert, and its website; and (2) costs incurred for pilot programs in nine towns, education and irrigation consultants, and summer help to patrol during irrigation season. Ulrich PFT, pp. 22-24; Aquarion Interrog. Resp. OCC-93; Aquarion Suppl. Interrog. Resp. OCC-151; Late Filed Ex. 41. According to the Company, the objective of its conservation program is to "protect water resources" and "change people's behaviors to reduce overall demand, reduce the strain on the environment, on the amount of water that has to be withdrawn . . . " Tr., Dec. 1, 2022, 765:6-15.

To support its request, the Company provided invoices for conservation expenses being sought for deferred treatment. Aquarion Interrog. Resp. 130, Att. 1-5; Aquarion Suppl. Interrog. Resp. OCC-151. The Company did not, however, demonstrate that 100% of the expenses are reasonable and prudent.

When asked how it assesses the efficacy of its conservation program, Aquarion testified it compares the amount of usage in the current year with the amount of water usage in the five years prior to implementation of the program. Ulrich PFT, p. 25.; Tr., Nov. 30, 2022, 763:9-20. According to the Company, the average annual reduction from 2017-2021 is 754 million gallons, or 12% of production. Ulrich PFT, p. 26; Aquarion Interrog. Resp. EOE-52. The Company also had Ms. Vickers, the same individual who Aquarion worked with to identify water conservation opportunities and who ultimately recommended the 2-day per week irrigation program, assess the success of the program. Tr., Nov. 30, 2022, 764:2-14. Predictably,[80] Ms. Vickers concluded that the program resulted in decreased water use. Late Filed Ex. 42, Att. 1, p. 96.

While the Company is able to determine whether water usage has decreased in the aggregate across its systems, it is unable to attribute these reductions specifically to its conservation program; nor does the Company have any other way in which to assess the program's success, particularly with respect to its heavy reliance on customer communication and behavioral programs. Specifically, the Company does not have any goals regarding water conservation. Tr., Nov. 30, 2022, 776:1-2. It also does not have any Key Performance Indicators (KPIs) associated with its conservation communication campaigns, which encompasses the majority of the costs of Aquarion's conservation program. Tr., 776:11-12; Final Late Filed Ex. 1, Sch. 3.18.

The Company asserts it experienced costs savings as a result of its conservation program due to both variable cost savings that result from less consumption, primarily driven by reductions in chemical and power costs, and present and future plant avoidance. Aquarion Interrog. Resp. RRU-108, EOE-52; Tr., Nov. 30, 2022, 743:18-744:6. According to the Company, it saved approximately $1.5 million in variable cost savings. Aquarion Interrog. Resp. RRU-108, EOE-52. When asked regarding savings associated with the remaining approximately $1.5 million in costs, the Company testified

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[80] The Authority notes that a long-held best practice in the energy efficiency arena is to use an independent third-party evaluation, management, and verification consultant, who is <u>not</u> the same entity or individual that designed or implemented the initial program.

that the costs savings are due to capital investment avoidance. Tr., Nov. 30, 2022, 743: 8-20. The Company was, however, unable to quantify those savings. Tr., 740:24-741:7, 742:25-743:7, 744:2-6.

Based on the foregoing, the Authority finds that only $1,498,051 million, or 50%, of the deferred conservation expenses were reasonable and prudent. Accordingly, the Authority denies recovery for $1,498,050 of the deferred conservation expenses.[81]

c. Annual Conservation Expense

The Company requests approval of an annual conservation expense of $494,629, which is based on a five-year average of costs. Final Late Filed Ex. 1, Sch. C-3.7. The annual conservation expense includes costs for conservation messaging and implementation of the two-day per week irrigation program. Ulrich PFT, pp. 26-27. The conservation messaging consists of costs for television, print, and social media advertising; automated letters sent to customers with high meter reads; and conservation kits provided to customers by request and at community events. Id., p. 26.

As discussed above, the Company's historical expenditures through its conservation program are heavily dependent on customer communications, and also include various pilot programs and consultant fees. Late Filed Ex. 41. As such, EOE questions whether the requested annual conservation expense is appropriately determined by the Company, or whether it should be adjusted downward to reflect the lessons learned from previous pilots and one-time consultant expenditures. EOE Brief, p. 12. The Authority is persuaded that the proposed amount may be inappropriate for the reasons articulated by EOE, and regardless, finds that the proposed amount is certainly inappropriately high given the dearth of detail associated with the Company's planned expenditures. Therefore, the Authority approves recovery of a $400,000[82] annual

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[81] The Company asserts in exceptions that the Authority "ignores the record evidence, including the Company's response to OCC-151 and EOE-52 and, therefore, fails the test for substantial evidence on the record to support the merits of PURA's decision." Aquarion Exceptions, pp. 68-69. As stated above, the Company provided only invoices in response to Interrogatory OCC-151 to support $ 2,996,101 in deferred conservation costs; therefore, Aquarion did not demonstrate that 100% of the expenses are reasonable and prudent. In addition, as stated above, the Company was only able to quantify cost savings associated with 50% of the deferred conservation costs and could not quantify savings for the other 50%. Aquarion Interrog. Resp. RRU-108, EOE-52; Tr., Nov. 30, 2022, 740:24-741:7, 742:25-743:7, 743: 8-744:6, 744:2-6. Accordingly, it is the Company, not PURA, that failed to meet its burden.

[82] In 2021, the Company reports that it spent approximately $525,000 on its conservation program, primarily for conservation messaging ($310,000); the remainder ($215,000) was spent on implementation of its twice-weekly irrigation program conducted in 10 towns. Ulrich PFT, pp. 26-27. In the absence of detailed projections and KPIs for the conservation expenditures moving forward, the Authority is unable to comprehensively determine the appropriate budget moving forward; however, at a minimum, the Authority is not persuaded that monies earmarked for communications should more than double expenditures on actual programs and measures. Further, the Authority reminds the Company that should it find additional opportunities for demonstrable savings through conservation expenditures, such as through the purchase of leak detection equipment, the purchase of energy efficient equipment for its company operations, etc., all such expenditures would qualify under the statutory definition of "eligible projects" through the WICA program, for which the Company could seek interim rate increases to accommodate. Conn. Gen. Stat. § 16-262v.

conservation expense; further, the recovery is conditioned on the successful completion of several items.

First, the Authority directs the Company, within 60 days following issuance of the Decision, to provide as a compliance filing projections associated with conservation expenditures to be made in the first rate year (i.e., March 15, 2023 – March 14, 2024), as well as for the subsequent two rate years.[83] Such projections should include, at a minimum, budgeted values on a per measure (or per sub-program) basis for administrative and customer incentive costs, as well as for the projected water and electricity (if applicable) savings. Second, the Authority directs the Company to provide an annual compliance filing indicating its performance against the previously submitted targets no later than June 1 following completion of the rate year. Third, no later than January 15, 2026, provided Aquarion has not filed an intervening rate proceeding, the Authority directs the Company to submit as a compliance filing annual projections associated with conservation projections for the three years commencing March 15, 2026. Such projections shall include, at a minimum, budgeted values on a per measure (or per sub-program) basis for administrative and customer incentive costs, as well as for the projected water and electricity (if applicable) savings. Fourth, the Authority advises the Company, that to the extent that it plans to seek recovery of an annual conservation expense in future rate cases, it is expected to retain an independent third-party evaluation, management, and verification (EM&V) consultant to review and assess the Company's conservation program results after every three-years of implementation, including for the expenditures authorized herein. The EM&V consultant shall not be the same consultant responsible for designing or implementing the Company's conservation program. The consultant's report shall be filed in the instant Docket as compliance no later than September 15, 2026, and every three years thereafter until the Company's next rate case proceeding.

Finally, the Authority directs the Company in its next rate case to include a breakdown of costs included in the planned annual conservation expense, as well as a cost-benefit calculation of the total conservation expense. The application shall also include invoices provided by third parties for each year of conservation expenditures incurred in the intervening years between rate cases, along with a narrative and data that compares and contrasts the authorized annual conservation expenses with actual expenditures, as well as the savings targets compared to actual realized savings.

12. Communication Expense

The Company requests recovery of $265,948 for communication expenses. Aquarion Interrog. Resp. EOE-66, Att. 1. However, the Company did not provide sufficient evidence to demonstrate that this amount is not already included in the $494,629 requested for annual conservation expenses.

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[83] Annual projections for the subsequent three years commencing March 15, 2026, shall be submitted as compliance no later than January 15, 2026, provided that the Company has not filed an intervening rate proceeding.

The Authority disallows recovery of the proposed $265,948 communications expense because the Company provides no explanation as to why it has two communications budgets, i.e., one for conservation communications and the other for corporate communications, especially when the Company stated that its communication efforts are predominantly conservation related. Aquarion Interrog. Resp. EOE-66, Att. 1 ("The majority of the Company's communication is focused on Water Conservation and Value of Water messaging."); Tr., Nov. 28, 2022, 429:4-430:11. It is therefore difficult to distinguish between the two communications budgets, or to ascertain how such expenditures are made in furtherance of the Company's statutory obligations or are in the public interest.

In addition, the Company did not demonstrate the proposed $265,948 communications expense is reasonable and prudent.[84] To support a prudency determination, the Company provided spreadsheets containing the amounts spent in 2014 through 2021 on various types of communication, such as yard signs, social media, printing, photography, and direct mail. See Aquarion Interrog. Resp. EOE-66, Att. 1, and EOE-68, Att. 1. For example, Attachment 1 to Aquarion's response to Interrogatory EOE-68 provides that in 2021, the Company paid MPX $58,725 and Payne Davidson $39,803 for "printing" services." Aquarion Interrog. Resp. EOE-66, Att. 1. This scarcity of evidence does not support a prudency determination.

In addition, while the Company does have KPIs related to the corporate communications plan that it tracks on a monthly basis (e.g., the number of impressions Aquarion makes on social media), the way in which the KPIs influence the corporate communications budget or how the Company uses KPIs to determine success of a specific communications campaign is unclear. Tr., Nov. 28, 2022, 431:6-15. Further, because the Company did not start tracking KPIs until around 2020 when it hired a manager of social media, Tr., 431:12-13, there is no historical data available to assess or to correlate certain expenditure levels to specific outcomes. Lastly, it is unclear why the Company has a separately defined corporate communications budget when it appears communication budgets are built into other non-conservation program costs as well, e.g., communications regarding LIRAP. See Tr., Dec. 1, 2022, 1040:5-14. Accordingly, the Authority denies the $265,948 communications expense.

13. Entertainment Expenses

The Company requests $37,812 for entertainment expenses in the Test Year. Aquarion Interrog. Resp. OCC-25. The $37,812 entertainment expense includes $25,000 for a Webster Bank Arena suite and $9,180 for reserved seats at the Hartford Healthcare Amphitheater, as well as a 10.625% inflation factor. Id.; Tr., Nov. 28, 2022, 412:9-12. The Company testified that employees who volunteer in the community are given first preference on tickets for both venues. Tr., 412:23-413:1.

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[84] Aquarion asserts in written exceptions that the Authority "ignores the record evidence, including the Company's responses to EOE-66 and EOE-68 and, therefore, fails the test for substantial evidence on the record to support the merits of PURA's decision." Aquarion Exceptions, p. 69. Contrary to Aquarion's assertion, the evidence provided by the Company does not demonstrate that the communication expenses are reasonable and prudent.

The Authority disallows the $37,812 entertainment expense as the suite and reserved seats are not necessary for the provision of water service. In addition, ratepayers should not pay for amenities and perks for Aquarion employees who volunteer in the community, as such service is defined as voluntary. Further, it is unclear based on the instant record whether such volunteer hours occur outside of working hours, or are incremental to the hours for which the Aquarion employees are appropriately compensated. As such, the Authority directs the Company to track the amount of time Aquarion employees spend volunteering during paid working hours as these costs are charged to ratepayers. In its next rate case application, the Company shall provide an unlocked, workable Excel spreadsheet that details the requested information for each year between 2023 and the test year proposed in the next rate proceeding.

14. Relocation Expense

The Authority denies the Company's proposed employee relocation expense of $22,500, which the Company asserts represents the Test Year expense associated with the recruitment process. Aquarion Interrog. Resp. OCC-65. Though Aquarion stated, "it is common market practice to reimburse certain candidates for the cost of relocating to the Company's service territory," the Company also conceded that there was no relocation expense during the years 2017-2020. Id. Further, the Company stated it incurred the Test Year expense for one employee only, and that said employee worked for Aquarion for less than six months; incredibly, the Company did not include any "clawback" provision associated with this expense and thus could not recover the expenditure from the separated employee. Tr., Nov. 29, 2022, 569:21-25, 570:1:13. Perhaps more egregiously, the Company did not seek any estimates for the moving expenses from multiple vendors, instead relying on the one-time expense as the basis of its request. Tr., 560:14-17. Lastly, the Company has not demonstrated that this expense will likely occur annually, as it has only occurred once in the last five years. Based on the evidence in the record, the Authority disallows the Company's relocation expense of $22,500.

15. Acquisition Adjustment Amortization

The Company requested to amortize the acquisition adjustments over three years. Final Late Filed Ex. 1, Sch. WPC-3.22. To prevent over recovery of the amortization expense, the Authority finds that five years, not three, is the appropriate period for amortizing the acquisition adjustments as it is more in line with the typical period of time between water company rate cases. In the Authority's experience, water companies do not typically file rate cases every three years, but rather tend to stay out longer (as illustrated by the instant case). This increase in the amortization period from three to five years applies to acquisition adjustments allowed in the 2013 Decision, as well as any new deferrals since the Company's last rate case. Consequently, the Authority authorizes the Company to recover the $833,173 acquisition adjustment amount over five years, which amounts to $166,635 ($833,173 / 5 years). The Authority's adjustment to the Company's revised amortization expense of $277,724 is a reduction of $111,089 ($277,724 - $166,635). Final Late Filed Ex. 1, Sch. WPC-3.22.

16. Fee Free Program

The Authority approves Aquarion's proposed Fee Free program in which the Company would eliminate the convenience fee for residential customers who pay their bills using credit and debit cards. Teixeira PFT, p. 21. Under this Fee Free program, instead of the residential customer being charged a convenience fee, the Company would cover the cost of the transaction fee in its cost of service to be recovered in rates from residential customers. Id. Aquarion modeled its program after the fee free programs approved by the Authority for other Eversource affiliates. Id.; see Decision, Apr. 18, 2018, Docket No. 17-10-46, Application of The Connecticut Light and Power Company d/b/a/ Eversource Energy to Amend its Rate Schedules, pp. 12-14; Decision, Dec. 12, 2018, Docket No. 18-05-10, Application of Yankee Gas Services Company d/b/a/ Eversource Energy to Amend its Rate Schedules, p. 16.

The Company contracts with a third-party vendor, Kubra, for payment processing. Aquarion Interrog. Resp. RRU-303. The rate Aquarion negotiated most recently is $1.95 per one-time transaction; this fee would remain the same under the Fee Free program. Id. Aquarion derived the value based on transaction fees incurred in the Test Year. Teixeira PFT, p. 26. In 2021, 42% of customers paid their bills using a credit or debit card, incurring the $1.95 transaction fee, which in aggregate totaled $271,137. Id., pp. 22-23. The Company reduced this amount by $54,207 for certain adjustments, resulting in an annual program cost of $216,930. Application, Sch. WPC-3.17, p. 1; Tr., Dec. 1, 2022, 1044:22 - 1045:1. Any under-collection of program costs incurred would be deferred for recovery in rates at the time of the Company's next rate case and any over-collection of these program costs would be credited to residential customers. Teixeira PFT, p. 27.

Aquarion indicated that the purpose of implementing the Fee Free program is solely to improve customer satisfaction. Tr., Dec. 1, 2022, 1048-49. The Company does not anticipate any cost savings in eliminating the transaction fee, Tr., 1049:18-20, nor does the Company anticipate an impact on reducing uncollectibles. Aquarion Interrog. Resp. RRU-314. In fact, the Company anticipates that the number of customers who would benefit from this program will decrease as more customers enroll in e-billing, which does not charge customers a transaction fee when paying their bills by credit or debit card. Aquarion Interrog. Resp. RRU-307. The Company anticipates customer enrollment in e-billing will increase 3% per year. Id.

In addition to improving customer satisfaction, the Company intends for the Fee Free program to benefit vulnerable customers who may pay their bills using a secured credit card, a prepaid debit card, or an Electronic Benefits Transfer (EBT) card. Teixeira PFT, p. 25. Specifically, low-income customers would benefit from saving the $1.95 when they pay their bills. Tr., Dec. 1, 2022, 1050:14-19.[85] The Company indicated that it would track the information about the Fee Free program on an annual basis using the same

[85] Customers also informed Aquarion about frustration that they must pay the transaction fee in addition to a reconnection fee when they seek to have their service restored after it has been shut off. Teixeira PFT, p. 23.

metrics approved in The Connecticut Light and Power Company d/b/a Eversource Energy and Yankee Gas Services Company respective rate cases. Teixeira PFT, p. 24. In addition to those compliance metrics, the Company stated it would track the program by other means that the Authority determined were appropriate, such as data regarding actual write-offs. Aquarion Interrog. Resp. RRU-315. Consistent with the tracking metrics implemented in the Eversource affiliate rate cases, the Authority directs Aquarion, on an annual basis, beginning March 1, 2024, to file compliance as outlined in Section X.B. Orders. As envisioned by the Company, the Fee Free program will last until the Company's next rate case, at which time the Authority will determine whether the program should be continued and in what form.

Currently, Aquarion covers the transaction fees associated with other forms of customer payments of bills. For example, customers enrolled in autopay through the Company's portal, who pay in person, or who pay through their banks do not pay a transaction fee; instead, the Company covers the fees. Tr., Dec. 1, 2022, 1047:19 - 1048:3; Late Filed Ex. 65. Such costs are already accounted for in the Company's O&M expenses. Tr., 1061:7-14. The Company stated numerous times that eliminating the transaction fee is "a normal form of doing business." Tr., 1053:6-7. Given this view of the Company absorbing the credit and debit card transaction fee, in the Company's next rate case, the Authority will consider whether the Fee Free program should exist as a standalone program when it operates like the other transaction fees the Company already covers instead of the customer.

The Company anticipates starting the Fee Free program 30 days after approval. Aquarion Interrog. Resp. RRU-306. Implementation will involve configuring Aquarion's billing system with Kubra, updating the website language and phone system, and training service technicians and customer service representatives about the new program. Tr., Dec. 1, 2022, 1058:17 – 1059:11. The Company is directed to implement the program within 30 days of the issuance of this Decision.

The Company's original Fee Free program proposal only included the cost of the $1.95 transaction fee. However, Aquarion recognizes there are additional fees that could be adjusted to better reflect the savings that are associated with implementation of the Fee Free program, such as the impact on other bill related costs (e.g., postage, bill printing, and bank fees). Late Filed Ex. 73. For example, the removal of the transaction fee may result in customers who typically pay via a check to pay with their credit card. As such, the Authority will reconcile the costs of the Fee Free program as well as its impact on other bill related costs at the Company's next rate case. Based on the facts and analysis presented by the Company, the Authority approves the proposed Fee Free credit card/debit card program, subject to the modifications discussed herein.

17. Software Maintenance, Non-SAP Costs

The Company proposed several adjustments to its Test Year level of information technology-related O&M expense. Application, Sch. WPC-3.14. The Company claimed these adjustments were known, measurable, and incremental to the costs the Company incurred during the Test Year. Tr., Nov. 29, 2022, 539.

One component of these proposed adjustments was an increase in expense of $217,277 attributable to Microsoft Office 365 (O365) software.[86] Application, Sch. WPC-3.14(2). The Company testified that the $217,277 cost of O365 should be deemed incremental to the costs incurred during the Test Year because "generally accepted accounting principles" allow Aquarion to "capitalize the first year of licenses." Tr., Nov. 29, 2022, 541-542. The Company further testified that O365 licenses were expensed as depreciation during the first year. Tr., 542.

To determine whether the O365 costs claimed by the Company were truly incremental, the Authority sought additional information that would help validate that neither O365 costs nor costs related to other similar software (i.e., software that would be redundant with O365) were embedded in the Company's test year amounts.[87] The information requested included the date the Company switched to O365. The Company did not disclose this information, nor did Aquarion make any reference to the O365 transition date in the Late Filed Exhibit it filed in response to this request. Tr., Nov. 29, 2022, 547-548, 562; Late Filed Ex. 32. Without knowing the date on which the Company made the transition to O365, it is impossible for the Authority to determine whether a full year's worth of expense was taken during the Test Year, or if a portion of the capitalized licenses remained unamortized at the end of the Test Year.

The Company was also asked by the Authority to provide the Test Year costs "related to Microsoft products or other products that Office 365 would encompass that would no longer be necessary given [the Company's] subscription to Office 365." Tr., Nov. 29, 2022, 547-548. With regard to this request, the Company appears to have provided an incomplete list of such costs. Specifically, the Company's response included a $12,800 expense reduction adjustment related to legacy Microsoft office products incurred during the Test Year, but the response did not reference any other software utilized during the Test Year that would be redundant with O365 (thereby indicating there were no examples of such software). Late Filed Ex. 32. However, based on responses from the Company during cross-examination at the hearings, there is at least one example — specifically, the virtual meeting service Zoom — of software used by Aquarion during the Test Year that would clearly be redundant with the functionality encompassed in O365. Tr., Dec. 14, 2022, 108-109. Based on the Company's responses, there is insufficient information to determine what the cost to Aquarion of this virtual meeting software was during the Test Year. Late Filed Ex. 32.[88]

The information sought, but not provided, in these requests was critical in assessing the reasonableness of the Company's adjustment. Without this information, it is not possible to reasonably conclude whether, and to what extent, the costs being

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[86] For ease of reference, this, and related figures, are shown on a pre-allocated basis. In its Application, the Company allocated 8.54% of these costs to its affiliates. Tr., Nov. 29, 2022, 549.

[87] The Company initially offered to provide this information as Read-In F at the evidentiary hearings. The Company subsequently requested to provide this information in Late Filed Ex. 32. Tr., Nov. 29, 2022, 562.

[88] While the Company claimed such costs were removed from the Company's revenue requirement, the Authority sees no evidence of this removal in the related Application schedule. Application, Sch. WPC-3.14(2); Tr., Dec. 14, 2022, 108.

sought by the Company are truly incremental to the Test Year. Accordingly, the Authority denies this adjustment and approves rate recovery for only those costs actually incurred during the Test Year. Specifically, the Authority disallows the Company's proposed adjustment made in the Application to increase its O&M expense by $217,277, and the Authority also disallows the proposed adjustment made in the Company's revenue requirement update to reduce O&M expense by $12,800. Application, Sch. WPC-3.14(2) and Late Filed Ex. 32.

In addition to the findings described above, the Authority discovered another issue related to the O365 licenses: the Company purchased dozens more O365 licenses than it has employees.[89] Specifically, as of the Application date, the Company had only 323 employees, yet the Company purchased (or, more accurately, was assigned) 358 licenses — 35 more licenses than employees. Morrissey PFT, p. 6; Late Filed Ex. 32. The Company claimed the additional licenses were appropriate in order for Aquarion to have them available for "seasonal or temp employees, consultants and the overlap required during computer refreshes." Late Filed Ex. 32. The Authority is not convinced that charging customers for dozens of excess software licenses is fiscally prudent or standard business protocol — particularly when such additional licenses would result in several thousand dollars of increased costs to ratepayers. Aquarion Interrog. Resp. OCC-184, Att. 2.

The expenses above are allocated to the Company at 86.54%. Therefore, the Authority will adjust the Software Maintenance expense downward by $176,954 [($217,277 x .8654) – ($12,800 x .8654)].

18. Bad Debt Expense

As noted in Section VIII.F.2. Rate-Related Proposals, the Authority allows $195,996 in bad debt expense, compared to the Company's request of $197,994 for bad debt expense. Final Late Filed Ex. 1, Sch. WPC-3.15. The Authority therefore adjusts bad debt expense by $1,998.

C. DEPRECIATION EXPENSE

1. Summary

The Company proposes a depreciation expense of $44,356,567. Final Late Filed Ex. 1, Sch. WPC-3.0A. The following table summarizes adjustments to the depreciation expense. The sections below provide a detailed analysis for each of the adjustments.

[89] This finding did not impact the quantification of the Authority's ultimate ruling for these costs. However, the Authority will address such incongruities between employees and software licenses in future proceedings, as necessary.

Table 27: Depreciation Expense ($)

Company Proposed	**44,346,567**
Authority Adjustments	**(6,745,696)**
General Plant Reserve Adj.[90]	(577,287)
Service Life and Net Salvage	(4,286,456)
Plant-in-Service Adjustment	(1,881,953)
Total	**37,600,871**

2. Depreciation Study

Aquarion filed a depreciation study related to the utility plant-in-service as of December 31, 2021. Allis Prefiled Test., Aug. 29, 2022, Ex. A-7-NWA-3 (Aquarion 2021 Study). Aquarion's 2021 Study employed a depreciation system composed of the straight-line method, average service life procedure, and remaining life technique. Allis PFT, Ex. A-7-NWA-1, p. 4. Ned Allis of Gannett Fleming Valuation and Rate Consultants, LLC (Gannett Fleming) performed Aquarion's 2021 Study. Id., p. 1.

The application of the present depreciation rates to the depreciable plant-in-service as of December 31, 2021, results in an annual depreciation expense of $44,128,798. Id., p. 2. In comparison, the application of the proposed rates to the depreciable plant-in-service as of December 31, 2021, results in an annual depreciation expense of $41,322,676, which represents a decrease of $2,806,122 from current rates. Id. The composite annual depreciation rate under present rates is 2.78%, while the proposed December 31, 2021 composite depreciation rate is 2.60%. Id.

In preparing the Aquarion 2021 Study, Gannett Fleming utilized actual Company data to investigate and analyze historical plant data to determine the remaining plant asset lives. Allis PFT, pp. 5-6. The Aquarion 2021 Study applied the Retirement Rate method to analyze the Company's service life data sorted by age to develop a survivor curve for each account. Id., p. 6. For every account, a survivor curve served as the basis on which smooth curves (standard Iowa Curves) were fitted to determine the average service life (ASL) being experienced by the property account under study. Aquarion 2021 Study, pp. 54-194.

3. Amortization of General Plant Reserve

The Company recommends a five-year amortization to adjust the reserve for the amortization accounts because "[t]his approach will achieve consistent amortization rates for existing assets as well as future assets and is consistent with the approach previously adopted by PURA for The Connecticut Light and Power Company and Yankee Gas Services Company." Allis PFT, p. 11.

OCC contends an adjustment or accounting order from the Authority is necessary in this rate proceeding to ensure that ratepayers receive the appropriate accounting of

[90] In the Proposed Final Decision, this table included an error. The Authority is increasing the amortization period of the $5,872,822 unrecovered reserve from the proposed five years to ten years; therefore, the depreciation expense should be reduced by $577,287 to account for the longer amortization period.

this reserve adjustment. Instead of the five-year period suggested by the Company, OCC recommends a 10-year amortization of the unrecovered reserve adjustment. OCC Brief, p. 54. OCC argues that a ten-year amortization more closely follows the period for which Aquarion has performed new depreciation studies in rate cases. Id.

The Authority finds that the ten-year amortization period to adjust the reserve for the applicable general plant accounts proposed by OCC is reasonable in this proceeding. The Authority will continue to review the general plant reserve amortization issue on a case-by-case basis in future rate cases and recognizes that longer amortization periods may be appropriate in some cases. The ten-year amortization period results in a $577,287 increase to depreciation expense, as opposed to the five-year amortization, which results in $1,154,573, or a reduction of $577,287 as shown in the table below.

Table 28: General Plant Reserve Amortization ($)

	Company Proposed	PURA Finding	Adjustment
General	5,872,822	5,872,822	0-
Unrecovered Reserve	1,154,573	577,287	(577,287)

4. Depreciation Rates

a. Service Life

For service life estimates, the Aquarion 2021 Study relies on original life tables (OLT), which can be displayed in the form of an original survivor curve (OLT curve). See Aquarion 2021 Study, pp. 54-194. The exposures at the beginning of the age interval are obtained from the corresponding age interval of the exposure schedule, and the retirements during the age interval are obtained from the corresponding age interval of the retirement schedule. The retirement ratio is the result of dividing the retirements during the age interval by the exposures at the beginning of the age interval. The percent surviving at the beginning of each age interval is derived from survivor ratios, each of which equals one minus the retirement ratio. The percent surviving is developed by starting with 100% at age zero and successively multiplying the percent surviving at the beginning of each interval by the survivor ratio, i.e., one minus the retirement ratio for that age interval. Id., p. 26.

The smoothing of the original survivor curve eliminates any irregularities and serves as the basis for the preliminary extrapolation to zero percent surviving of the original stub curve. In the Aquarion 2021 Study, the smoothing of the original curve with established type curves was used to eliminate irregularities in the original curve. The Iowa type curves are used in the Aquarion 2021 Study to smooth those original stub curves, which are expressed as a percent surviving at ages in years. Each original survivor curve can be compared to the Iowa curves using visual and mathematical matching in order to determine the better fitting smooth curves. Id., p. 28.

The Authority has conducted visual and mathematical analyses of the Iowa curves selected by Gannett Fleming to represent the service lives and depreciation rate

calculations for each depreciable account included in the depreciation study. The Authority finds that the methods, procedures, and depreciation system relied upon by the Company are generally reasonable; however, based on the Authority's analysis, the service life estimates proposed in the depreciation study for five accounts are unreasonably short given the historical data upon which the service life estimates were based. The five accounts impact three categories of assets (source of supply plant, pumping plant, and transmission and distribution plant). The table below presents a summary of the Iowa curves proposed by the Company and those determined by PURA to more accurately reflect the service life for those accounts.

Table 29: Aquarion and PURA Iowa Curve Comparison

Account No.	Description	Company Iowa Curve	PURA Iowa Curve
	SOURCE OF SUPPLY PLANT		
312.00	COLLECTING AND IMPOUNDING RESERVOIRS	S0 - 75	R0.5 - 84
316.00	SUPPLY MAINS	S3 - 65	S3 - 75
	PUMPING PLANT		
325.00	ELECTRIC PUMPING EQUIPMENT	S1.5 - 30	S1.5 - 33
	TRANSMISSION AND DISTRIBUTION PLANT		
342.00	DISTRIBUTION RESERVOIRS AND STANDPIPES	R3 - 65	R3 - 75
343.00	TRANSMISSION AND DISTRIBUTION MAINS	R3 - 65	R4 - 65
346.00	METERS	L3 - 14	L3 - 17

For each of these accounts, the Iowa curve adopted by PURA results in a closer mathematical fit to the observed retirement data presented in the OLT curve for each account. The Authority finds that, for each of these accounts, the Company did not present sufficient evidence beyond the statistical analysis to warrant a material deviation from the service lives indicated by the historical statistical data. As demonstrated in the figures, the Iowa curve selected by the Authority more reasonably correspond to the OLT curves for each of these accounts.

Figure 4: Account 312.00 – Collecting and Impounding Reservoirs

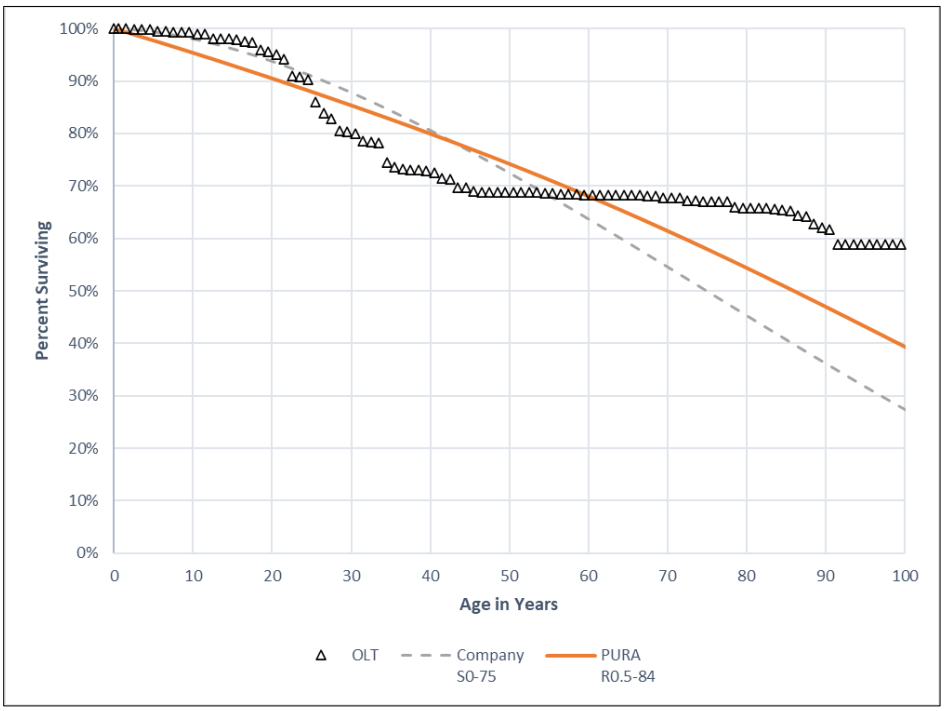


Figure 5: Account 316.00 – Supply Mains

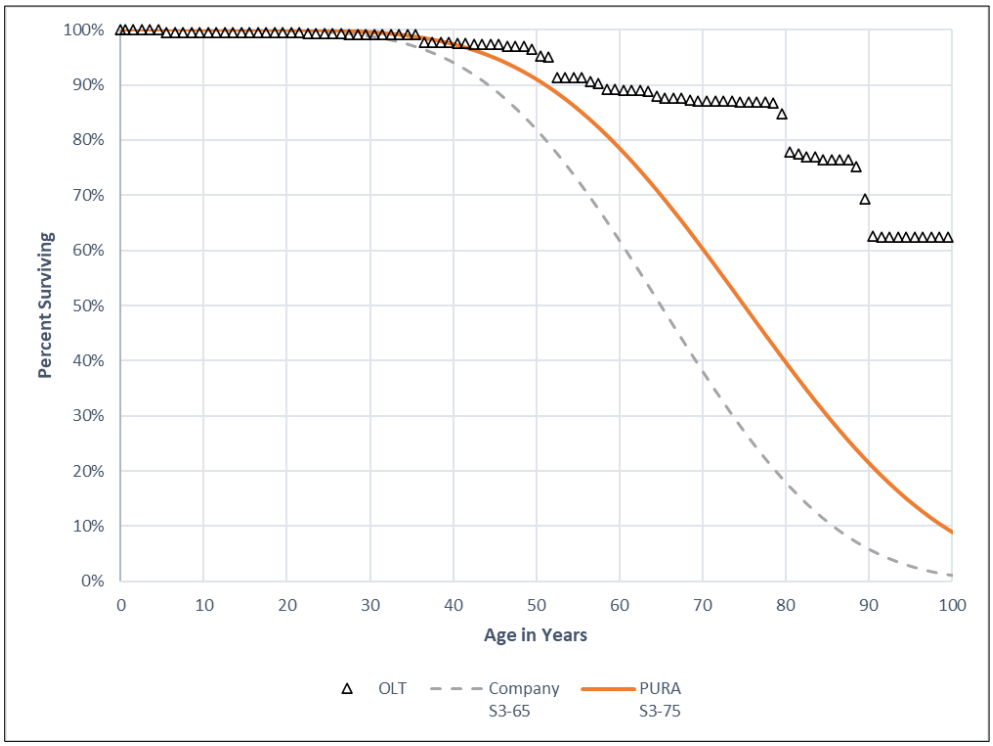


Figure 6: Account 325.00 – Electric Pumping Equipment

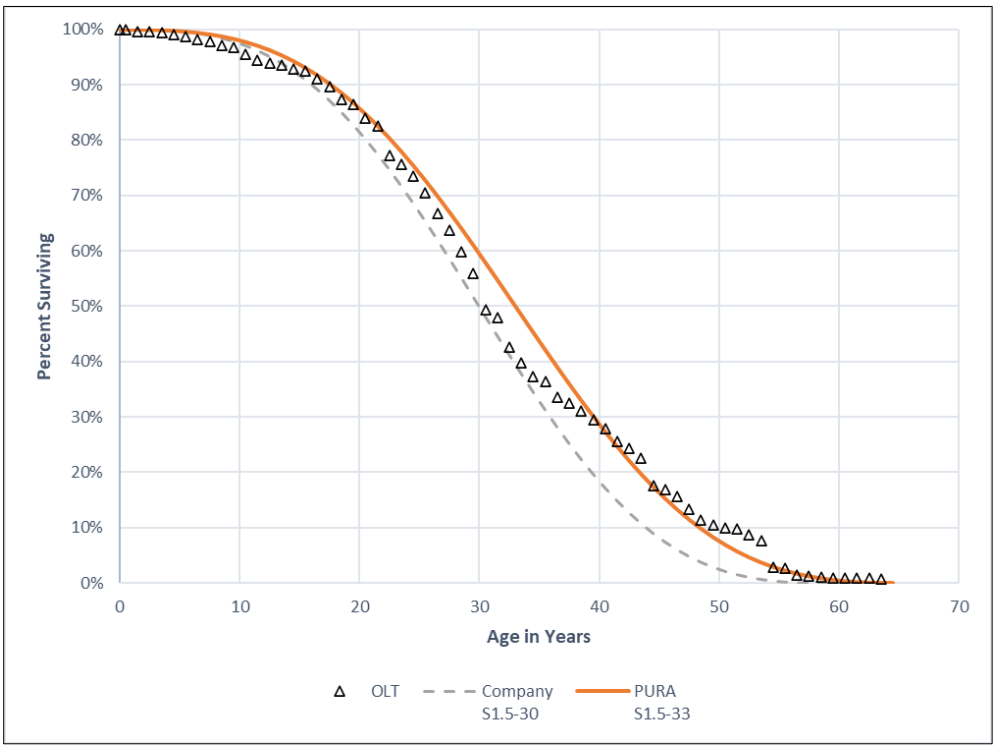


Figure 7: Account 342.00 – Distribution Reservoirs and Standpipes

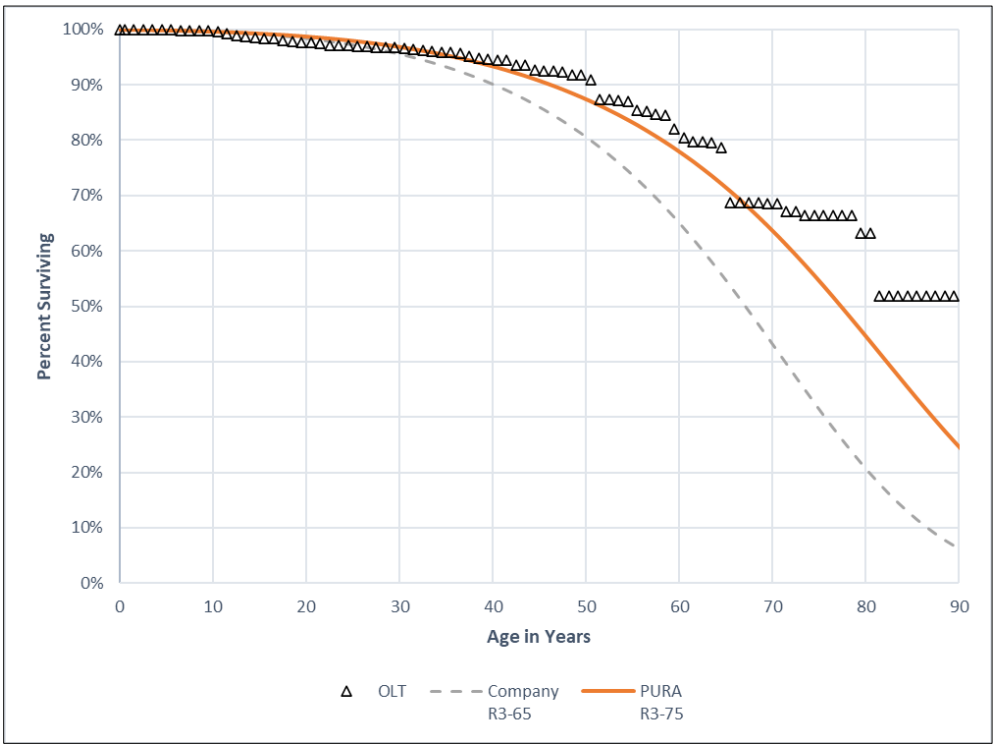
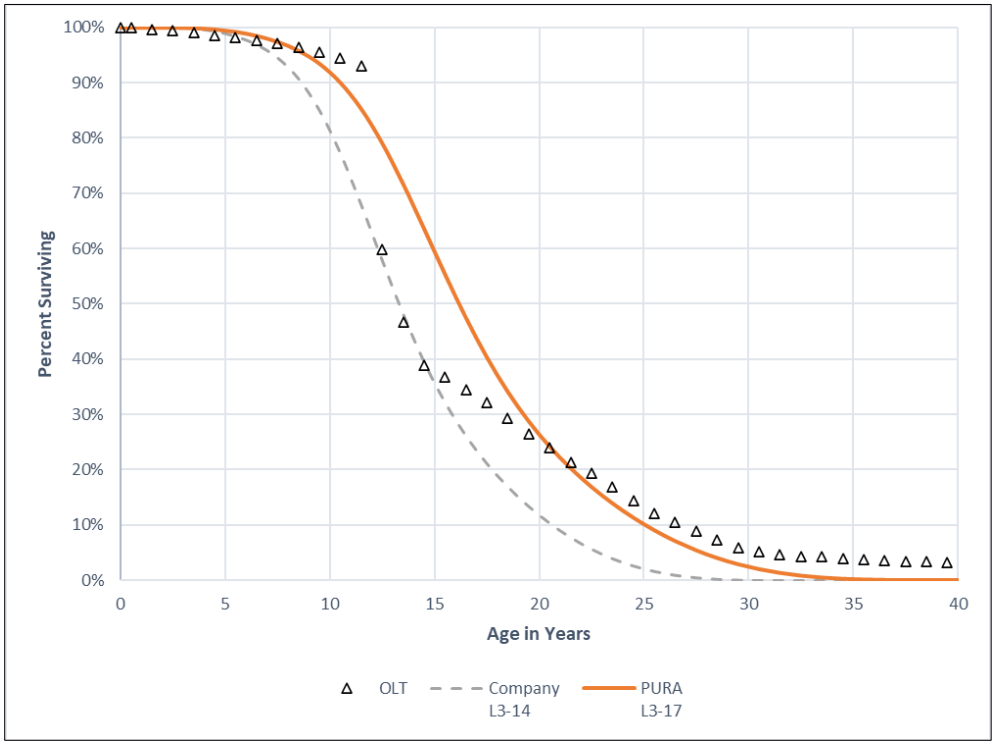


Figure 8: Account 346.00 – Meters



The primary reason the Iowa curves presented here are more reasonable than those proposed by the Company is that they result in mathematically closer fits to the observed OLT curves for each account. Specifically, the distance between each point on the OLT curve and the Company's proposed Iowa curve is longer than the distance between the OLT curve and the Iowa curves adopted by the Authority.

Applying these more reasonable Iowa curves to these accounts results in a reduction to the Company's proposed annual depreciation expense.[91]

b. Net Salvage

Net salvage is the gross salvage less the cost of removal. The estimates of future net salvage are expressed as percentages of surviving plant in service. In cases in which removal costs are expected to exceed salvage receipts, a negative net salvage percentage is estimated. Aquarion 2021 Study, p. 39. The Company's analyses of

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[91] The Company objects to the Authority selecting different Iowa cures and net salvage rates, stating that "[i]f the Company was aware that PURA wanted to use different survivor curves [or net salvage rates], the Company <u>would have provided an explanation</u> as to why the survivor curve [or net salvage rate] it was proposing was the most appropriate curve for that individual account." Aquarion Exceptions, pp. 61-62 (emphasis added). This statement exemplifies the Company's misunderstanding of its evidentiary burden in a rate case. The Company had the burden and obligation from the outset of this proceeding to explain "why the survivor curve [or net salvage rate] it was proposing was the most appropriate curve for that individual account." This obligation does not arise only when a party, intervenor, or the Authority questions the Company. The Company's acknowledgment that it "would have provided an explanation" is a de facto admission that it did not do so in this proceeding.

historical costs of removal and salvage data are presented in the Aquarion 2021 Study. Id., pp. 195-219.

The Authority conducted an analysis of the historical net salvage data presented in the Aquarion 2021 Study and determines that the net salvage estimates proposed in the Aquarion 2021 Study for nine accounts are unreasonably low given the historical data upon which the net salvage estimates were based. These nine accounts affect four categories of assets (source of supply plant, pumping plant, water treatment plant, and transmission and distribution plant). The results of the analysis are presented in the table below.

Table 30: Net Salvage Rates

Account No.	Description	Company Salvage	PURA Salvage
	SOURCE OF SUPPLY PLANT		
312.00	COLLECTING AND IMPOUNDING RESERVOIRS	-25%	-16%
314.00	WELLS AND SPRINGS	-15%	-3%
316.00	SUPPLY MAINS	-10%	0%
	PUMPING PLANT		
325.00	ELECTRIC PUMPING EQUIPMENT	-15%	-5%
326.00	DIESEL PUMPING EQUIPMENT	-10%	0%
328.00	OTHER PUMPING EQUIPMENT	-10%	0%
	WATER TREATMENT PLANT		
332.00	WATER TREATMENT EQUIPMENT	-10%	-7%
	TRANSMISSION AND DISTRIBUTION PLANT		
343.00	TRANSMISSION AND DISTRIBUTION MAINS	-15%	-2%
348.00	HYDRANTS	-10%	-4%

For each of these accounts, the negative net salvage rate proposed in the Aquarion 2021 Study is greater than the negative net salvage rate observed over the past five years. Conversely, each of the net salvage rates listed under the “PURA Salvage” header in the above table equates to the most recent five-year average net salvage rate.

Aquarion 2021 Study, pp. 197, 199, 200, 204, 205, 206, 208, 211, 215. The Authority finds that, for each of these accounts, the Company did not present sufficient evidence beyond the statistical analysis to warrant a material deviation from the service lives indicated by the historical statistical data. Accordingly, the Authority determines that the net salvage rates in this case are more appropriately determined to coincide with the most recent five-year average net salvage rates for the accounts in question.

c. Adjustment to Depreciation Expense

Based on the adjustments to the Iowa curves and salvage rates, the Authority adjusts the Company's depreciation expense. The table below summarizes the adjustments.

Table 31: Service Life and Net Salvage ($)

Plant Function	Plant Balance 12/31/2021	Company Accrual	PURA Finding	Adjustment
Source of Supply	131,192,586	3,202,230	2,662,484	(539,746)
Pumping	114,824,883	3,176,177	2,790,724	(385,453)
Water Treatment	302,443,904	7,313,874	7,088,437	(225,437)
Trans. and Dist.	948,994,303	20,603,000	17,467,180	(3,135,820)
Total Depreciation	**$ 1,587,195,960**	**$ 41,322,676**	**$ 37,056,548**	**$ (4,286,456)**

The table below summarizes the adjustments made by account.

Table 32: Depreciation rates by Account

		COMPANY POSITION		PURA FINDING	
ACCT NO.	DESCRIPTION	DEP. RATE	ANNUAL ACCRUAL	DEP. RATE	ANNUAL ACCRUAL
	SOURCE OF SUPPLY PLANT				
312.00	Collecting and Impounding Reservoirs	1.85%	$1,470,829	1.37%	$ 1,090,278
314.00	Wells and Springs	3.43%	$723,168	2.90%	612,793
316.00	Supply Mains	1.71%	$172,305	1.23%	123,580
	PUMPING PLANT				
325.00	Electric Pumping Equipment	2.91%	$2,081,015	2.41%	$1,722,762
326.00	Diesel Pumping Equipment	3.50%	$55,420	2.59%	$40,982
328.0	Other Pumping Equipment	3.91%	$105,231	3.46%	$92,989
	WATER TREATMENT PLANT				
332.00	Water Treatment Equipment	2.71%	$4,907,492	2.59%	$4,680,578
	TRANSMISSION AND DISTRIBUTION PLANT				
342.00	Distribution Reservoirs and Standpipes	2.17%	$1,279,773	1.79%	$1,056,189
343.00	Transmission and Distribution Mains	1.75%	$12,019,260	1.48%	$10,209,193
346.00	Meters	8.16%	$3,515,938	5.72%	$2,463,678
348.00	Hydrants	2.34%	$539,370	2.14%	$491,993

D. ADJUSTMENT TO PLANT-IN-SERVICE

The Company's depreciation expense is calculated based on the Company's plant additions through December 15, 2022; however, as discussed in Section IV.B.2. Pro Forma Plant Additions, the Authority will only include in rate base plant additions completed as of August 31, 2022. Consequently, the Company's depreciation expense must be adjusted to reflect the allowed rate base. Specifically, the Authority will decrease the Company's depreciation expense by $1,881,953, which is the Authority allowed depreciation expense of $1,282,609 for plant through August 31, 2022, as opposed to the Company requested depreciation expense of $3,164,562 for plant through December 15, 2022. Final Late Filed Ex. 4.

E. TAXES

1. Payroll Tax

The Company requests $2,213,635 as a payroll tax expense. Final Late Filed Ex. 1, Sch. WPC-3.23. As a result of the reduction in allowed FTEs to 323, the Authority authorizes a $2,004,219 payroll tax expense, which is a reduction of $209,416 ($2,213,635-$2,004,219) to the Company's request.

2. State Tax

The Company requests $4,042,930 as a state tax expense. Final Late Filed Ex. 1, Sch. WPC-3.25. The Authority has made tax impacted adjustments equaling $8,145,310, which when multiplied by the 8.25% Connecticut Business Tax (CBT) rate create an additional CBT of $671,988 and increases pro forma CBT to $4,714,918. The Authority has reduced the Company's request by $37,274,053, which when multiplied by 8.25% results in a CBT reduction of $3,075,109 and an allowance for CBT of $1,639,809 ($4,714,918 - $3,075,109). When measured against the Company's request of $4,042,930, this is a reduction of $2,403,121.

3. Federal Tax

The Company requests $6,949,815 as a federal tax expense. Final Late Filed Ex. 1, Sch. WPC-3.26. The Authority has made tax impacted adjustments equaling $8,145,310, which when multiplied by the 8.25% CBT rate generates $671,988 of increased CBT. When determining the FIT, the CBT of $671,988 is subtracted from the overall adjustments of $8,145,310 as CBT is deductible in the determination of FIT ($8,145,310-671,988=$7,473,322). The remaining $7,473,322 is then multiplied by the 21% FIT rate, which creates an additional FIT of $1,569,398 and an increase in pro forma FIT to $8,519,213. When the CBT of $3,075,109 in Section VI.E.2. State Tax is subtracted from the Authority's $37,274,053 reduction to the Company's revenue request, and then that amount is multiplied by the 21% FIT rate, the result is a FIT reduction of $7,181,778 (($37,274,053)-$3,075,109)(21%)) and an allowance for FIT of $1,337,434 ($8,519,213 - $7,181,778). When measured against the Company's request of $6,949,815 as a federal tax expense, it results in a reduction of $5,612,381 ($6,949,815-1,337,434).

4. Excess Accumulated Deferred Income Taxes

When the 2017 Tax Cuts and Jobs Act (Tax Act) reduced the corporate tax rate from 35% to 21%, there was a corresponding reclassification of deferred taxes the Company had accumulated on its books as of the date of the change in the tax law. Tr., Nov. 28, 2022, 315-316. This reclassification resulted in a category of deferred taxes called Excess Accumulated Deferred Income Taxes (EADIT). Tr., 315. EADIT represent funds collected from Aquarion customers in the past that are now owed back to customers based on the reduction of the corporate tax rate. Id. There are two categories of EADIT: (1) Protected EADIT and (2) Unprotected EADIT. Szabo & Unger PFT, p. 37. The table below summarizes the EADIT amounts claimed by the Company.

Table 33: Unamortized EADIT as December 31, 2021

	Protected	Unprotected	Total
Aquarion	($49,750,714)	($1,020,029)	($50,770,743)
Valley	($636,100)	$0	($636,100)
Total	**($50,386,814)**	**($1,020,029)**	**($51,406,843)**

Application, Sch. WPC-3.16.

While both categories of EADIT are similar in that they represent amounts owed back to customers, the speed in which these different categories of EADIT can legally be refunded to customers is different. Tr., Nov. 28, 2022, 316-17. IRS normalization provisions restrict how quickly Protected EADIT may be refunded to customers, while there are no such restrictions for Unprotected EADIT. Szabo & Unger PFT, p. 37. The additional restrictions placed on the timing of when Protected EADIT may be refunded to customers make the categorization of EADIT critically important to all stakeholders, including customers. Tr., Nov. 28, 2022, 317-18. Specifically, due to these IRS restrictions, Protected EADIT is refunded to customers more slowly than Unprotected EADIT. Tr., 317.

Here, the Company proposes to refund Protected EADIT to customers over an approximately 20-year period and to refund Unprotected EADIT over a four- to five-year period. Application, Sch. WPC-3.16. The Company's aggregate annual amortization is ($2,804,852). The table below provides the amortization periods and annual amortization amounts for the EADIT liability proposed by the Company.

Table 34: Proposed Amortization of EADIT

	EADIT Liability	Amortization Period	Annual Amortization
Depreciation	($49,750,714)	19.41	($2,563,149)
FCIC	($822,043)	5	($164,409)
Other	($197,986)	4	($49,497)
	($50,770,743)		($2,777,054)
Valley Division			
	($636,100)	22.8825	($27,799)
Total	**($51,406,843)**		**($2,804,852)**

Application, Sch. WPC-3.16.

Approximately 98% ($50,386,814 of $51,406,843) of the Company's claimed EADIT has been categorized by the Company as Protected EADIT. Application, Sch. WPC-3.16.

The Company has the burden of proving that its rates are just and reasonable. Conn. Gen. Stat. § 16-22. In order for a public service company to adequately satisfy the burden of proof standard, the Authority concludes that a necessary (though not necessarily sufficient) condition is that the subject company provides witnesses who are adequately experienced and knowledgeable in the subject areas they sponsor. The Company chose not to provide such a witness for this proceeding. Even though the EADIT is a highly complex and unusual tax issue that has significant consequences to ratepayers, the Company offered no tax expert to support its EADIT quantification and categorization. See Tr., Nov. 28, 2022, 314, 321:8. Nor was the sponsoring witness involved in calculating the EADIT. Tr., 318:22-319:1. The Company also did not produce a witness who could provide a reliable description of the EADIT workpapers (i.e., the documentation that memorialized the calculation of the EADIT). Tr., 319:12-24. The Authority is not critical of the individual Company witness who sponsored this subject area; rather, the Authority's critique is targeted at the Company for choosing not to utilize alternative Company personnel (e.g., the Company's Director of Taxes) who are experts in the field of taxation, and, thus, would have presumably been able to adequately respond to the Authority's inquiries related to this issue.

In addition to not producing an appropriate witness, there were multiple instances in which the Company provided either inaccurate or incomplete responses to interrogatory requests related to its EADIT proposal. For example, Interrogatory RRU-221, subpart b, asked the Company to provide "Any and all workpapers that were developed and relied upon for purposes of establishing the EADIT regulatory liability." It was later discovered that the Company had not provided all workpapers with its original response. Late Filed Ex. 12. While the Company provided additional workpapers in a subsequent filing, the sponsor of the supplemental response was the same witness who explicitly stated that she was not a tax expert during the evidentiary hearings. Aquarion Interrog. Resp. RRU-221; Late Filed Ex. 12; Tr., Nov. 28, 2022, 314, 321:8. Thus, although the Company ultimately provided additional documentation related to its EADIT

calculation (several weeks after the initial response was due), it failed to produce a tax expert who could corroborate these calculations.[92]

In summary, based on the record evidence in this proceeding, the Authority finds that the Company has not adequately met its burden of proof with regard to its quantification and categorization of the EADIT.

The Authority finds it appropriate to begin returning some portion of EADIT to customers as a result of this proceeding. Therefore, the Company shall return over a five-year period the unprotected EADIT balance of $1,020,029, or an annual amount of $204,006. The resulting adjustment to EADIT amortization is $2,600,846 ($2,804,852 - $204,006).

For the protected EADIT, the Authority directs the Company to engage an independent third-party accounting firm (i.e., not the Company's current financial statement auditor) to perform a review to vet both the quantification and categorization of the Company's claimed protected EADIT. The Authority orders this review to be conducted as an agreed-upon procedures engagement in accordance with the attestation standards established by the American Institute of Certified Public Accountants. The Authority directs the Company to have the review conducted and results of the review submitted to the Authority for review and approval no later than one year after issuance of the Decision. Because this review is necessitated by the failure of the Company to substantiate its burden herein to the detriment of ratepayers, the cost of this review shall not be recoverable in rates. Upon satisfactory completion of the third-party review, the Authority will determine the appropriate method for returning the unamortized EADIT back to customers, which may include, but is not limited to, an immediate return to customers either through a distribution bill credit, a credit adjustment in the RAM calculation, or continuation of the regulatory liability until the Company's next rate case. The Authority further orders that the EADIT liability shall accrue carrying charges at the WACC rate until it is returned to customers.

5. Summary of Tax Adjustments

Based on the foregoing, the Authority determines that the reasonable and appropriate tax adjustments are as follows:

Table 35: PURA Determined Tax Adjustments ($)

Payroll Tax	(209,416)
State	(2,403,121)
Federal	(5,612,381)
EADIT Amortization	2,600,846
Total	**(5,624,072)**

[92] The Company also provided no explanation for why the full set of workpapers were not produced with its original response, even though such an explanation was explicitly requested by the Authority. See Aquarion Interrog. Resp. RRU-221; Tr., p. 320; Late Filed Ex. 12.

VII. APPROVED REVENUE REQUIREMENT

The table below summarizes the various components of the Company's approved revenue requirement, as adjusted by the Authority, and provides the total approved revenue requirement for the rate year.

Table 36: Approved Revenue Requirement

Section in Decision	Component	Amount
	Cost of Capital	
IV	Rate base	991,669,882
V	WACC	6.46%
	Subtotal	**64,061,874**
	Allowable Expenses	
VI.B	Operations & Maintenance	68,837,497
VI.C	Depreciation Expense	37,600,871
VI.B.14	Acquisition Adjustment	166,635
VI.E	Taxes	
	Taxes, Sales and Payroll	2,004,219
	Property Taxes	17,312,504
	State Taxes	1,639,809
	Federal Taxes	1,337,434
VI.E.4	EADIT Amortization	2,600,846
	Total Revenue Requirement	**195,561,690**

VIII. RATE DESIGN

A. SALES FORECASTS AND REVENUE

In order to determine the sales and estimated revenues the Company would achieve during the rate year, Aquarion used its 2021 Test Year billing determinants and applied adjustments in customer growth and usage per customer across residential, commercial, industrial, and public authority rate classes. Application, Sch. E-5.4. Projected annual growth adjustments to the Test Year data were based on actual usage data over a four-year average using data from 2017, 2018, 2019, and 2021. Id., p. 2. For usage adjustments, the Company excluded 2020 because usage patterns across rate classes were impacted by the COVID-19 pandemic. Aquarion Interrog. Resp. RRU-253.

Aquarion asserts that its current rates are insufficient to recover the cost of providing safe and reliable service to its customers. Szabo & Unger PFT, p. 5. The Company attributes capital improvements placed into service since the Company's 2013 Rate Case as the primary driver of the revenue deficiency under its current rates. Id. According to the Company, the incremental revenue deficiency is approximately $27.5 million for the Rate Year. Id., p. 10. The Company provided an exhibit that compared current rates and revenues to the proposed rates and revenues for Rate Year 1 by rate

class, division, and for the total company. Application, Sch. E-5.1A, p. 5. Under current rates, total retail revenues were approximately $198.25 million. Under the Company's proposed Rate Year 1 rates, the projected revenues totaled approximately $225.75 million, a difference of $27,497,825. Id.

The Company's Application included an exhibit that identified its miscellaneous service revenues. Application, Sch. E-5.2A, p. 94. In that exhibit, Aquarion identified pro forma and proposed revenues of $546,925 in fees collected for late payment charges (LPC). Id.

The Authority examined the Company's Rate Year 1 forecast growth and usage adjustments. The Authority determines that the 2020 usage data was atypical as the impact from the pandemic influenced the increase or decline in water usage depending on rate class when compared to years 2017-2019 and 2021.[93] The Authority accepts the usage adjustments for the rate year as reasonable.

B. COST ALLOCATION

The Company's Cost of Service Study (COSS) utilized the Base-Extra Capacity method. Under this method, the various cost elements are assigned to the following cost functions: Base, Extra Capacity (maximum day and peak hour), and Customer (meters/services and billing and accounting) costs. Guastella Prefiled Test., Aug. 29, 2022, pp. 2-3. This methodology identifies and classifies the various cost components that comprise the revenue requirement, functionalizes those cost components according to the general design criteria and operation of a water utility, and allocates the functionalized costs to the customer classes. Id., p. 2.

The COSS included multiple schedules that supported the cost allocations for the functions described above. Id., Exhibit A-6-JFG-2 (COSS). The below table summarizes the revenue requirements data from Schedule 1 of the COSS and includes a PURA-calculated percentage of revenue contribution for each rate class.

[93] The 2020 usage data reflected higher residential usage across its divisions and lower commercial usage across its divisions compared to the four-year average for years 2017-2019 and 2021. Aquarion Interrog. Resp. RRU-253, Att. 1; Tr., Dec. 1, 2022, 893:1-18.

Table 37: Revenue Requirements ($) and Rate Class % Contribution

Customer Class	Revenue Requirement	Percentage of Revenue Requirement
Residential (single)	$123,480,146	57.9%
Multi-Family	22,155,898	10.4%
Commercial	33,474,143	15.7%
Industrial	3,991,930	1.9%
Public Authority	5,891,047	2.8%
Fire Services (capacity & hydrants)	24,238,369	11.4%
Total	**$213,231,533**	**100%**

COSS, Sch. 1.

Generally, OCC found the Company's COSS to be reasonable and agreed with Aquarion's use of the Base-Extra Capacity cost methodology. Mierzwa Prefiled Test., Oct. 26, 2022, p. 6. One notable exception, however, is that OCC faulted the Company for understating the base consumption volumes for fire protection and recommended that the volumes be updated from 620,000 gallons to 2,539,750 gallons based on 2021 actual data to reflect Aquarion's actual recent experience. Id., p. 7; Aquarion Interrog. Resp. OCC-82. Aquarion's COSS witness testified that he disagreed with the adjustment on the base fire protection volume based on the use of maximum flow and over a period of time, and using hydrant flushing water as part of the fire rate. Tr., Dec. 1, 2022, 900:8-12. In response, OCC's witness stated that he disagreed because the Company's response to OCC-82 indicated that the use was for firefighting, training, and testing, and not for hydrant flushing. Tr., 998:12-99:3.

According to OCC's calculations, this base volume adjustment would increase fire protection costs by an additional $1,126,148, or approximately 4.6%. Mierzwa PFT, p. 8, Table 1. With this adjustment, OCC's revised total cost of service mirrored the Company's at $213,231,533. Id. No further adjustment was necessary to the fire protection revenue allocation as the Company's initially proposed rates still recover revenues slightly in excess of the indicated cost of service. Id., pp. 10-11. To summarize, despite its cost-of-service modifications, OCC recommends that the Authority accept the total revenue allocation amount proposed by the Company.

In assessing the Company's proposed COSS, the Authority is guided by the principle of cost causation and how well the study assigns costs to the customers that cause them. One way that cost causation can be approximated is by determining the functions certain costs tend to support and allocating those costs to the customer classes that utilize those functions. This principle is adhered to within the Base-Extra Capacity method.

The Authority reviewed the Company's COSS and compared the cost allocation and revenue contributions by rate class between current rates, the COSS, and proposed rates. Absent a major known change to a particular rate class, the Authority would expect

relative consistency between the cost allocations. Indeed, a comparison of the COSS schedules by rate class for total Company level reflects consistency between revenue contributions from current rates, design rates, COSS proposed rates, and application proposed rates as shown in the table below.

Table 38: COSS Schedules Revenue Contribution Percentages Compare

	Current Rates %	Designed Rates %	COSS Proposed Rates%	Application Proposed Rates
Residential	64.0	65.8	65.2	65.2
Commercial	15.1	15.0	14.8	14.8
Industrial	1.8	1.8	1.8	1.8
Public Authority	2.8	2.6	2.6	2.6
Fire Protection	13.0	11.2	12.0	12.1
Sales for Resale	2.0	2.4	2.4	2.4
Miscellaneous	1.5	1.3	1.3	1.3
Credits & Adjustments	(0.1)	(0.2)	(0.2)	(0.1)

Late Filed Ex. 51, Att. 1.

While the Authority finds the Company's use and implementation of the Base Extra Capacity method appropriate as it allocates costs based on cost causation, the Authority agrees with OCC's updated fire protection volumes based on the previously noted testimony. Accordingly, the Authority directs the use of the modified fire protection base consumption volumes recommended by OCC. For its next rate case, the Company is directed to review its inputs related to fire protection to ensure that the most accurate values are being utilized in the COSS. Despite its cost-of-service modifications, OCC accepted the revenue allocation proposed by the Company; therefore, the Authority determines there is no need for the Company to file an updated COSS in the instant proceeding. Instead, the Company shall proportionately reduce its proposed allocated revenue to each rate schedule to match the overall revenue requirement ordered in this case.

C. RATE DESIGN

1. Overview

Rate design objectives include: the approval of cost-based, just, and reasonable rates that promote further equalization of rates across the Company's divisions; revenue stability; affordability of water service for low-income households at subsistence consumption levels; and water conservation incentives. The Company's proposed rate design seeks to further these goals by equalizing rates across divisions, increasing meter charges, introducing a 4-tiered inclining block rate design for single family residential customers, increasing fire protection service charges, and introducing a low-income discount rate. Szabo & Unger PFT, pp. 45-49. The Company seeks to limit customer bill increases to no more than 2 to 2.5 times the overall revenue increase. Id., p. 46. The

notable exception is the Company's Valley Water Division (Valley), where rates will remain unchanged as Valley was acquired by Aquarion in September 2021, and its customers experienced a rate increase that became effective on January 1, 2022. Id., p. 22.[94]

The Authority recognizes an inter-relationship or interdependency in achieving these goals in that the pursuit of one goal may be counterproductive in the pursuit of another goal, and therefore, some degree of balancing must be applied in deciding a just and reasonable rate design.

2. Single Year Rate Design

As described in Section III.B. Multi-Year Rate Plan, the Authority approves a revenue requirement for Rate Year 1 and rejects Aquarion's Multi-Year Rate Plan. The Company will be directed to file a revised single year rate design plan consistent with the Authority's findings contained herein that will include revised tariffs and revenue proof.

3. Inclining Block Rate Design

The Company is proposing a four-tiered inclining block rate design for its residential single-family customers with the following four tiers of monthly consumption measured by hundreds of cubic feet (CCF): Tier 1 - Up to 5 CCF; Tier 2 - Over 5 CCF, up to 9 CCF; Tier 3 - Over 9 CCF, up to 20 CCF; and Tier 4 - Over 20 CCF. Szabo & Unger PFT, p. 49.

The Company's proposed inclining block rate structure for the single-family residential customer class would apply to all but three of its divisions with the exceptions being Eastern–Tyler Indian Spring & Clearview, Northern, and Valley Divisions. Id. An inclining block tiered rate design establishes water usage thresholds with different price points. The rates increase as usage exceeds a tier's monthly threshold limit. Under Aquarion's proposed design, Tier 2 imposes a 10% premium over Tier 1, Tier 3 imposes a 10% premium over Tier 2, and Tier 4 imposes a premium of 20% over Tier 3. Id., pp. 48-49.

The table below shows Aquarion's proposed four-tier inclining block rate design for single-family residential customers that would apply to all of its divisions, except Eastern – (Tyler Indian Spring & Clearview), Northern and Valley, with the rate per CCF:

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[94] See Decision, Sept. 22, 2021, Docket No. 20-11-14, Application for Valley Water Systems, Inc. for Amendment of Rate Schedule (Valley Decision).

Table 39: Aquarion's Proposed Inclining Block Rate Design

Tier:	Monthly Consumption Hundred Cubic feet (CCF) = 748 gallons	Rate per CCF*:
Tier 1	First 5 CCF	$ 4.999
Tier 2	Over 5 CCF, up to 9 CCF	$ 5.499
Tier 3	Over 9 CCF, up to 20 CCF	$ 6.049
Tier 4	Over 20 CCF	$ 7.247

*assumes a 10% meter service charge increase

Szabo & Unger PFT, p. 49.

OCC recommends that the Authority adopt Aquarion's proposed inclining block rate design and surmised that it would likely result in lower bills for low-income customers and also send pricing signals to higher-volume residential customers who will face increased costs due to higher water usage. Mierzwa PFT, p. 12.

DEEP recommends a three-tiered rate design that aggressively targets discretionary residential uses, such as lawn irrigation, while encouraging efficiency for non-discretionary uses. DEEP Brief, p. 3. To accomplish its recommended three-tiered rate design, DEEP suggests combining Aquarion's proposed tiers two and three. Id. Specifically, the tiers would be designed as follows: "a baseline tier rate up to 5 CCF of consumption per month, a second tier of over 5 CCF per month up to 15 CCF per month at a rate that is 10% higher than the baseline tier, and third tier that is 20% higher than the second tier." DEEP Brief, p. 6; see also Aquarion Interrog. Resp. BETP-2. Further, DEEP highlighted that Aquarion is not aware of any other companies utilizing a four-tier block rate design. Tr., Dec. 1, 2022, 908-09.

Implementing an inclining block rate structure for residential single-family customers is a significant change from the Company's current rate design. An inclining block rate structure is designed to encourage water conservation by sending price signals for excessive water use for discretionary uses such as lawn irrigation. High water usage customers may consider limiting discretionary water use because it is more costly. In contrast, Aquarion's current residential single-family volumetric rate design consists of either a two-tiered, declining block rate structure for its Eastern, Western, and Southern divisions with a reduced rate for monthly usage in excess of 140 CCFs, or a single water usage rate for its Northern and Topstone, Rural, Brookfield, and Ron Black A-C smaller Eastern divisions. Application, Sch. E-5.0A; Tr., Dec. 1, 2022, 912:3-5. The current rate design does not encourage water conservation.

The Authority is generally in favor of the inclining rate design for the reasons set forth by the Company, including affordability of subsistence level water usage and incentives to encourage water conservation and discourage wasteful water use.

However, the implementation of tiered inclining rates would be the first time these customers have been billed in this fashion, which is very different from the current rate design. Because this is a new rate design, the Authority finds that DEEP's recommendation for a three-tiered design, rather than the Company's proposed four-tiered design, would be a less drastic change for customers and is more likely to yield the desired adherence.

The Company provided another inclining rate block rate design that combines the Company's proposed Tiers 1 and 2, thereby making the first-tier threshold 9 CCF, which is near the average monthly household consumption level of 9.4 CCF. Aquarion Interrog. Resp. RRU-396 and RRU-397. This design would benefit households that maintain monthly consumption at or below the average usage, add a premium to all consumption above average, while adding an additional premium onto excessive consumption above 20 CCF. This proposal introduces the inclining tier rates in a more gradual fashion than Aquarion's original four-tiered design and can be revisited during the next rate case once customers and the Company gain more experience with the design.

With these considerations, the Authority directs the Company to design a three-tiered volumetric rate structure for single-family residential customers, with the first tier up to 9 CCF, the second tier above 9 to 20 CCF, and the third tier over 20 CCF. Since the Tier 1 has been expanded from the proposed 5 CCF to 9 CCF, thereby combining Tiers 1 and 2, the rate differential between Tier 2 and Tier 1 shall be 20%, and the rate differential between Tier 3 and Tier 2 shall be 20% as depicted in the table below. The Authority finds that the three-tiered volumetric rate structure establishes a sound foundation for long-term water conservation today by sending appropriate price signals via significant percentage rate threshold increases to high usage customers who use water for discretionary purposes. In subsequent rate cases, the pricing signals may further drive customer behavior towards greater conservation dependent on the rate outcome of those cases. The Authority accepts Aquarion's model adjustments for conservation and adopts the three-tier rate design as shown in the table below.

Table 40: Approved Three-Tiered Volumetric Rate Structure

Tier:	**Monthly Consumption Hundred Cubic feet (CCF) = 748 gallons**	**Rate**
Tier 1	First 9 CCF	Initial Consumption Rate
Tier 2	Over 9 CCF, up to 20 CCF	20% higher than Tier 1 Rate
Tier 3	Over 20 CCF	20% higher than Tier 2 Rate

Aquarion Interrog. Resp. RRU-397.

4. Rate Consolidation (Single-Tariff Pricing)

A principal rate design consideration in the instant case is to consolidate Aquarion rates by maintaining consistent meter charges across divisions, and where possible, to consolidate and standardize volumetric water rates across Divisions, including a uniform application of inclining block rates for the residential customer class. The Authority generally accepts the Company's proposal to achieve these equalization goals, with the exception provided below on the design of certain rate elements.

The Company provides water service to thirteen different divisions across the State of Connecticut. Szabo & Unger PFT, p. 16. While meter charges across Aquarion's divisions are already equalized (i.e., all divisions are charged the same rate by customer class), current volumetric water usage rates are not equalized. Since Aquarion's last rate case, the Company has acquired and integrated 19 water systems. Morrissey PFT, p. 8. To consolidate rate schedules of both the legacy Divisions and the newly acquired Divisions, Aquarion looks to the COSS for guidance on cost-causation to move toward single tariff pricing and rate equalization amongst all Aquarion Divisions. Szabo & Unger PFT, pp. 44-46. In this proceeding, the Company's analysis showed that it is not practical to accomplish equalization in a single rate case, as there is also the required balancing of longstanding rate design principles of cost-causation with rate gradualism. Therefore, equalization will take place over multiple rate cases. As a guideline, the Company is limiting customer bill increases to no more than 2 to 2.5 times the overall revenue increase. Id., p. 46. The Company testified that when looking at rate equalization, some divisions were paying less than its Eastern Division, where the majority of its customers reside. Tr., Dec. 1, 2022, 906:2-7.

Accordingly, the Company's proposed rate design reflects rate equalization across all but three of its thirteen divisions: Eastern Division – Tyler Indian Spring & Clearview, Northern Division, and Valley. Szabo & Unger PFT, p. 45. The Company's Valley customers recently experienced a 20% rate increase effective January 1, 2022. Id. The current residential usage rates for Eastern Division Tyler Indian Spring & Clearview and Northern Division are priced lower than other Aquarion divisions. Application, Sch.E-5.0A, pp. 7, 10. The Company's proposed usage rates for these divisions increased rates and introduced four-tier inclining block rate, but at different price points than other divisions. Id. Notably, no party opposed the Company's equalization proposals.

5. Customer Service Charge

The Company proposes a 10% increase in meter charges across all Divisions and all customer classes. Szabo & Unger PFT, p. 48. Citing the zeroing out of the 10% WICA surcharge in the instant rate case, the Company argues that this 10% increase maintains current total levels on meter charges (inclusive of the WICA surcharge). Id. The Company's COSS suggests a decrease in meter charges from the current meter rate levels without consideration of the WICA 10% surcharge. Guastella PFT, Sch. 17. Specifically, on a percentage basis, the differential ranges from 4.5% for a 5/8" meter to 40.3% for an 8" meter. Id.

OCC opposes the Company's proposal to increase the meter charges. Mierzwa PFT, p. 11; OCC Brief, p. 59. At the hearing, the Company conceded that increases in the meter charges will cause bills of low usage households to increase. Tr., Dec. 1, 2022, 878:16-22.

This effect of increasing meter charges is counterproductive to the affordability objectives pursued through the inclining rate design for the volumetric rates. When combined with the fact that the Company's cost of service analysis suggests that meter charges should be decreased, the Authority does not find an increase in meter charges just and reasonable. Furthermore, the Authority is unpersuaded by the Company's argument that the reset of the current 10% WICA surcharge to 0% offsets Aquarion's proposed 10% increase to meter charges when their own cost of service suggests otherwise. See Guastella PFT, Sch. 17; Szabo & Unger PFT, p. 48. The WICA surcharge merely applies the same percentage increase to meter and consumption charges as a temporary measure until base rates are set in a subsequent rate proceeding. Therefore, because the COSS results show that meter costs are below current meter rates, the Company's proposal to increase the meter charges is denied and the Company is ordered to maintain the current levels of the meter charges.

6. Fire Protection

The Authority finds the public and private fire protection rate design to be acceptable, subject to the modifications described in Section VIII.B, Cost Allocation, and the approved revenue requirement revisions determined by the Authority in the instant decision.

7. Miscellaneous Fees

The Company proposed changes to its miscellaneous service charges in the instant proceeding, including the elimination of the Valley Division's current miscellaneous service charge, thereby incorporating all customers under one set of miscellaneous charges. Szabo & Unger PFT, p. 67. The Company also recommends the elimination of tapping fees, which will eliminate the potential costs being borne by other ratepayers should the tapping fees fall short of the actual costs incurred by the Company. Id.; Aquarion Interrog. Resp. RRU-84. Additionally, the Company proposes a universal fee for all backflow prevention device tests and elimination of meter vault charges. Szabo & Unger PFT, p. 67. Lastly, the Company is requesting a change to lien filing fees to have these fees set "at cost" to remove the potential of costs being borne by other ratepayers, as well as the elimination of the economic development rate because it is not applicable to any current customers and is contrary to the Company's conservation initiative. Id., p. 68.

The Authority reviewed the Company's proposed changes to miscellaneous charges and the changes discussed during the evidentiary hearing. Tr., Dec. 1, 2022, 913:19-919:19. Notably, no party expressed opposition to these changes. The Authority is satisfied that the Company has demonstrated these changes are reasonable and, thus, approves them as proposed.

D. VEOLIA WHOLESALE ALLOCATION

The Company seeks a rate increase of $1.6 million, or 41.63%, for Veolia, a company that purchases water from Aquarion pursuant to a water supply agreement. Szabo & Unger PFT, p. 47. The rate increase to Veolia is derived from the ACAM approved by the Authority in Docket No. 19-12-27. The ACAM governs the allocation of the total cost of production between Aquarion and Veolia for the water Aquarion sells to Veolia. Id., p. 53.

Veolia, as an intervenor in this case, states that they have reviewed the application of the ACAM by the Company and have no objection to its proposal. Veolia Brief, p. 3. Veolia does, however, request that any Authority orders that impact inputs to the ACAM be flowed through the ACAM to adjust the costs allocated to Veolia. Id., pp. 3-4.

Additionally, the New York Municipalities moved to intervene in this proceeding because Veolia is their public water supplier. Motion No. 2, p. 1. The New York Municipalities raised concerns that the adjustments to the inputs in the ACAM have not been updated in the cost of service and proposed adjustments to the calculation of the resale rate in which Aquarion sells water to the New York Municipalities. New York Municipalities Brief, pp. 2-3. Aquarion is making improvements to the SWRP to increase water supply, but the allocation of capital costs puts a significant burden on Aquarion's Greenwich Division. Id., p. 3. As such, the NYM request the Authority reduce the allocation of capital costs for the SWRP to the Greenwich Division and assigned to Veolia and flow through adjustments in the rate of return and costs of operations to the methodology used to set the resale rate. Id., p. 9.

The Authority determines that the record does not support the NYM's position and finds the calculations presented in the NYM's brief unclear. Conversely, in weighing the evidence, the Authority finds Veolia's request reasonable and consistent with sound ratemaking principles. Accordingly, the Authority will direct the Company to comply with updated ACAM results, where appropriate, to reflect adjustments the Authority has made in the instant decision.

E. RATE/REVENUE ADJUSTMENT MECHANISMS

1. WICA

WICA is an interim rate adjustment mechanism unique to Connecticut that allows water companies to recover the costs of replacing existing water system infrastructure in between general rate case proceedings, thereby enabling the acceleration of the rate of replacement and/or rehabilitation of existing water system infrastructure to mitigate the effect of decay of aging water systems and to promote conservation measures. See Conn. Gen. Stat. § 16-262w. The amount of a water company's WICA charged to customers cannot exceed 10% (10% WICA Cap) of the water company's annual retail water revenues approved in its most recent rate case and also cannot exceed 5% of such revenues for any 12-month period between general rate case proceedings. Conn. Gen. Stat. § 16-262w(i). Once a water company reaches the 10% WICA Cap, it cannot propose an incremental WICA surcharge unless the company appears before the Authority for a

rate proceeding. See id. Upon Authority approval of new base rates, however, a water company's WICA shall be reset to zero. Id. At that time, the plant associated with the current WICA charge will become part of base rates, subject to a finding of usefulness and prudency.

Effective April 1, 2021, Aquarion was authorized to implement a 9.78% WICA surcharge, thereby (practically speaking) reaching the 10% WICA Cap. Szabo & Unger PFT, p. 21. As of the date of this Decision, the Company's WICA surcharge will be reset to zero, and the Company may submit future WICA filings to the Authority in accordance with Conn. Gen. Stat. § 16-262w and the April 30, 2008 Decision in Docket No. 07-09-09, DPUC Review and Investigation of the Requirements for Implementation of a Water Infrastructure and Conservation Adjustment.

2. Revenue Adjustment Mechanism

A water company is authorized to utilize an annual RAM. Conn. Gen. Stat. § 16-262y. The RAM filing reconciles the Company's actual revenues to its allowed revenues (commonly referred to as decoupling) and the variance results in either a RAM surcharge (when allowed revenues exceed actual revenues) or a RAM surcredit (when actual revenues exceed allowed revenues), which is applied as a percentage adjustment to customer bills.

Since the 2013 Decision, Aquarion has annually filed a RAM for Authority approval. 2013 Decision, Order No. 7, p. 133. Most recently, the Authority approved Aquarion's 2021 RAM of 0.48%, effective April 1, 2022, through March 31, 2023. 2013 Decision, Motion No. 21 Ruling, March 23, 2022. According to the Company, "[a]ctual revenues in 2021 include decoupling adjustments totaling $1,470,816 to reconcile collected revenue with authorized revenue for both the base revenue adjustment mechanism (the "RAM"), totaling $1,119,774, and the WICA reconciliation mechanism, totaling $351,040." Szabo & Unger PFT, p. 21.

The RAM surcharge currently applies to water rates, sales for resale, and non-fixed contractual miscellaneous charges. 2013 Decision, Motion No. 21 Ruling, p. 2. Cost allocation of the RAM is applied to all customers; however, the Company excludes revenues from Valley customers in calculating the RAM because a separate RAM calculation is applied to Valley customers.

Beginning with the 2023 RAM filing, and annually thereafter, the Company is allowed to submit information in its annual RAM filing regarding Aquarion's actual bad debt expense, as detailed in Section VIII.F.2, Incremental Bad Debt Write-Off Regulatory Asset.

Additionally, beginning with the 2024 RAM filing, and annually thereafter, the Company is directed to submit as part of its annual RAM filing the amount of the Aquarion officer compensation and the Management Fee customers are paying through the RAM, as well as how much is being returned to customers through the RAM.

In addition, beginning with the 2024 RAM filing, and annually thereafter, the Company is directed to submit as part of its annual RAM filing the revenue shortfall in a given calendar year resulting from the provision of the LIRAP that the Company believes to be prudently incurred.

Finally, the Company submitted miscellaneous service revenues for late payment fees of $4,676 for the Test Year and $546,925 pro forma and proposed revenues, respectively. Application, Sch. 5.2A, p. 94. The Authority determines that the revenues obtained from late payment fees are additional revenues that extend beyond the Company's allowed revenue requirement and should be removed from rate base. In terms of proposed revenues, the Authority directs Aquarion to remove the proposed miscellaneous revenues of $546,925 for late payment fees. The reduction of the late payment fee reduces the pro forma revenues as follows: $198,078,132 - $546,925 = $197,531,207. Application, Sch. C-1.0.

Furthermore, the Authority directs the Company to include the revenues collected from late payment fees in its annual RAM filing as a "surplus" for RAM purposes that will serve to offset potential revenue shortfalls.

3. Earnings Sharing Mechanism

An earnings sharing mechanism (ESM) requires a water company's earnings above its allowed ROE in any calendar year to be split equally between the water company's ratepayers and shareholders. Conn. Gen. Stat. § 16-262y(f).

Concurrently with the implementation of Aquarion's RAM, the Authority established the Company's ESM, which is measured on a cost of capital basis. 2013 Decision, p. 110. Annually, the Company is required to submit compliance filings providing the amount of earnings in excess of the allowed ROE over the previous calendar year. Id., pp. 110, 136. The Company then shares the earnings in excess of the allowed ROE equally between its customers and shareholders. Id., p. 110.

Since the Company's ESM implementation, Aquarion has only calculated an ROE in excess of the authorized amount for a single year (2014), in which the calculated ROE was 10.28%. Tr., Dec. 5, 2022, 1329:12-18. Specific to that filing, the excess ROE was applied to the carried capital position, which included a lower equity position of 50.44% versus the authorized 51.63%. Tr., 1332:6-16. Using an actual lower carried equity position benefited ratepayers for that respective year. EOE Brief, p. 27.

In the instant proceeding, EOE recommends that the Authority provide guidance to the Company whereby the ESM's ROE is calculated using the lesser of the (a) authorized or (b) carried equity position. Id. Accordingly, the Authority directs the Company to calculate any future determination of the ESM ROE using the lesser of the Company's authorized equity position or the lesser of the actual equity carried position at the time of the calculation. This practice will allow the Company to still achieve its allowed ROE based on the authorized capital structure, while also ensuring that ratepayers are provided with a more appropriate sharing of excess earnings when the ESM is triggered

as the effect of a higher than authorized equity position is mitigated with the use of the lesser of either the authorized or actual equity position at the time of the ESM calculation.

F. RATE-RELATED PROPOSALS

1. Low-Income Rate Assistance Program

a. Summary

In the Merger Decision, the Authority directed Aquarion to "develop and propose in its next rate case a low-income program that could best benefit its customers in need." Merger Decision, p. 26. In response, Aquarion proposed a LIRAP.

The LIRAP would provide a 15% credit to residential customers who meet the income eligibility requirements and would be applied to the entirety of the customer's bill. Teixeira PFT, pp. 17-18; Aquarion Interrog. Resp. RRU-379. Both tenants and owners are eligible for LIRAP. Teixeira PFT, p. 18. However, the water bill must be in the tenant's name for the tenant to be eligible.[95,96] Teixeira PFT, p. 18; Tr., Dec. 1, 2022, 1018:7-18.

Since this is a new customer offering, Aquarion asserts that the cost of the LIRAP is unknown and has not yet been factored into the rate design in this proceeding. Morrissey PFT, p. 31; Tr., Dec. 1, 2022, 1041:19-1042:22. The Company therefore requests that the impact of the program on the Company's revenue collections be deferred and accounted for through future RAM proceedings. Morrissey PFT, p. 31. Once implemented, the Company proposes to track the participation and impact of the LIRAP to determine whether it is advantageous to factor the program into rate design at the time of its next rate case. Id.; Tr., Dec. 1, 2022, 1043:2-8. At the time of its next rate case, the Company also proposes to submit its recommendations and adjustments to the LIRAP. Aquarion Interrog. Resp. RRU-325; Tr., Dec. 1, 2022, 1074:1-4.

Based on the record in this proceeding, the Authority approves the LIRAP in the interim, subject to the direction provided herein, unless and until modified by the Authority in a future proceeding. The Authority directs the Company to submit by January 1, 2026, a detailed proposal containing modifications to the LIRAP, such as a tiered discount, including the number of tiers and amount of the discount, changes to the eligibility requirement, and cost control measures, and a detailed proposal regarding the implementation of an arrearage forgiveness proposal. The proposals shall include the costs and an implementation timeline to make such modifications and implement such arrearage forgiveness program. The Company shall share its proposals with EOE and OCC, as well as any other interested stakeholders, at least 60 days prior to its filing and

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[95] Aquarion testified that 67% of the people that live below the poverty level in Bridgeport live in a multi-family housing. Tr., Dec. 5, 2022, 1212:7-17. 6,427 of the Company's customers in Bridgeport are multi-family houses. Late Filed Ex. 63, Att. 1. In addition, 12,541 of Aquarion's customers are multi-family houses. Id.

[96] The Company testified that it is willing to work with Operation Fuel to help tenants receive the LIRAP if there is some sort of cooperation between the landlord and tenant. Tr., Dec. 5, 2022, 1178:4-1179:2. The Company also testified, however, that Aquarion is not sure it is possible to qualify a tenant for LIRAP. Tr., 1211:6-10.

incorporate feedback prior to submission to the Authority. The Authority will consider the proposals in a future proceeding.

b. Objectives

i. Water Affordability

A meaningful low-income program should be grounded in meeting two objectives: (1) achieving water affordability, which is defined as the allocation of no more than 2% of household income to water bills, Colton PFT, p. 24; and (2) reducing uncollectible expenses paid by all ratepayers, in part, by reducing the number of service disconnections, service reconnections, and terminations. Id., pp. 51-55. While there is insufficient evidence by which to measure the ability of the LIRAP to achieve water affordability for all the Company's low-income customers or to measure the impact on the uncollectible expenses paid by all ratepayers, there is evidence that the LIRAP will provide some rate relief to Aquarion's low-income residential customers and is likely reduce uncollectibles.

Although Aquarion asserts the LIRAP would assist customers in affording their water bills, the Company did not specifically design the LIRAP with water affordability in mind. See Tr., Dec. 5, 2022, 1159:19-23. Rather, the Company selected the 15% credit because the Authority approved a 15% credit for CWC in the 2021 CWC Rate Case Decision. Aquarion Interrog. Resp. RRU-325 ("The Company determined it was a reasonable proxy for the [proposed LIRAP] since it had been reviewed and approved by the Authority"); Tr., Dec. 5, 2022, 1160:3-5; 1255:12-18. In addition, the Company asserted that the LIRAP should be simple for customers to understand since it would be a new program for the Company. Aquarion Interrog. Resp. RRU-325; Tr., Dec. 1, 2022, 1073:16-25; 1074:12-15; Tr., Dec. 5, 2022, 1140:3-15, 1141:7-12. Aquarion also asserted that implementation of the LIRAP as proposed would be quick and would not result in significant administration costs. Tr., Dec. 5, 2022, 1169:22-1170:3, 1170:17-21.

Aquarion did not develop any metrics or other methodologies by which to measure whether its rates and the resulting bills are affordable at the individual customer level. Specifically, Aquarion did not conduct a bill frequency analysis to determine the average monthly bill for residential customers in each of the Company's divisions, nor did it conduct a price sensitivity analysis that would calculate the difference between the water bills at Aquarion's proposed rates and a rate that would achieve water affordability when designing its LIRAP proposal. See Aquarion Interrog. Resp. RRU-336 and EOE-54. In addition, the Company asserted that it does not have a metric by which to measure water affordability and therefore Aquarion could not rely on a metric to arrive at a discount. Aquarion Interrog. Resp. 326; Tr., Dec. 1, 2022, 1071:25-1072:3. Aquarion also does not have and did not rely on any studies or reports that discuss the relationship between low-income status or the impact of low-income burdens on, for example, nonpayment disconnections, level of arears, or payment patterns when designing its LIRAP proposal. Aquarion Interrog. Resp. OCC-309 and 310; Tr., Dec. 5, 2022, 1251:15-18. Lastly, Aquarion does not identify and track its low-income customers. Aquarion Interrog. Resp. 271. The Company does, however, agree that an important component of an impactful

low-income program is to make the rate that a customer is required to pay affordable within the customer's budget. Tr., Dec. 5, 2022, 1159:14-20.

Without information by which to measure whether Aquarion's rates and the resulting bills are affordable at the individual customer level, it is difficult to determine the impact the LIRAP will have on low-income customers and to assess whether additional tiers are needed and if so, at what income levels. Aquarion indicated it would not, however, be opposed to collecting data to more closely study the specific needs of the Company's customers, including financial need based on income level. Aquarion Interrog. Resp. RRU-325; Tr., Dec. 1, 2022, 1074:1-4; Tr., Dec. 5, 2022, 1142:23-1143:3. Accordingly, the Authority directs the Company to track the number of customers enrolled in LIRAP and the impact of the LIRAP on low-income customers' ability to pay their bills and to submit such data in the compliance filing required in Section VIII.F.1.j, Reporting Requirements.

ii. Reduction in the Uncollectible Expenses

The Company provided no evidence indicating that a 15% LIRAP will reduce the uncollectible expenses paid by all Aquarion ratepayers.[97] The Company stated that it does not know the direct impact that LIRAP will have on uncollectibles or the general operations of the Company, but asserted that it is likely customers who qualify for the LIRAP will potentially be able to pay their bills more readily and therefore reduce the potential for disconnections and arrearages. Aquarion Interrog. Resp. RRU-323. Accordingly, the Authority directs the Company to track the impact of LIRAP not only on uncollectibles, but also on the dollar level and age of arrearages, and to submit such data in the compliance filing required in Section VIII.F.1.j, Reporting Requirements.[98]

c. Eligibility and Enrollment

i. Customer Eligibility

In Aquarion's proposal, household income eligibility for LIRAP is set at 60% state median income (SMI), which is outlined in the table below. Aquarion Interrog. Resp. EOE-40; Tr., Dec. 1, 2022, 1065:1-10. This means that if a customer's household income is at or below 60% SMI, the customer is eligible to receive the 15% LIRAP credit. The Authority approves of setting the maximum household income eligibility for LIRAP at 60% SMI as the eligibility level is the same as other low-income programs, such as the Low-Income Household Water Assistance Program (LIHWAP) and the Connecticut Energy Assistance Program (CEAP). See Tr., Dec. 1, 2022, 1024:19-10:25:9, 1014:11-10:15:6; see also, Tr., Dec. 5, 2022, 1125:23-1126:1.

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[97] The Company does not have information on collections directed towards low-income customers. Aquarion Interrog. Resp. OCC-279, OCC-281, and OCC-283.

[98] The Company already collects data on uncollectibles and reports it to the Authority. See Tr., Dec. 5, 2022, 1149:7-10, 1248:5-13; see also Late Filed Ex. 66, Att. 1. Using that data, as well as data collected after the LIRAP is implemented, the Company will be able to track the impact of the LIRAP on uncollectibles.

Table 41: Household Income Eligibility Requirements

Based on 60% State Median Income (for 2022 to 2023)	
Household Size	**60% SMI**
1	$39,761
2	$51,996
3	$64,230
4	$76,465
5	$88,699
6	$100,933
7	$103,227
8	$105,521

Tr., Dec. 12, 2022, 1126:6-13.

ii. Enrollment

Aquarion proposes that Operation Fuel will qualify and enroll customers in the LIRAP.[99] Teixeira PFT, p. 18. The Company asserts it cannot enroll customers as it does not collect personal information, such as income information or social security numbers, and does not have systems in place to comply with Payment Card Industry security requirements related to the collection and retention of customer personal information.[100] Aquarion Interrog. Resp. EOE-41; Tr., Dec. 15, 2022, 16-20. In addition, the Company's billing system does not have the ability to identify customers that are eligible for a financial hardship designation, i.e., code customers as financial hardship, and Aquarion has not explored a billing system modification that would allow for financial hardship coding. Aquarion Interrog. Resp. RRU-432; Tr., Dec. 5, 2022, 1216:10-15. According to Aquarion, its proposal is the most efficient way to handle the program, without incurring significant IT and privacy issues as it relates to personal data. Aquarion Interrog. Resp. EOE-41. Additionally, Aquarion states the proposal is similar to how the Company handles its customer assistance program (CAP). Aquarion Interrog. Resp. RRU-337.

The Company asserts that if a customer is already enrolled in a low-income discount program through Operation Fuel with the same or more stringent eligibility requirements as the LIRAP, i.e., 60% SMI, such as CEAP, Operation Fuel would automatically qualify the customer for the LIRAP program, making the qualification and enrollment process simple. Aquarion Interrog. Resp. BETP-21; Tr., Dec. 1, 2022, 1024:19-10:25:9.

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[99] The town social services agencies would promote the LIRAP. Teixeira PFT, p. 18. The Company would not work directly with the town social services agencies, but rather would communicate the availability of the LIRAP with them. Tr., Dec. 5, 2022, 1133:9-10, 15-19, 23-25. The town social services agencies would refer customers to Operation Fuel. Tr., 1133:112-15. Operation has a relationship with the town social services agencies. Tr., 1133:11.

[100] Notably, Operation Fuel identifies customers eligible for the CAP through an account number, name, and address. Tr., Dec. 5, 2022, 1144:10-15.

Although the eligibility requirements for LIHWAP and LIRAP are the same, i.e., 60% SMI, Aquarion asserts it did not explore automatically enrolling customers that receive LIHWAP funds into the LIRAP. See Tr., Dec. 1, 2022, 1014:11-10:15:6; see also Tr., Dec. 5, 2022, 1125:23-1126:1. According to the Company, Aquarion does not track customers who receive benefits through LIHWAP. Aquarion Interrog. Resp. OCC-290.

The Authority finds that the Company is missing opportunities to streamline and simplify the enrollment of customers in the LIRAP by not automatically enrolling all LIHWAP recipients and making billing modifications to allow for financial hardship coding. Accordingly, the Authority directs Aquarion to explore a billing system modification that would allow for financial hardship coding of the Company's residential customers and submit as a motion for review and approval by June 1, 2025, a detailed billing system modification proposal, including the costs and implementation timeline associated with the proposal.

iii. Reenrollment

Under Aquarion's proposal, a customer is required to reapply one year after the customer becomes eligible. Aquarion Interrog. Resp. RRU-330. The Company asserts that the reenrollment process is the same as the initial enrollment process. Tr., Dec. 1, 2022, 1027:13-21. Since customers will be enrolling throughout the year rather than by a specific date, reenrollment will be required on different dates. Aquarion Interrog. Resp. RRU-330. To ensure a customer is aware that his or her enrollment in the LIRAP will end unless the customer reenrolls by a certain date, Aquarion testified that it could develop communications that would be sent to the customer informing the customer that it is time for reenrollment in LIRAP. Tr., Dec. 1, 2022, 1027:8:12. Accordingly, the Authority directs Aquarion to develop a reenrollment communication and to submit it as part of the compliance filing required pursuant to Section VIII.F.1.j, Reporting Requirements.

A customer is also required to reapply if the customer changes premises but remains a customer of the Company. Teixeira PFT, p. 18. Requiring a customer to reenroll every time the customer moves to a new residence would, however, negatively impact program participation since low-income customers are likely to move more frequently than non-low-income populations. Colton PFT, p. 71. The Company asserts reenrollment in LIRAP when a customer changes premises is necessary because it does not collect social security numbers, making it difficult to verify the customer in the new address is the same person as the customer receiving the LIRAP.[101] Tr., Dec. 5, 2022, 1147:10-15. Aquarion did, however, express willingness to explore this as an option. See Tr., 1147:8-15. Accordingly, the Authority directs the Company to submit as a compliance filing no later than 90 days after issuance of the Decision a proposal to eliminate the reenrollment process for customers who change addresses within Aquarion's service territory. OCC proposed one way in which the Company may avoid the reenrollment requirement, which is to require customers who change their addresses to notify Aquarion

[101] When an Aquarion customer changes premises, the customer receives a new account number. Tr., Dec. 5, 2022, 1147:16-19.

of their new address and of their prior participation in the LIRAP to continue to receive benefits under the program. OCC Brief, p. 7.

iv. Customer Removal

The Company proposes removing a customer from the LIRAP at the discretion of the Company if: (1) the customer no longer meets the eligibility requirements; (2) it is determined the customer has filed a fraudulent claim for eligibility; or (3) the program is discontinued for all customers. Aquarion Interrog. Resp. RRU-327; Tr., Dec. 5. 2022, 1147:20-1148:3. According to the Company, it will contact the customer in writing to explain the reason for the disqualification prior to the customer's removal from the LIRAP. Aquarion Interrog. Resp. BETP-19. Also, Aquarion asserts that there will be a process for appeal to ensure that the Company has "all the facts" and Operation Fuel would assist in the appeal process. Tr., Dec. 5. 2022, 1148:3-9. The Authority approves the removal process proposed by the Company but directs the Company to add to the list of reasons that a customer may be removed when the customer stops being an Aquarion customer, including when the customer stops being a customer of the Company as a result of having the customer's service disconnected for nonpayment.

d. Additional Partnerships

In Aquarion's proposal, only Operation Fuel can enroll customers in the LIRAP. Teixeira PFT, p. 18. However, in order to capture the maximum number of eligible Aquarion customers, entities in addition to Operation Fuel need to facilitate customers enrollment into the LIRAP. Community Action Agencies (CAA) currently enroll customers in LIHWAP, as well as CEAP, and therefore have income and household size information for any customer applying for those programs. Decision (EDCs Low-Income Discount Rate Decision), Oct. 19, 2022, Docket No. 17-12-03RE11, PURA Investigation into Distribution System Planning of the Electric Distribution Companies – New Rate Designs and Rates Review, pp. 17, 31; Tr., Dec. 1, 2022, 1013:17-22. Partnering with CAAs would therefore increase the number of avenues through which low-income customers may enroll in the LIRAP.

While the Company does not currently have a relationship with CAAs, it does work with them on the implementation of LIHWAP. Aquarion Interrog. Resp. EOE-41; Tr., Dec. 5, 2022, 1158:6-18. In addition, the Company indicated its willingness to partner with CAAs to facilitate customer enrollment of the LIRAP. Aquarion Interrog. Resp. EOE-41. Tr., Dec. 1, 2022, 1014:1-5; Tr., Dec. 5, 2022, 1158:19-1159:13. Accordingly, to ensure those Aquarion customers who qualify for the LIRAP are enrolled into the program as efficiently and effectively as possible, the Authority directs the Company to explore working through CAAs to enroll eligible customers into the LIRAP and to submit as a motion for review and approval no later than 30 days after issuance of the Decision a detailed proposal to partner with the CAAs to enroll customers, including the costs associated with such arrangement and a draft memorandum of understanding to facilitate such arrangement, if approved.

e. Data sharing

The Company asserts that it does not share data with CL&P and Yankee because CL&P and Yankee have different IT systems than Aquarion, as well as different service territory footprints. Aquarion Interrog. Resp. RRU-337; Tr., Dec. 1, 2022, 1-28:9-12; Tr., Dec. 5, 2022, 1143:14-20. The Company stated, however, that it has spoken with its Eversource counterparts, who are well versed with various hardship programs, at a high level.[102] Aquarion Interrog. Resp. EOE-41; Tr., Dec. 1, 2022, 1028:9-10. Such discussions, however, do not appear to have resulted in any solutions. In response to a question regarding whether it could match customer information if CL&P provided a list of customers in the Company's service area that CL&P had identified as eligible for LIRAP, Aquarion stated that it would have to investigate further how difficult it would be to accomplish. Tr., Dec. 5, 2022, 1143:2-9.

The Authority is both dismayed and disappointed that Aquarion, CL&P, and Yankee do not and cannot share data. The lack of data sharing is not only a disservice to low-income customers but to all customers, who have funded IT upgrades and other improvements in the companies only to find out the companies have no data sharing capabilities. Accordingly, the Authority directs Aquarion to investigate data sharing with CL&P, Yankee, and the Department of Social Services (DSS),[103] and to submit as a motion for review and approval no later than 30 days after issuance of the Decision, the Company's proposal to data share, including costs and a timeline to implement.

f. Customer Communication and Outreach

The Company proposes communicating the availability of the LIRAP through: Operation Fuel and other community agencies that administer similar programs; bill inserts to all customers; social media posts; inclusion in the Company's monthly newsletter; in an initial press release; and on its website. Teixeira PFT, p. 18; Aquarion Interrog. Resp. EOE-40. The Company asserts that once a customer is enrolled, the LIRAP would appear on a customer's bill as a separate line item with a corresponding credit amount. Tr., Dec. 5, 2022, 1038:2024. The line-item credit on a customer's bill would be called "LIRAP." Tr., 1038:2025-1039:1. Aquarion would include an explanation of what LIRAP is on the back of the bill. Tr., 1039:1-5. The Authority directs Aquarion to file samples of each type of communication it will provide, including reenrollment communications and sample bills, as a compliance filing no later than 30 days after issuance of the Decision. Prior to filing such materials, the Company shall make the materials available to, at a minimum, OCC, EOE, and Operation Fuel for the organizations' review and feedback, with at least five business days' notice prior to the filing date.

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[102] It does not appear the Company's discussions with CL&P and Yankee included discussions regarding data sharing. See Tr., Dec. 1, 2022, 1028:25-1029:6 ("Attorney Keenan: "Understanding that you have different IT programs, did you discuss data sharing, another method of data sharing?" Ms. Teixeira: "Well, we—don't handle in any of our systems personal information for our customers. We don't collect Social Security numbers and things like that.")

[103] Eversource is currently working with DSS towards low-income customer data-sharing. EDCs Low-Income Discount Rate Decision, p. 16 (citation omitted).

g. Interactions with Other Programs

Connecticut has existing programs and offerings designed to help low-income customers pay their water bills, including the LIHWAP and Aquarion's CAP.[104] The Company does not offer an arrearage forgiveness plan, other than what is included in the CAP.[105] Aquarion Interrog. Resp. RRU-334. The Company asserts that the LIRAP would be an additional offering to customers, not in place of the existing programs and offerings. Aquarion Interrog. Resp. RRU-225. Based on its review of the record, the Authority determines that the LIRAP may be offered in conjunction with existing programs and offerings.

LIHWAP is a temporary federally funded program administered by DSS in partnership with the statewide network of CAAs. LIHWAP provides benefits for eligible water customers who have an annual household income that is below 60% of the SMI. Aquarion Interrog. Resp. RRU-331; Tr., Dec. 5. 2022, 1123:23 -1124:1. States must obligate all of their LIHWAP funds by September 2023, and expend all of their LIHWAP funds by December 2023. Tr., Dec. 1, 2022, 1082:18-24. Accordingly, unless it is reauthorized, LIWHAP ends when all funds are expended.[106] Tr., 1082:25-1083:6.

The CAP is an Aquarion shareholder-funded program established by the Company in 2007 that awards vouchers in various increments to residential customers. Aquarion Interrog. Resp. RRU-337. Initially, the CAP was administered by local agencies. Id.; Tr., Dec. 5, 2022, 1132:25-1133:2. Aquarion subsequently changed the program administration to expand its reach. Teixeira PFT, p. 19. Specifically, beginning in 2020, Aquarion transitioned to a new partnership with Operation Fuel. Id.

There are two CAP vouchers: a $50 CAP voucher and an up to $250 CAP voucher. The $50 CAP voucher is designed to provide a benefit to customers who may be current with their bill but are still struggling with the cost of basic needs. Aquarion Interrog. Resp. RRU-331. There are no eligibility requirements associated with the $50 voucher. See Tr., Dec. 1, 2022, 1009:6-23; see also Tr., Dec. 5, 2022, 1162:1-5. If approved, a credit of $50 is applied to a customer's water bill. Aquarion Interrog. Resp. RRU-331. The up to $250 CAP voucher provides bill payment assistance to customers who meet the income eligibility requirement, which is 75% SMI, and have a past due balance of 30 days or more, have a shut off notice, need assistance making a required payment, or are currently without service. Id.; Tr., Dec. 5, 2022, 1161:24-1162:5.

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[104] The Company's proposed Inclining Block Rate Design, as modified in Section VIII.C.3, Inclining Block Rate Design, of the Decision, is designed to incentivize customers, including low-income customers, to restrict their water use to fall under the lowest and least costly tier. While not designed to specifically benefit low-income customers, Inclining Block Rate Design would provide some rate relief for low-income customers by shifting costs to higher volume users.

[105] The Company testified that under the CAP's arrearage forgiveness plan, a customer may receive forgiveness for past bills if the customer pays the customer's bill for a set period of time. Tr., Dec. 1, 2022, 1011:10-25:

[106] The Company testified that it has been working with the National Association of Water Companies (NAWC) to make LIWHAP permanent as Aquarion sees value in doing that. Tr., Dec. 1, 2022, 1096:1-3.

All costs associated with the CAP, except for the administrative salaries of the Company's customer service reps, which are covered by ratepayers, are paid for by Aquarion shareholders. Tr., Dec. 5, 2022, 1162:24-1164:2; Tr., Dec. 6, 2022, 1376:23-1277:2. This includes the cost of the vouchers, as well as the $10,000 administration fee the Company pays to Operation Fuel each year to administer the CAP, which includes running the program, qualifying customers, and providing information to Aquarion so it may credit customers' accounts. Aquarion Interrog. Resp. EOE-42; Tr., Dec. 5, 2022, 1127:2-5, 1130:22-1131:1.

h. Implementation and Costs

i. LIRAP Calculation

In the Aquarion proposal, the Company would provide a 15% LIRAP credit to a customer's total bill, which includes both the service and usage charges, as well as RAM and WICA charges.[107] Aquarion Interrog. Resp. RRU-379; Tr., Dec. 5, 2022, 1032:15-1033:13. If a customer also receives LIHWAP funds, a CAP voucher, or both, the Company would first apply the LIRAP to the customer's total bill. Late Filed Ex. 64; Tr., Dec. 15, 2022, 16:19-24. It would then apply the LIHWAP funds, CAP voucher, or both, to the remainder of the total bill. Late Filed Ex. 64; Tr., Dec. 15, 2022, 16:25-17:3. By applying the LIRAP in this order, the customer will receive the greatest benefit from the 15% credit.

ii. Timing of Implementation

The Company estimates that it will take 30 to 60 days from the date of the Decision to implement the LIRAP. Aquarion Interrog. Resp. RRU-339 and RRU-379; Tr., Dec. 5, 2022, 1031:8-23. This includes working with Operation Fuel on the administration of the LIRAP, configuring the Company's System Applications and Products in Data Processing (SAP) system to apply the LIRAP credit to a customer's bill, and training its customer service representatives on the LIRAP. Tr., 1031:13-24. Eligible customers who are enrolled in the LIRAP will see a credit on the first bill they receive within approximately 30 to 60 days after the date of the Decision. Tr., 1032:7:14. Accordingly, the Authority directs the Company to implement the LIRAP, subject to the direction herein, no later than 60 days after issuance of the Decision.

iii. Implementation Costs

The Company estimates that the costs associated with the implementation of the LIRAP would be approximately $11,000 to $12,000. Aquarion Interrog. Resp. EOE-40 and EOE-54; Tr., Dec. 1, 2022, 1029:21-1030:4, 1030:12-19. This includes approximately $10,000 for IT costs associated with the configuration of the Company's SAP system to add the credit to customer bills and a one-time cost of $1,000 to $2,000

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[107] Aquarion did not consider designing the LIRAP to apply only to the service charge, rather than the total bill, because the service charge is a relatively small portion of a customer's bill. Aquarion Interrog. Resp. RRU-379. If the LIRAP only applied to the service charge, the Company asserts that the benefit to the low-income program would not be sufficient to be deemed a "valuable" benefit. Id. Also, including both the service charge and the volumetric charge is appropriate because the size of a low-income family, and therefore the amount of water used by the family, may vary. Id.

for initial marketing materials. Id. Other than the IT and marketing costs, Aquarion asserts that there are not any other costs associated with implementation of the LIRAP. Tr., 1030:20-25.

If and when modifications are made to the LIRAP, it is imperative that the modifications do not require substantial and unnecessary IT costs, especially since the Company is spending $10,000 now to configure the Company's SAP system. Accordingly, the Authority directs the Company to submit as a motion for review and approval no later than 30 days after issuance of the Decision, a detailed cost proposal to configure its SAP system to allow for the addition of two or more tiers, including a timeline for implementation of such proposal.

iv. Administrative Costs

The Company asserts that the costs associated with the administration of the LIRAP are the costs paid to Operation Fuel for LIRAP administration. Tr., Dec. 1, 2022, 1039:6-17. There are no other costs associated with the administration of the LIRAP.[108] Tr., 1039:14-17. Since the Company has not finalized its discussions with Operation Fuel, Aquarion does not know yet how much the per-application fee will be, though it expects it to be in the $10 to $12 range.[109] Tr., Dec. 1. 2022, 1021:8:10, 16:18; Tr., Dec. 5, 2022, 1137:17-24, 1138:3-13. Aquarion also does not know whether the fee per application will increase or decrease depending on the number of applications. Tr., Dec. 1. 2022, 1021:19-1022:20. The Company testified, however, that the fee paid to Operation Fuel will be an incremental expense, e.g., the additional work created by LIRAP may result in the current Operation Fuel fee of $10,000 for administration of the CAP increasing to $15,000. Tr., Dec. 5, 2022, 1171:25-11:72:6. The Authority directs the Company to file the agreement between Aquarion and Operation Fuel for administration of the LIRAP as a compliance filing no later than one week after the agreement is fully executed, and no later than 60 days from the date of the Decision. The agreement shall make clear the duration of its applicability and the process for establishing and revising applicable fees, among other things.

v. Cost Controls

The Company has not identified any cost control measures, such as a budget or usage cap. Aquarion Interrog. Resp. EOE-54. According to Aquarion, since this is a new program, it is not able to identify any costs control measures. Tr., Dec. 1, 2022, 1040:20-22. In addition, based on its experience with the CAP and conversations it has had with CWC, the Company does not anticipate participation to be significant enough to warrant cost control measures. Tr., 1041:5-16. Aquarion would, however, identify cost control measures if, through implementation of the LIRAP, the Company identified areas where cost controls would be beneficial. Tr., 1040:22-25. Accordingly, once the LIRAP is implemented, the Authority directs Aquarion to identify potential cost control measures

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[108] The Company testified that a communications budget for the establishment of the LIRAP is not needed because the current communications manager, as well as some of its customer service representatives, will handle it. Tr., Dec. 5, 2022, 1215:20-1216:6.

[109] Aquarion pays Operation Fuel $10,000 annually to administer the CAP. Aquarion Interrog. Resp. EOE-42; Tr., Dec. 1, 2022, 1068:23-1069:9; Tr., Dec. 5, 2022, 1127:2-5.

and submit such costs control measures in the compliance filing required in Section VIII.F.1.j, Reporting Requirements.

i. Cost Recovery

i. Implementation and Administration Costs

The Company does not propose any pro forma adjustments, nor does it propose regulatory asset treatment or some other deferred accounting, for any of the implementation or administration costs. Aquarion Interrog. Resp. EOE-40; Tr., Dec. 1, 2022, 1070:24-1071:8. Instead, the IT costs will be capitalized and the costs of the initial communication materials and Operation Fuels' administration fee[110] will be booked as expenses and recovered in the Company's next rate case. Tr., Dec. 1, 2022, 1077:14-1078:22, 1079:14-1080:9. Aquarion stated that it would not incur any carrying costs by deferring the implementation and administration costs to the Company's next rate case. Tr., 1078:23-24.

The Authority reminds Aquarion that the burden of demonstrating prudently incurred costs to implement and administer the LIRAP, as directed herein, rests with the Company. To demonstrate prudency in its next rate case, Aquarion will need to provide sufficiently detailed cost information and evidence to support the finding that all reasonable efforts were taken to minimize costs, including, but not limited to, evidence that: (1) existing internal resources were leveraged to the extent possible; (2) investments in new resources were selected with current and future investments, programs, and public policies in mind; and (3) unnecessary costs were avoided.

ii. Impact of the LIRAP on the Revenue Requirement

The Company proposes deferring the impact of the LIRAP on its revenue requirement and to instead account for it through future RAM proceedings.[111] Szabo & Unger PFT, p. 63. Specifically, the Company proposed to recover the foregone revenue associated with the LIRAP through RAM. Tr., Dec. 1, 2022, 1070:18-23. The Company stated that it does not have a cost estimate to assess the impact that would result from the 15% credit. Aquarion Interrog. Resp. EOE-40. The Company did, however, provide two estimates of the cost of the LIRAP using the proposed Eastern Division residential rate: one estimate was based on the number of customers currently receiving a CAP voucher,[112] which is $138,526; and a second was based on the percentage of CWC

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[110] Since the fee paid to Operation Fuel will be an incremental expense, e.g., the additional work created by LIRAP may result in the current fee of $10,000 increasing to $15,000, Aquarion would therefore not request a deferral between now and the next rate case since the amount would only be, e.g., $5,000. Tr., Dec. 5, 2022, 171:25-11:72:6.

[111] Aquarion's RAM surcharge is a percentage rate that is applied to all customers, including both residential and commercial. Tr., Dec. 5, 2022, 1040:3-12. Aquarion asserts residential customers enrolled in a LIRAP cannot be excluded from cost recovery. Aquarion Interrog. Resp. RRU-328. The Company incurs a cost to provide service to all customers, including the customers enrolled in these programs. Id. As such they are a component of the overall cost of service that cannot be bifurcated. Id.

[112] Aquarion based it on 2019 CAP numbers as the Company waived the eligibility requirements during COVID. Aquarion Interrog. Resp. EOE-54.

customers enrolled in CWC's water rate assistance program, or 0.52%, which is $158,926. Aquarion Interrog. Resp. EOE-54.

The Authority directs Aquarion to submit the revenue shortfall in a given calendar year resulting from the provision of the LIRAP that the Company believes to be prudently incurred into the subsequent year's annual review of the RAM proceeding, e.g., costs incurred in 2023 shall be submitted in the 2024 RAM proceeding, etc. In addition, the Authority directs Aquarion to quantify and include a narrative explanation of any variance of the annual RAM expenses (e.g., uncollectibles, payment plans, late payments, etc.) in its RAM proceeding that may be impacted by the establishment of a LIRAP.

j. Reporting Requirements

Developing metrics and other reporting requirements to measure progress of implementation of the LIRAP toward achieving water affordability will be critical to the program's success. In this Decision, the Authority establishes an annual review of the LIRAP as part of Aquarion's RAM proceeding. Unless otherwise directed, the Authority intends to conduct its first LIRAP review in its 2024 RAM proceeding. Accordingly, the Authority directs the Company to cross-file all motions and compliance filings in this Decision that are associated with the LIRAP in this docket and in the applicable current year's RAM proceeding.

Parties, including Aquarion, supported the creation of a set of LIRAP reporting requirements information based on data from the previous calendar year, i.e., January 1 through December 31. The reporting period for the compliance filing due on February 1, 2024, will be from the date of implementation through December 31, 2023.

i. Number of customers enrolled in the LIRAP each month by income level. The Company shall provide the information regarding income level as soon as Aquarion has customer income information;
ii. Number of customers enrolled in the LIRAP each month by the presence and level of pre-existing arrearages;
iii. Number of customer accounts with past due balances, along with the aggregate and average dollars of the past due balances;
iv. Number of LIRAP recipient accounts with past due balances, disaggregated by past due balances attributed to LIRAP bills that are unpaid and bills that were unpaid at the time of LIRAP enrollment;
v. Number of LIRAP recipients with past due balances, along with the aggregate and average dollars of the past due balances;
vi. Number of customer accounts with past due balances: %/# LIRAP recipients;
vii. Net Write-Offs;
viii. Net Write-Offs: %/$/# LIRAP recipients;
ix. Total annual costs of providing the LIRAP credit, disaggregated by the following program components: (a) the bill discount credit provided; (b) the dollars of arrearage forgiveness provided, if any; (c) the administrative costs (paid to an external agency); and (d) the incremental internal administrative costs (i.e., internal costs not incurred in the absence of the LIRAP);

x. Number of service terminations in the year preceding the LIRAP implementation and monthly thereafter, along with the average dollars of arrears of accounts that were disconnected;
xi. Amount of bad debt in the year preceding the LIRAP implementation and annually thereafter;
xii. Amount of uncollectibles in the year preceding the LIRAP implementation and annually thereafter, along with the dollar level and age of arrearages;
xiii. Number of customers applying for the LIRAP through Operation Fuel by income level (i.e., at or below 160% of Poverty; above 160% of Poverty but at or below 60% of SMI) and by public assistance program used, if any, to certify income**.** The Company shall provide the information regarding income level and public assistance program used as soon as Aquarion has this customer information**;**
xiv. Number of customers applying for the LIRAP through their CAAs, delineated by each CAA, and by income level (i.e., at or below 160% of Poverty; above 160% of Poverty but at or below 60% of SMI) and by public assistance program used, if any, to certify income. The Company shall provide the information regarding income level and public assistance program used as soon as Aquarion has this customer information;
xv. Number of customers removed from the LIRAP each month by reason for removal, i.e., no longer meets LIRAP eligibility requirements; customer filed a fraudulent claim for eligibility; and program discontinued for all customers; customer stops being an Aquarion customer, including when a customer stops being an Aquarion customer as a result of having service disconnected for nonpayment;
xvi. Number of customers who were enrolled in LIRAP the preceding year but did not enroll in the current year by income level. The Company shall provide the information regarding income level as soon as Aquarion has customer income information; and
xvii. Additional recommended reporting requirements to add to the Company's annual compliance filing.

The Authority also directs Aquarion to work with EOE and OCC, as well as any other interested stakeholders, to develop additional recommended reporting requirements to track the benefits and drawbacks of the LIRAP, including a mechanism for identifying and tracking LIRAP offsets, and to submit the recommendations with its annual compliance filing.

k. Conclusion

The Authority approves the Company's proposed LIRAP, which will provide direct assistance to qualifying residential customers in the form of a 15% credit to such customers total bills, subject to the direction provided herein. As soon as possible, but no later than 60 days after the issuance of the Decision, Aquarion shall implement the LIRAP with an eligibility cap of 60% SMI. The Authority will consider modifications to the LIRAP in a future proceeding.

2. Incremental Bad Debt Write-Off Regulatory Asset

The Company proposes a continuation of the bad debt write-off deferral and reconciliation mechanism authorized in Docket No. 20-03-15, Emergency Petition of William Tong, Attorney General for the State of Connecticut for a Proceeding to Establish a State of Emergency Utility Shutoff Moratorium. Szabo & Unger PFT, p. 64. The Company states that "[d]ue to the prolonged COVID shutoff moratorium, net write-offs for the Company since March 2020 have been well below historical levels, while arrearages are substantially higher." Id. The Company further asserts that its bad-debt expense proposed in its revenue requirement is based on a five-year average of net write-offs during 2017 through 2021; although, the Company observes that "the COVID collection policies have substantially distorted that experience." Id. The Company further articulates that "[o]nce typical collection activities resume, the Company anticipates net charge-offs will exceed what is reflected in the proposed revenue requirement." Id. The Company proposes at the time of its next rate proceeding, Aquarion will submit a reconciliation of the actual level of bad debt write-offs against the amount included in base rates and a proposal for the recovery of the deferral. Szabo & Unger PFT, p. 64.

According to the Company, its five-year average net write-off for 2017-2021 was $156,545. Late Filed Ex. 21. The bad debt expense increases to $166,220 after adding $9,676 for Valley's bad debt expense.[113] Aquarion Interrog. Resp. RRU-89; and OCC-187. As noted by the Company, the net write-off of $37,443 in 2020 represents an anomaly due to the pandemic, and artificially suppresses the five-year average. Late Filed Ex. 21. If the anomalous 2020 data is removed, the average net write-off amount increases to $186,320, or $195,996, with the addition of Valley.

Accordingly, the Authority establishes the amount of $195,996 as the level of bad debt expense authorized through this rate case. Removing the 2020 experience acknowledges the unique circumstances of 2020 with respect to collections activities. Concerning the reconciliation of bad debt expense, the Authority finds that due to the unique circumstances impacting collections during the COVID period, it is reasonable to allow for a reconciliation of this expense item with actual results. However, the Authority is concerned about future obligations being accumulated for recovery in the next rate case. Therefore, the Company shall be allowed to submit information regarding actual bad debt expense in the Company's annual RAM. The actual bad debt expense will be measured against the $195,996 four-year average, where the difference between actual bad debt expense realized by the Company compared to the bad debt expense established herein will be credited or debited in calculating the overall RAM adjustment. For the 2023 RAM, the Company shall calculate the amount to be measured against as the pro rata share of bad debt expense embedded in rates from the 2013 Decision and the amount included from this rate case as of the date of this Decision.

3. Property Tax Reconciliation

As part of its Application, the Company proposes a property tax reconciliation mechanism that would apply if the Authority denies the Company's request for a Multi-

[113] Valley Water's net write-off value is cited from the Valley Decision.

Year Rate Plan. Szabo & Unger PFT, p. 64. According to the Company, the property tax reconciliation would allow for the recovery of property tax amounts in relation to incremental capital investments made from year to year that exceed the level authorized in rates. Id., pp. 64-65.

The Company acknowledges that it is possible that other expense items established in a rate case have the potential to fluctuate. Tr., Nov. 28, 2022, 382:6-15. Consequently, the Authority finds that reconciling this one expense item in the absence of good cause to do so while not considering all other items has the potential to disadvantage ratepayers as property taxes will generally increase as plant is put into service over the years between rate cases. Indeed, a failure to reconcile all other items will preclude the accumulation of offsets for expenses that have decreased from levels established in this rate case. The Authority, therefore, denies the Company's request for a property tax reconciliation mechanism.

4. Lead Service Line Replacement Program

a. Summary

Lead service line replacement is an emerging issue in the water industry, and this is the first time that Aquarion has formally presented a program to the Authority for consideration. Tr., Nov. 22, 2022, 158:16-20. As part of the Company's Capital Improvement Program, Aquarion has budgeted $11.6 million to be spent over the next five years on a lead service line replacement program (LSLR Program). Lawrence PFT, p. 45. The LSLR Program would replace lead service lines that the Company discovers during meter or main replacement as well through inspections. The Company proposes to fund Company-side lead service lines as traditional plant in-service and, to the extent possible, fund the customer-owned replacements with Drinking Water State Revolving Fund (DWSRF) grants. Szabo & Unger PFT, pp. 62-63. When DWSRF funding is not available, Aquarion proposes a mechanism to allow for the deferral and future recovery of Company-funded replacements of customer-owned lead service lines at the Company's next rate case. Id.

Based on the record in this proceeding, the Authority approves the LSLR Program, including a deferred regulatory asset for the up to $5.8 million in program costs.

b. Lead and Copper Rule Revisions

In 1991, the United States Environmental Protection Agency (EPA) promulgated the Lead and Copper Rule (LCR) to limit the amount of lead and copper in drinking water and has subsequently amended the rule several times over the years. Lawrence PFT, p. 53. Corrosion of service lines, plumbing, and fixtures is the greatest source of lead and copper in drinking water. Id. Pursuant to the LCR, Aquarion is required to monitor the concentration of lead and copper in each of its systems by sampling water in select customers' homes. Id. Aquarion posts sampling results on its website and includes them in its annual Water Quality Reports, which are available on the Company's website. Lawrence PFT, p. 53. If lead or copper concentrations exceed the action level, the water company is required to take action to control corrosion, which can include the installation

of treatment improvements, replacement of lead service lines, and public education. Id. The Company's water systems are in compliance with the regulatory lead standard. Id.

The Company submits the LSLR Program proposal in anticipation of revisions to the LCR. Szabo & Unger PFT, p. 62. In December 2021, EPA announced the finalization of the LCR Revisions (LCRR). 86 Fed. Reg. 71574. Water utilities must comply with the LCRR by October 16, 2024, including the requirement to prepare a LSLR Program for each water system. Lawrence PFT, p. 55.

Water utilities with lead service lines must prepare a LSLR Program for each water system. If system-wide lead sampling results exceed certain levels (i.e., either the new "trigger level" defined in the LCRR or the existing "Action Level"), the water utility will be required to replace a certain percentage of lead service lines for two years, with the replacement rate determined using the sum of lead service lines, "lead status unknown" lines, and galvanized lines requiring replacement. Id. Only full lead service line replacements (i.e., both company-owned and customer-owned portions) count towards the replacement goals. If a customer is unable or unwilling to have their portion of a service line replaced, a utility is required to notify the customer and follow risk mitigation procedures in their LSLR plan. When a utility replaces a lead service line, the water utility will be required to notify the affected customers, provide educational materials, provide pitcher or faucet filters, and perform follow-up sampling.

The LCRR includes numerous new requirements for public communications and education. Aquarion is proposing a proactive approach to the identification and replacement of company-owned and customer-owned lead service line material through the review of existing records, utilizing outreach communication, obtaining customer information through periodic meter replacements, and though pothole excavations at the curb stop to identify the Company-owned service line material and customer-owned service line material. Lawrence PFT, pp. 55-56.

c. Aquarion's LSLR Program Proposal

Service lines consist of two parts: (1) from the main to the curb box, and (2) from the curb box to the customer's house. Part one is maintained by the Company, while part two is maintained by the customer. It is a common practice that when the Company replaces a main, it also replaces the service line from the main to the curb box. Maintenance of the service line from the curb box is at the customer's expense, not the water utility. Conn. Agencies Regs. § 16-11-62(4).

At this time, the Company can replace the Company-owned side of the lead service line, but it cannot replace the customer-owned side of the water service line, as it is owned by the customer. Lawrence PFT, p. 57. As stipulated by the LCRR, any disturbance of a lead service line or galvanized service line that is/was connected to a lead line, can result in an increase in lead in a residence. Id. Because of this, the Company has committed to only replacing lead service lines when the Company-owned *and* customer-owned portion can be replaced at the same time. Id. The Company testified that it will also replace the Company-owned portion of a service line when the

customer-owned side is non-lead (copper or plastic). Id. The Company states that this decision is consistent with LCRR and is protective of the health of the customer. Id. After the customer side lead service line is replaced, it will continue to be owned by and will remain the responsibility of the customer. Tr., Nov. 22, 2022, 162:8-19.

As part of the LSLR Program, the Company has been developing an inventory of the material of service lines, on both the Company-owned and customer-owned portion of service lines. Lawrence PFT, p. 53. Services with unknown materials that may be lead will be classified as "lead status unknown" service lines and will count towards the total number of lead service lines in the system, which will impact any lead service line replacement requirements; conversely, unknown materials that are unknown but known not to be lead can be classified as "non-lead" service lines. Id., p. 54. Approximately 73% of the service lines in Aquarion's system are made of unknown material. Id.

d. Costs of the LSLR Program

While water utilities do not need to start complying with the LCRR until October 2024, Aquarion is proactively developing its LSLR Program and expending other funds in anticipation of the LCRR's implementation. The Company estimates that the cost of the LSLR Program for the next five years will be approximately $11.6 million. Late Filed Ex. 9, Att. 1.

The Company plans to proactively identify and replace lead service lines, both the company-owned and customer-owned portions. Lawrence PFT, p. 58. The cost to replace the lead service lines will be significant. Id. Based on the Company's current records and investigations, Aquarion estimates the cost to replace lead service lines will be between $5,000 and $12,500 each, or approximately $67 million system wide. Id.

Aquarion anticipates that the process of identifying the material of the "lead status unknown" service lines, which includes the cost of field investigations, will constitute a significant cost. Lawrence PFT, p. 58. As noted above, the Company has approximately 73% of service lines in its systems categorized as "lead status unknown." Identifying the material comprising these service lines is prudent because if Aquarion were to exceed a regulatory limit that triggered the requirement to replace lead service lines, the required lead service line replacement rate is based on the sum of all lead service lines, "lead status unknown" lines, and galvanized lines requiring replacement. Id. As the Company identifies the number of "lead status unknowns," the number of required lead service line replacements would be reduced, so long as those service lines are not lead or galvanized. Id. The costs to complete the needed investigations is estimated to be between $900 and $1,100 each, or approximately $43 million system wide. Lawrence PFT, p. 58. This estimate is based on the Company's projected number of "lead status unknown" service lines that can be determined by records review, periodic meter replacements, and field investigations. Id.

Aquarion also estimates other costs associated with complying with the LCRR, including upgrades to IT systems and work processes for the requirements related to schools and childcare facilities program, lead service line replacements, lead service line

disturbances, and the development of public education materials. Id. Additionally, there will be annual costs to remain in compliance with the LCRR, including for additional lead sample collection, lead sample lab testing, public education/communications, management of the school/childcare facility program, and pitcher or faucet filters. Lawrence PFT, pp. 58-59.

e. Funding the LSLR Program

To offset costs of the LSLR Program, the Company has applied to the Department of Public Health (DPH) for grant and loan funding through the DWSRF Program.[114] Lawrence PFT, p. 59. Funding under the DWSRF can be used to replace either the customer-owned or Company-owned portion of the service line. Id. Thus, the Company is proposing that the Company-owned lead service lines be treated in the same manner as any other required service line replacement and be recovered at the next rate case. Id. The replacement of customer-owned lead service lines will be accomplished using the grant funds from the DWSRF, where funds are available.

The Company is also eligible to apply for subsidy funding under the Bipartisan Infrastructure Law (BIL), so long is it complies with the DWSRF requirements. Aquarion Interrog. Resp. RRU-431. As part of the DWSRF, DPH administers the Disadvantaged Community Assistance Program (DCAP) where DPH is required to provide between 6% and 35% of their capitalization grant provided under the BIL as an additional subsidy to disadvantaged communities. Id. One of the requirements of DCAP is that 49% of the project must be in a vulnerable community. Tr., Nov. 22, 2022, 217:2-6. If that criterion is met, the individual project can receive up to 49% loan principal forgiveness. Tr., 217:2-6. By applying the 49% funding, the Company believes that the LSLR Program would not require general ratepayer funding. Tr., 185:15-20. As of the date of the hearing, Aquarion was awaiting DPH approval of DPH's Intended Use Plan, which would include the amount of loan principal forgiveness the Company would receive. Tr., 187:8-14. When grant funding is not available, costs related to the replacement of the customer-owned portion will be treated as an amortized expense that will be addressed within the next rate case.

The Company referred to the LSLR Program as a work in progress and stated that it could adjust as it learns from experience implementing the Program. Tr., 196:11-13. For instance, the Company has no contract or other document that details the Company's and customer's responsibilities or addresses items such as warranties, unusual site conditions, or indemnification. Tr., 162:14-19, 175:14-176:5, 178:20-23. Customer contracts were part of many of the other states' LSLR programs that Aquarion referenced in its testimony. See Lawrence PFT, p. 59; Aquarion Interrog. Resp. RRU-225. The Company estimated it would have a document that addresses these issues prepared by the end of the year. Tr., Nov. 22, 2022, 163:22-24. As of the close of the evidentiary record, the Authority has not been made aware of any such document. The Company is also considering a customer self-identification pilot program where customers would take a picture of their service line and send it to the Company to be assessed using a QR

[114] The Company provided a list of other potential funding sources that are available for customers to apply for. Aquarion Interrog. Resp. RRU-238.

code. Tr., 198:2-13. Such a self-identification program has been utilized in other states and could be significantly less expensive than having to do investigative work. Tr., 198:6-199:1-13.

f. Authority Analysis

The Company originally requested an allowance for up to a $11.6 million deferral over the next five years for costs associated with the LSLR Program. The Company estimates that it could replace 500-1,000 service lines in this five-year period. Tr., Nov. 22, 2022, 188:15-17. During the hearings, the Company testified that the budgeted estimate of 4,000 investigations per year is a number that the Company is probably not going to accomplish. Tr., 182:6-9. The Authority is concerned with allowing a significant deferral for a program that is still a work in progress. When asked to reassess the original $11.6 million, the Company suggested that the amount could be reduced by 50% as the $11.6 million did not anticipate DWSRF funding. Tr., Dec. 14, 2022, 34:4-14. This would equate to a $5.8 million funding cap over the five years of the LSLR Program.

The Authority recognizes the need to begin a replacement program in light of the LCRR. Therefore, the Authority will allow a deferred regulatory asset of up to $5.8 million over the five-year period commencing with the first rate year (i.e., March 15, 2023 – March 14, 2024). The Company is directed to file its customer contract and related materials associated with the LSLR Program prior to beginning its LSLR Program. Projects to be completed by the Company are those that have received funding through DWSRF and fund the customer-side lead service line 100%. After beginning the LSLR Program, the Company is directed to submit annually, on or before January 15, a compliance filing regarding the LSLR Program, including at a minimum the number of Company service lines replaced in the previous calendar year, the number of customer service lines replaced in the previous calendar year, and information regarding the cost of such replacements and the associated funding source, such as the amount of DWSRF money applied.

IX. CUSTOMER SERVICE & WATER SUPPLY

A. CUSTOMER SERVICE REVIEW

1. Standard Bill Form and Notices

Aquarion provided a Standard Bill Form with its application materials at Schedule H-2.1. The Standard Bill Form was reviewed and found to comply with the requirements of Conn. Agencies Regs. § 16-11-69. Aquarion also provided a Termination Notice at Schedule H-2.1.01-02. The Company confirmed that it does not include unregulated charges on its termination notices. Tr., Dec. 5, 2022, 1194:11-16.

Customers must be provided an annual notice explaining the rights provided by Conn. Agencies Regs. § 16-3-100(c)(1)(B) regarding termination of service. Aquarion provided a Customer Rights Notice, which the Authority finds is in compliance with the regulation.

2. Estimated Bills

The Company asserts that its estimated bill notices and forms are in compliance with applicable regulations. Aquarion Interrog. Resp. EOE-22. An estimated bill is issued if the Company is unable to obtain a meter reading. Conn. Agencies Regs. § 16-3-102. After bill estimates are issued in two consecutive billing periods, the Company must send a notice letter informing the customer that the Company needs to obtain an actual meter reading. Id.

Aquarion submitted its policies and procedures for generating an estimated bill, sample estimated bills, and sample notice letters. Application, Sch. H-2.3.01, H-2.3.02, and H-2.3.03. Aquarion's billing system calculates the estimated reading by using data such as last year's meter reading for the same period or a per diem based upon the total annual consumption divided by the number of days in the year. Id. Additionally, the Company will adjust estimated readings on certain variables, for example, if the previous year's reading was during a time that the customer had a leak or stopped meter. Aquarion Interrog. Resp. EOE-19. If there are two or more consecutive estimated readings, the reading will be placed onto an implausible reading list. Application, Sch. H-2.3.01. Further work is then performed by the Company's Billing Department to review and determine the appropriate next steps, such as calling the customer, sending a notice, or sending a service person or meter reader to the location. Id.

The Company's estimated billing procedures and notice letters comply with Authority regulations. Further, based on a review of information presented by the Company in this proceeding, the Company's use of estimated bills remains an infrequent occurrence over the last three years. EOE Brief, p. 3.

3. Security Deposit Policies

The Authority concludes that Aquarion's current security deposit policies and associated materials are not in compliance with applicable regulations. Utilities may require customers to supply a security deposit not to exceed an amount equivalent to an estimated maximum bill for 90 days. Conn. Agencies Regs. § 16-11-68(a). Aquarion provided its security deposit policy and procedure at Schedule H-2.4. During the COVID-19 pandemic, the Company suspended its practice of requiring a security deposit for both residential and commercial customers and had not resumed as of the date of filing the Application. Application, Sch. H-2.4.

The first area of concern involves Conn. Agencies Regs. § 16-11-68(i), which states, in part, that security deposits, along with accrued interest shall be returned where satisfactory credit has been established. According to Aquarion, satisfactory credit is established when the customer is in good payment status, meaning that the customer has not defaulted on their bill or received late notices or fees for a year. Application, Sch. H-2.4; Tr., Dec. 5, 2022, 1183:10-18. It has been the current and past practice of the Company to return the security deposit, with interest, in connection with a customer's final bill during the move-out process or at a customer's request. Tr., Dec. 15, 2022, 20:20-22. However, Aquarion does not undertake periodic or proactive reviews of customers'

credit to determine if any security deposit should be returned. Aquarion Interrog. Resp. EOE-1.

Conn. Agencies Regs. § 16-11-68(h) states, in part, that security deposits may be retained by the Company so long as is required to ensure payment of the bills. Aquarion stated that should a customer call to request the return of their security deposit, and if the customer has met the definition of satisfactory credit, the security deposit would be returned. Tr., Dec. 5, 2022, 1184:22-1185:7; Aquarion Interrog. Resp. EOE-1. However, there is no automated process within the Company's system that will return a customer's security deposit, plus interest, once said customer has met the definition of satisfactory credit. Aquarion stated that it is working to implement an automated system that would accomplish this task. Tr., Dec. 15, 2022, 19:23-20:6. In the instances in which a customer is required to provide a security deposit, the customer must submit an online application form to initiate new service. At the end of that form the customer will be made aware of the Company's definition of satisfactory credit. Aquarion Interrog. Resp. EOE-23, Att. 1; Tr., Dec. 15, 2022, 19:6-9. However, there is no other customer-facing written notice or bill insert that provides the customer this information. Tr., 18:25-19:6.

At this time, Aquarion does not track information regarding the number of customers that have achieved satisfactory credit but have not contacted the Company to request the return of the security deposit. Late Filed Ex. 68. In addition, Aquarion stated that currently there may be active customers that have achieved satisfactory credit but have not had the security deposit returned to them. Tr., Dec. 15, 2022, 21:8-15. Therefore, the Authority directs Aquarion to revise its customer notices (e.g., Welcome Letter, online application form, receipt upon collecting security deposit) to educate customers about the process of requesting a return of their security deposit.

The second area of concern is the lack of information provided in the application form to discuss whether a customer may be exempt from providing the security deposit. This online form is required of certain customers in order to start a new service. According to the Company, it is aware that the Company may not refuse to provide service to a residential customer where said customer lacks the financial ability to pay the security deposit. Tr., Dec. 5, 2022, 1182:5-12. This exemption for certain residential customers is fully defined in Conn. Agencies Regs. § 16-11-68(b). If there was a customer that did not have access to the internet, the questions on the online form can be asked by a Company representative over the telephone or the application form could be mailed to that customer. Tr., 1181:23-1182:4. However, the online form lacks the exemptions to the security deposit requirement, as defined in Conn. Agencies Regs. § 16-11-68(b). Aquarion Interrog. Resp. EOE-23, Att. 1. The Company stated that there are no specific reasons for the exclusion of this information but that it plans on updating the form. Similarly, if a customer was completing the security deposit application form via a telephone conversation with the Company, the customer would not be told of these exemptions. Tr., Dec. 5, 2022, 1182:20-1183:1. Consequently, the Authority will direct Aquarion to revise its application form to include the provisions of Conn. Agencies Regs. § 16-11-68(b) and to revise its internal procedures so that in the event the form is being completed over the telephone, a prospective customer is made aware of the security

deposit exemptions. A failure to comply with this directive and applicable regulations moving forward will subject the Company to civil penalties levied in accordance with Conn. Gen. Stat. § 16-41.

4. Late Payment Charges

The Company collects a late payment charge (LPC) or interest fee of 1.50% per month on outstanding balances. Application, Sch. H-3.0, p. 64; see also, Application, Sch. H-2.6.02, Rules and Regulations, p. 7. After a bill is outstanding for 34 days, the LPC is assessed. Application, Sch. H-2.6.02, Rules and Regulations, p. 7. The fee is assessed each month on the payment amount that is outstanding. Id. In accordance with the Authority's decision herein, the LPCs do not count as revenue for purposes of RAM, as discussed above in Section VIII.E.2, Revenue Adjustment Mechanism.

Aquarion's LPC of 1.50% is in line with the fees charged by other investor-owned utilities in Connecticut. See Decision, Dec. 7, 2022, Docket No. 22-03-16, Petition of the Office of Consumer Counsel for an Investigation into The United Illuminating Company and Eversource Energy Regarding Collections Practices During the COVID-19 Moratorium, Appendix B, pp. 10-11. Aquarion's LPC has not changed since its 2004 rate case and is the same rate applied to all customer classes. Id., Appendix B, p. 10.

The Company suspended all LPCs during the COVID-19 moratorium. Aquarion Interrog. Resp. OCC-50. The Company resumed late payment fees in October 2022. Aquarion Interrog. Resp. OCC-213.[115] As of October 14, 2022, 8,880 customers were billed an LPC, totaling $11,753 in fees. Aquarion Interrog. Resp. OCC-273, Att. 1. Given the suspension of LPCs as a result of the COVID-19 pandemic, the most recent data on the Company's use of the LPC is limited. Furthermore, it is unclear from the record whether the LPCs are adequately serving their purpose. Additional information is necessary to evaluate the practice of utilizing late payment charges. In the Company's next rate proceeding application, Aquarion is directed to provide an analysis of the type of customers who incur late payment charges; the average, maximum, and minimum late payment charges incurred by customers, by class, in a given year; and the impact LPCs have on uncollectibles.

OCC proposes that Aquarion direct the fees collected by the LPCs as "crisis grants" to be awarded to income-qualified customers who are most at risk for disconnection, which results in the assessment of additional fees. OCC Brief, pp. 18-19. At this time, the Authority is not considering this proposal, but directs the Company to provide an analysis of such a program in its next rate case filing. The Authority appreciates OCC's recommendation to further support low-income customers and, therefore, directs Aquarion to allow its customer service representatives to waive LPCs when establishing reasonable payment plans. Specifically, as soon as LIRAP is implemented, the Company shall allow its customer service representatives to waive LPCs when establishing reasonable payment plans for customers receiving LIRAP. In

[115] On July 14, 2022, in Docket No. 20-03-15, the Authority granted the Company's motion filed on June 28, 2022, to restart LPCs.

addition, as soon as the Company implements the billing system modification required in Section VIII.F.1.c.ii, Enrollment, that would allow for financial hardship coding of Aquarion's residential customers, the Company shall allow its customer service representatives to waive LPCs when establishing reasonable payment plans for financial hardship customers, which includes customers receiving LIRAP.

5. Rules and Regulations

The Company submits its Rules and Regulations as part of its Application and is proposing updates such as: changing from quarterly to monthly billing; requiring municipalities to maintain the hydrants they own; clarifying that new water meters will be installed in a meter pit or vault; and affirming that customers must maintain and install part of the service line owned by the customer. Application, Sch. H-2.6.01. The Authority accepts the updated Rules and Regulations.

6. Customer Complaints

Aquarion provided a summary of the major types of customer complaints, including water quality and quantity issues, that the Company has recorded and monitored since the 2013 Decision. Application, Sch. H-4.0. The Company listed the major types of service quality complaints (e.g., taste, odor, appearance/discoloration, chemical, illness/biological) that are reported to the Authority on a quarterly basis. Aquarion Interrog. Resp. RRU-107. Historically, customer complaints filed with the Authority are low. Teixeira PFT, pp. 8-9. From 2013 through 2021, 3.3 complaints were filed on average each year. Id., p. 8.

Notwithstanding the foregoing, the Authority finds that the magnitude and content of the customer comments filed in the instant proceeding highlight a growing phenomenon across all regulated utilities in the state, i.e., general customer dissatisfaction with the pricing and availability of essential public utility services. See Section I.F, Public Comment. As such, historic trends regarding complaints filed with the Authority may not necessarily be indicative of future trends in this instance; nor is it prudent to wait to implement best practices that may mitigate or help identify problematic trends as they arise. Therefore, the Authority will direct the Company to meet with EOE on a regular basis, but no less than once per month, to discuss outstanding customer complaints and noticeable trends, covering both those complaints and inquiries submitted to the Authority as well as those routed directly to the Company. During the meetings, the Company shall discuss performance metrics tied to customer complaints, including any improvements thereto, and how such metrics regarding customer complaints about water quality and quantity issues tie to infrastructure improvements. Not later than 60 days after the issuance of the Decision, the Company shall submit a compliance filing detailing at minimum: the metrics to be discussed at said meetings; a proposed standing agenda; the proposed frequency of the meetings; and the proposed Company attendees (by job title). Prior to submission, the Company shall provide EOE no less than 15 business days to review and provide feedback on such proposal. To the extent that EOE's feedback is not incorporated, the Company's submission to the Authority shall include a detailed narrative as to why.

Additionally, the Authority observes that customer inquiries and complaints often stem from miscommunications, or missed opportunities for communication, by regulated entities. Indeed, as discussed in Section VI.B.12, Communication Expense, the Company only recently began tracking KPIs with respect to its communication campaigns and could not articulate how the KPIs are utilized to shape future engagement strategies. As such, the Authority will direct the Company as part of its above-established regular meetings with EOE to also report on Aquarion's planned and executed communications with customers, including through the provision of KPI data that is provided on an, at minimum, quarterly basis. To enhance the value of this exercise, the Company must first define written processes and procedures governing how KPI data is used to improve the efficacy of its communications, which EOE asserts is a low-cost way to ensure a consistent approach to review and improvement. EOE Brief, pp. 9-10. These written policies and procedures shall be appended to the Company's submission due to the Authority no later than 60 days following issuance of the Decision.

B. WATER SUPPLY

1. Water Quality

As an owner and operator of public water systems, Aquarion closely monitors changes in state and federal water quality regulations and guidance. For example, the Company has observed the following regulatory changes: the use of the manganese maximum contaminant level (MCL) in lieu of a secondary standard; the arsenic MCL lowering from 10 parts per billion (ppb) to 5 ppb; and the perfluoroalkyl and polyfluoroalkyl substances (PFAS) Action Levels (AL). Lawrence PFT, pp. 22-23. The final MCLs established for PFAS will result in significant capital investment in water treatment at groundwater sources and possibly surface water sources. Id., p. 23. Currently, the Company has five systems (i.e., Biggs Wellfield, Ball Pond System, Renda Wellfield, Ball Pond System, Cedar Heights System, Shirley Court Well No. RA1, New Milford regional System and Woodbury Well Nos 2 and 3, Woodbury System) that exceed the perfluorooctane sulfonate (PFOS) AL (part of PFAS substances). Aquarion Interrog. Resp. RRU-109.

The Company indicated that its water systems are in compliance with state and federal drinking water regulations. However, Oscaleta Caisson Well No. 4 is subject to an E. coli correction. Aquarion Interrog. Resp. RRU-103. There are also other systems subject to raw water E. coli contamination as well as other Notices of Violation (NOV) related to monitoring and reporting that were issued between 2013-2022. Aquarion Interrog. Resp. RRU-106, Att. 2.

As discussed in Section VIII.F.4, Lead Service Line Replacement Program, Aquarion is taking action to ensure compliance with the LCRR, which will become effective in October 2024. This includes identification of service lines materials; development of a lead service line replacement program plan; preparation of and updates to systems and process related to lead service line replacement, lead service line disturbances, compliance sampling, school sampling; performing corrosion control

evaluations; and development of communication and public materials. Aquarion Interrog. Resp. RRU-103.

2. Water Quantity

According to the Company, Aquarion is in compliance with all permitted and registered diversions, with the exception of Morehouse Brook Diversion. Aquarion Interrog. Resp. BETP-28; DEEP Exceptions, p. 2. Aquarion stated that it will work with DEEP to resolve these issues. Tr., Nov. 30, 2022, 708:22-709:6. DEEP requests that Aquarion produce a detailed plan to bring its diversion permit and registration into full compliance with DEEP's protocols. DEEP Brief, p. 9. The Authority approves the Department's request. Accordingly, the Company is directed to produce a detailed plan by May 1, 2023, that includes a detailed timeline with specific deadlines for completing each step outlined in the plan, which shall be filed as compliance in the instant Docket.

Additionally, DEEP raised concerns about Aquarion's groundwater withdrawals in the vicinity of Bissell Brook and Cobble Brook and questioned whether the withdrawals negatively impact the environment. Tr., Nov. 30, 2022, 715:2-18. DEEP requests that the Authority order Aquarion to hire a DEEP-approved third party to conduct an impact study (Withdrawal Impact Study) at Bissell Brook and Cobble Brook. DEEP Brief, p. 11. The Authority also concurs with DEEP's request regarding this matter. Accordingly, the Authority directs Aquarion to hire a DEEP-approved third party to conduct a Withdrawal Impact Study and to submit the results of such study to DEEP and the Authority no later than September 29, 2023, as a compliance filing.

3. Adequacy of Water Supply & Storage

The Company provides the present and projected water demands and safe yields in each of Aquarion's water systems. Application, Sch. G-6.1. Most of its water systems have adequate supply to meet current and projected demands over the 50-year planning period. See id. The Chimney Heights, Clearview, and the Falls Village water systems, however, have a margin of safety (MOS) less than 1.15. Aquarion Interrog. Resp. RRU-123, Att. 1. The MOS for maximum daily water (MDD) demand determines the adequacy of the water supply. If MOS for MDD is 1.15 or more, then the water system has appropriate water supply. Aquarion's current MOS for MDD is 1.15 or more for all of its water systems, except for Chimney Heights (1.13), Clearwell (1.0), and the Falls Village (0.8) water systems. Aquarion Interrog. Resp. RRU-123, Att. 1.

According to Aquarion, the Company took the following actions to improve and correct MOS for MDD: (1) consolidated the Chimney Heights water system into the Newton water system, which resolved Chimney Height's MOS issue; and (2) purchases water for its Clearview waters system from the Countryside Apartments water system. Aquarion Interrog. Resp. RRU-363. Aquarion stated that the Falls Village System was acquired in April 2021, and based on actual operations after acquisition, it has no issues meeting MDD. Id. Aquarion does, however, plan to confirm the available water based on the Company's actual operational data. Id.

The Company evaluates the adequacy of storage in each of its pressure zones through a regular program of master planning. Aquarion Interrog. Resp. RRU-143. Storage is evaluated based on the ability to meet diurnal fluctuations in system demand and provide service during an emergency. Id. The analyses are combined with the Company's tank inspection program. Id. Based on condition and capacity, the Company develops a list of storage improvement needs. Id.

4. Interconnections and Purchased Water

Aquarion has 26 interconnections with neighboring water public water systems through which it receives and supplies water. Aquarion Interrog. Resp. RRU-114, Att. 1. The interconnections are with Veolia Water Westchester, Frederic Gunn School, Inc., South Norwalk Electric & Water, Classee Water – Latimer Point, The Connecticut Water Company, Ethel Walker School, Danbury Water Department, Groton Utilities, New Britain Water Department, Norwalk First Taxing District, Regional Water Authority, South Norwalk Electric & Water, and Torrington Water Company. Id. Of the 26 interconnections, 9 are emergency interconnections. The emergency interconnections are: AWC Greenwich to W. Putnam and Anderson Hill (Veolia); AWC Judea Main (Green) to Frederick Gunn School, Inc.; AWC Main System to South Norwalk Electric & Water; AWC Simsbury to Ethel Walker School; Danbury Water Department to AWC chimney Heights; Norwalk First Taxing District to AWC Main System; Danbury Water Department to AWC Indian Spring; South Norwalk Electric & Water to AWC Main system; and South Norwalk Electric & Water to AWC Norton (Darien). Id.

In 2021, Aquarion supplied 5.05 million gallons per day (mgd) through interconnections and received 1.64 mgd water through interconnections. Aquarion Interrog. Resp. RRU-114, Att. 1.

5. Water Conservation Plan

Aquarion provided a WCP in its Application. Application, Sch. H-3.0. The Company's WCP provides many options for the Company to implement directly or educate customers on, such as using high efficiency toilets, commercial and industrial equipment upgrades, two-day per week irrigation restrictions, water use audits, water conservation rebate pilot program, public education and outreach, meter management, water system evaluation, tracking of water main flushing program water usage, hydrant maintenance and repair, pressure reduction, water main infrastructure restoration, notifications to customers when there is an increase over historic water usage, offer to conduct high bill investigations at a customer's premises, and make conservation kits available for customers with high bills or areas with supply problems. Id.

6. Periodic Meter Testing

In order to maintain meter effectiveness, a water company must periodically test its meters for accuracy. Meter tests are necessary to determine their accuracy in order to: (1) ensure that billings to customers are accurate; (2) assist a company in controlling its levels of NRW; and (3) assist customers in reducing their consumption. A water company is required to test all 5/8-inch, 3/4-inch, and 1-inch meters at intervals of 8 years and all other size meters at more frequent intervals. Conn. Agencies Regs. § 16-11-88.

If a water company meets certain requirements, the Authority may grant it an extension. Conn. Agencies Regs. § 16-11-88(1). The water company may also be required to conduct meter testing more frequently as a result of a customer request or an order by the Authority. Conn. Agencies Regs. § 16-11-89.

The Company submits its periodic meter testing reports on an annual basis to the Authority. Conn. Agencies Regs. § 16-11-86. Prior to January 21, 2022, Aquarion was on a 12-year cycle for periodic meter testing. The Company requested an extension from 12 to 14 years for its periodic meter testing interval for Aquarion's ⅝-inch, ¾-inch and 1-inch meters on November 18, 2021. Aquarion Interrog. Resp. OCC-261, Att. 1. Aquarion provided data depicting that over the past three years, 90% to 102% of all meters tested registered between 96% to 102% accuracy. Id. Upon a review of the Company's periodic meter test reports for the past three years, the Authority granted the requested extension to implement the 14-year meter testing interval on January 21, 2022. Id.

The Company stated that due to the COVID-19 pandemic, it did not complete the required number of meter testing for 2020 because customers did not allow the Company to access meters located in homes, which resulted in a cumulative backlog of approximately 10,000 meters to be tested. Aquarion Interrog. Resp. RRU-120; Aquarion Interrog. Resp. OCC-261, Att. 1, p. 2. The additional two-year extension provided the Company needed time to address the 2020 and 2021 backlog of meter testing and will level out future meter replacements. Aquarion Interrog. Resp. OCC-261, Att. 1, p. 2.

The Authority will review the Company's next annual periodic meter test report to ensure that the Aquarion meter testing backlog is addressed.

X. CONCLUSION AND ORDERS

A. CONCLUSION

Based on the foregoing, the Company's requested rate increase in annual revenues and the proposed rate schedule is approved accounting for the Authority's adjustments. The approved decrease in the current revenue requirement is $1,969,517 or approximately 0.997% below revenue at current rates.

B. ORDERS

For the following Orders, the Company shall 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. Compliance with orders shall commence and continue as indicated in each specific Order or until the Company requests and the Authority approves that the

Company's compliance is no longer required after a certain date.

1. (ACAM) On or after the issuance date of the Decision, the Company shall comply with updated ACAM results, where appropriate, to reflect adjustments the Authority has made in the Decision.

2. (Rate Design) No later than 10 days after issuance of the Decision, the Company shall file as a compliance filing a revised single year rate design plan consistent with the Authority's findings contained in the Decision that will include revised tariffs and revenue proof.

3. (Rate Design) No later than 10 days after issuance of the Decision, the Company shall design a three-tiered volumetric rate structure for single-family residential customers, with the first tier up to 9 CCF, the second tier above 9 to 20 CCF, and the third tier over 20 CCF.

4. (LIRAP) No later than 30 days after issuance of the Decision, the Company shall submit samples of each type of communication it will provide, including reenrollment communications and sample bills. Prior to filing such materials, the Company shall make the materials available to, at a minimum, OCC, EOE, and Operation Fuel for the organizations' review and feedback, with at least five business days' notice prior to the filing date.

5. (LIRAP) No later than 30 days after issuance of the Decision, the Company shall submit as a motion for review and approval a detailed proposal to partner with the CAAs to enroll customers into the LIRAP, including the costs associated with the partnership and a draft memorandum of understanding to facilitate such arrangement, if approved.

6. (LIRAP) No later than 30 days after issuance of the Decision, the Company shall submit as a motion for review and approval a detailed data-sharing proposal to share data with CL&P, Yankee, and DSS, including costs and a timeline to implement.

7. (LIRAP) No later than 30 days after issuance of the Decision, the Company shall submit as a motion for review and approval a detailed cost proposal to configure its SAP system to allow for the addition of two or more LIRAP tiers, including a timeline for implementation of such proposal.

8. (Fee Free) No later than 30 days after issuance of the Decision, the Company shall implement the Fee Free program.

9. (Performance Metrics) No later than May 1, 2023, the Company shall submit as a motion for review and approval the data for each year from 2017 through 2022 required to calculate each of the performance metrics in Section VI.B.5., Performance Metrics.

10. (Diversions) No later than May 1, 2023, Aquarion shall submit as a compliance filing a detailed plan regarding how it will bring the Company's diversion permit and registration into compliance.

11. (LIRAP) No later than one week after the Company's agreement with Operation Fuel regarding the administration of LIRAP is fully executed, and no later than 60 days after issuance of the Decision, Aquarion shall submit the agreement as a compliance filing. The agreement shall make clear the duration of its applicability and the process for establishing and revising applicable fees, among other things.

12. (LIRAP) No later than 60 days after issuance of the Decision, the Company shall implement LIRAP, as modified in Section VIII.F.1., Low-Income Rate Assistance Program, with an eligibility cap of 60% SMI.

13. (Annual Conservation Expense) No later than 60 days after issuance of the Decision, the Company shall provide as a compliance filing projections associated with conservation expenditures to be made in the first rate year (i.e., March 15, 2023 – March 14, 2024), as well as for the subsequent two rate years. Such projections shall include, at a minimum, budgeted values on a per measure (or per sub-program) basis for administrative and customer incentive costs, as well as for the projected water and electricity (if applicable) savings.

14. (Customer Complaints) No later than 60 days after issuance of the Decision, the Company shall submit a compliance filing detailing at minimum:
    a. metrics to be discussed at its meetings with EOE;
    b. written processes and procedures governing how KPI data is used to improve the efficacy of Aquarion's communications with customers;
    b. proposed standing agenda;
    c. proposed frequency of the meetings, which shall not be less than quarterly; and
    d. proposed Company attendees (by job title).

    Prior to submission of the compliance filing, the Company shall provide EOE no less than 15 business days to review and provide feedback on such proposal. To the extent that EOE's feedback is not incorporated, the Company's submission to the Authority shall include a detailed narrative as to why.

15. (Customer Service) No later than 60 days after issuance of the Decision, the Company shall revise its customer notices (e.g., Welcome Letter, online application form, receipt upon collecting security deposit) to educate customers about the process of requesting a return of their security deposit and submit them as a compliance filing.

16. (Customer Service) No later than 60 days after issuance of the Decision, the Company shall revise its application form to include the provisions of Conn. Agencies Regs. § 16-11-68(b) and its internal procedures so that in the event the form is being completed over the telephone, a prospective customer is made aware of the security deposit exemptions, and the Company shall submit such revised application form and internal procedures as a compliance filing.

17. (LIRAP) No later than 90 days after issuance of the Decision, the Company shall submit as a compliance filing a proposal to eliminate the reenrollment process for LIRAP customers who change addresses within Aquarion service territory.

18. (Conservation) No later than September 29, 2023, Aquarion shall:
    a. Hire a third party, approved by DEEP, to conduct a Withdrawal Impact Study at Bissell Brook and Cobble Brook;
    b. Conduct the Withdrawal Impact Study at Bissell Brook and Cobble Brook; and
    c. Submit the results of the Withdrawal Impact Study to DEEP and the Authority as a compliance filing.

19. (Performance Metrics) No later than January 15, 2024, and annually thereafter, the Company shall submit as a compliance filing detailed information regarding whether Aquarion met or exceeded each of the metrics in Section VI.B.5., Performance Metrics, during the previous calendar year. The compliance filing shall include an unlocked workable Excel spreadsheet providing the data on which the Company relied in making its determination.

20. (LSLR Program) No later than January 15, 2024, and annually thereafter, the Company shall submit as a compliance filing information regarding the LSLR Program, including at a minimum the number of Company service lines replaced in the previous calendar year, the number of customer service lines replaced in the previous calendar year, and information regarding the cost of such replacements and the associated funding source, such as the amount of DWSRF money applied.

21. (LIRAP) No later than February 1, 2024, and annually thereafter, the Company shall submit as a compliance filing the information on the enumerated list in Section VIII.F.1.j., Reporting Requirements, based on the data from the previous calendar year, i.e., January 1 through December 31. Aquarion shall work with EOE and OCC, as well as any other interested stakeholders, to develop additional recommended reporting requirements to track the benefits and drawbacks of LIRAP, including a mechanism for

identifying and tracking LIRAP offsets, and to submit the recommendations with its annual compliance filing.

22. (RAM) No later than February 1, 2024, and annually thereafter, the Company shall submit its annual RAM filing. Such filing shall include, among other things:
    a. The amount of the Aquarion officer compensation and the Management Fee that customers are paying through base rates and through the RAM, or conversely how much is being returned to customers through the RAM, in accordance with Sections VI.B.2.c, Officer Compensation, and VI.B.4, Management Fee Compensation, respectively;
    b. The revenue shortfall in a given calendar year resulting from the provision of LIRAP that the Company believes to be prudently incurred. The Company shall quantify and include a narrative explanation in its compliance filing of any variance of the annual RAM expenses (e.g., uncollectibles, payment plans, late payments, etc.) that may be impacted by the establishment of LIRAP;
    c. The amount of revenues collected from late payment fees, which shall be used as a "surplus" for RAM purposes that will serve to offset potential revenue shortfalls; and
    d. Information regarding the Company's actual bad debt expense.

23. (RAM) No later than February 1, 2024, the Company shall submit in its 2023 RAM filing, the amount of bad debt expense to be measured against as the pro rata share of bad debt expense embedded in rates from the 2013 Decision and the amount included from this rate case as of the date of the Decision.

24. (Fee Free) No later than March 1, 2024, and annually thereafter, the Company shall file the following data for the immediately preceding calendar year:
    a. The number of credit/debit card payments;
    b. All costs associated with the following payment methods:
        i. credit/debit card payments;
        ii. checks;
        iii. payments in person at payment locations; and
        iv. payments online or by phone – One Time Payments;
    c. How quickly payments are being received from the date a bill is issued;
    d. The number of credit card payments made by financial hardship customers, if the Company has implemented a customer code for such designation;
    e. The annual amount of uncollectibles;
    f. The qualitative improvements in customer satisfaction with the option; and
    g. The annual amount of write-offs.

25. (EADIT) No later than March 15, 2024, the Company shall hire an independent third-party accounting firm, (i.e., not its current financial statement auditor) to perform a review to vet both the quantification and categorization of Aquarion's claimed EADIT in accordance with Section VI.E.4., Excess Accumulated Deferred Income Taxes, and shall submit the results of the review as a motion for review and approval. The cost of this review shall not be recoverable in rates.

26. (Annual Conservation Expense) No later than June 1, 2024, and annually thereafter, the Company shall provide an annual compliance filing indicating its performance associated with conservation expenditures during the previous rate year against the previously submitted targets.

27. (LIRAP) No later than June 1, 2025, the Company shall explore a billing system modification that would allow for financial hardship coding of Aquarion's residential customers and submit as a motion for review and approval a detailed billing system modification proposal, including the costs and implementation timeline associated with the proposal.

28. (LIRAP) No later than January 1, 2026, the Company shall submit a detailed proposal containing modifications to the LIRAP, such as a tiered discount, including the number of tiers and amount of the discount, changes to the eligibility requirement, and cost control measures, and a detailed proposal regarding the implementation of an arrearage forgiveness program. The proposals shall include the costs and an implementation timeline to make such modifications and implement an arrearage forgiveness program. The Company shall share its proposals with EOE and OCC, as well as any other interested stakeholders, at least 60 days prior to its filing and incorporate feedback prior to submission to the Authority.

29. (Annual Conservation Expenses) No later than January 15, 2026, provided Aquarion has not filed an intervening rate proceeding, the Company shall submit as a compliance filing annual projections associated with conservation projections for the three years commencing March 15, 2026. Such projections shall include, at a minimum, budgeted values on a per measure (or per sub-program) basis for administrative and customer incentive costs, as well as for the projected water and electricity (if applicable) savings.

30. (Annual Conservation Expenses) No later than September 15, 2026, and every three years thereafter, the Company shall submit as a compliance filing the independent EM&V consultant's report regarding the consultant's review and assessment of Aquarion's conservation program results after every three years of implementation, including for the expenditures authorized in the Decision.

31. (Communication) The Company shall meet with EOE on a regular basis, but no less than once per month, to discuss:
    a. Aquarion's planned and executed communications with customers, including through the provision of KPI data that is provided on an, at minimum, quarterly basis;
    b. Outstanding customer complaints, covering both those complaints and inquiries submitted to the Authority as well as those routed directly to the Company; and
    c. Performance metrics tied to customer complaints, including any improvements thereto, and how such metrics regarding customer complaints about water quality and quantity issues tied to infrastructure improvements.

32. (Employee Time) The Company shall track the amount of time Aquarion employees spend volunteering during paid working hours. In its next rate case application, the Company shall provide an unlocked, workable Excel spreadsheet that details the requested information for each year between 2023 and through the test year proposed in the next rate proceeding.

33. (ESM) The Company shall calculate any future determination of the ESM ROE using the lesser of Aquarion's authorized equity position or the lesser of the actual equity carried position for the relevant period-end.

34. (LSLR Program) No later than 30 days prior to commencing its LSLR Program, the Company shall file as compliance a copy of its customer contract and any related materials associated with the LSLR Program.

35. (Acquisitions) The Company shall track all employee time spent on any future acquisitions, including mergers. As an addendum to the Company's next rate case filing, the Company shall append an unlocked, workable Excel spreadsheet that details the requested information for each year between 2023 and through the test year proposed in the next rate proceeding.

36. (LIRAP) The Company shall cross-file all motions and compliance filings required by this Decision that are associated with LIRAP in this docket and in the applicable current year's RAM proceeding.

37. (LPCs) After implementation of LIRAP, the Company shall allow its customer service representatives to waive LPCs when establishing reasonable payment plans for customers receiving LIRAP. After implementation of a billing system modification required subsequent to a motion ruling on Order No. 27, the Company shall allow its customer service representatives to waive LPCs for financial hardship customers, including customers receiving LIRAP, when establishing reasonable payment plans.

38. (Rate Case) In its next rate case application, the Company shall provide:
    a. A breakdown of costs included in the planned annual conservation expense, as well as a cost-benefit calculation of the total conservation expense; and
    b. invoices provided by third parties for each year of conservation expenditures incurred in the intervening years between rate cases, along with a narrative and data that compares and contrasts the authorized annual conservation expenses with actual expenditures, as well as the savings targets compared to actual realized savings.

39. (Rate Case) In its next rate case application, the Company shall provide a separate schedule for each O&M expense item included in the Test Year and for pro forma ratemaking purposes in the Rate Year.

40. (Rate Case) In its next rate case application, the Company shall provide a separate schedule for SERP expense that includes a detailed breakdown of the actual amount of SERP expense proposed, both direct and allocated.

41. (Rate Case) As a prerequisite to cost recovery associated with prospective logger investments, the Company shall conduct a cost/benefit analysis of the installation of loggers compared to other leak detection tools or mitigation measures, and submit the results of such analysis coincident with any rate amendment application through which associated cost recovery is sought.

42. (Rate Case) In its next rate case application, the Company shall provide an analysis of a program that uses the fees collected by the LPCs as “crisis grants” to be awarded to income-qualified customers who are most at risk for disconnection.

43. (Rate Case) In its next rate case application, the Company shall provide an analysis of the type of customers who incur late payment charges; the average, maximum, and minimum late payment charges incurred by customers, by class, in a given year; and the impact LPCs have on uncollectibles.

DOCKET NO. 22-07-01 **APPLICATION OF AQUARION WATER COMPANY OF CONNECTICUT TO AMEND ITS RATE SCHEDULE**

This Decision is adopted by the following Commissioners:

Marissa P. Gillett

Michael A. Caron

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.

March 15, 2023

Jeffrey R. Gaudiosi, Esq.
Executive Secretary
Public Utilities Regulatory Authority

Date

XI. APPENDIX

INTERVENOR	REPRESENTATIVE
City of Bridgeport	Joseph Ganim Mayor City of Bridgeport 999 Broad Street Bridgeport, CT 06604
City of Danbury	Dean Esposito Mayor City of Danbury City Hall 155 Deer Hill Avenue Danbury, CT 06810-7726
City of Derby	Richard Dziekan Mayor City of Derby Office of the Mayor 1 Elizabeth Street Derby, CT 06418
City of Norwalk	Harry W. Rilling Mayor City of Norwalk Norwalk City Hall 125 East Avenue Norwalk, CT 06856-5125
City of Norwich	Peter A. Nystrom Mayor City of Norwich 100 Broadway Room 330 Norwich, CT 06360
City of Shelton	Mark A. Lauretti Mayor City of Shelton 54 Hill Street P.O. Box 364 Shelton, CT 06484

City of Stamford	Caroline Simmons Mayor City of Stamford Stamford Government Center 888 Washington Blvd., 10th Floor Stamford, CT 06902
Town of Beacon Falls	Gerald F. Smith First Selectman Town of Beacon Falls 10 Maple Avenue Beacon Falls, CT 06403
Town of Bethel	Matthew Knickerbocker First Selectman Town of Bethel Clifford J. Hurgin Municipal Center 1 School Street Bethel, CT 06801
Town of Brookfield	Tara Carr First Selectman Town of Brookfield 100 Pocono Road Brookfield, CT 06804-5106
Town of Canaan	Henry W. Todd First Selectman Town of Canaan 108 Main Street Canaan, CT 06031
Town of Cornwall	Gordon M. Ridgway First Selectman Town of Cornwall 16 Pine Street Cornwall, CT 06753
Town of Darien	Monica M. McNally First Selectman Darien Town Hall 2 Renshaw Road Darien, CT 06820
Town of East Granby	Eden Wimpfheimer First Selectwoman Town of East Granby 9 Center Street East Granby, CT 06026

Town of East Hampton	David Cox Town Manager Town of East Hampton 1 Community Drive East Hampton, CT 06424
Town of East Hampton	Mark Philhower Town Council Chairman Town of East Hampton 1 Community Drive East Hampton, CT 06424
Town of Easton	David Bindelglass First Selectman Town of Easton 225 Center Road Easton, CT 06612
Town of Fairfield	Brenda L. Kupchick First Selectman Town of Fairfield Sullivan Independence Hall, Second Floor 725 Old Post Road Fairfield, CT 06824
Town of Farmington	C.J. Thomas Town Council Chairman Town of Farmington 1 Monteith Drive Farmington, CT 06432
Town of Farmington	Kathleen A. Blonski Town Manager Town of Farmington 1 Monteith Drive Farmington, CT 06032-1053
Town of Goshen	Todd M. Carusillo Town of Goshen 42A North Street Goshen, CT 06756
Town of Granby	Erica P. Robertson Town Manager Town of Granby 15 North Granby Road Granby, CT 06035

Town of Granby	Mark H. Florentino First Selectman Town of Granby 15 North Granby Road Granby, CT 06035-2101
Town of Greenwich	Heather R. Spaide, Esq, Marino, Zabel & Schellenberg, PLLC 657 Orange Center Road Orange, CT 06477
Town of Greenwich	Fred Camillo First Selectman Town of Greenwich Greenwich Town Hall 101 Field Point Road P.O. Box 2540 Greenwich, CT 06836-2540
Town of Groton	John Burt Town Manager Town of Groton 45 Fort Hill Road Groton, CT 06340
Town of Groton	Juan Melendez, Jr. Mayor Town of Groton 45 Fort Hill Road Groton, CT 06340
Town of Kent	Jean C. Speck First Selectman Town of Kent 41 Kent Green Boulevard P.O. Box 678 Kent, CT 06757-0678
Town of Lebanon	Kevin T. Cwikla First Selectman Town of Lebanon 579 Exeter Road Lebanon, CT 06249
Town of Litchfield	Denise Raap First Selectman Town of Litchfield 74 West Street P.O. Box 488 Litchfield, CT 06759-0488

Town of Mansfield	Antonia Moran Mayor Town of Mansfield Audrey P. Beck Municipal Building 2 S Eagleville Road Mansfield, CT 06268
Town of Mansfield	Ryan Aylesworth Town Manager Town of Mansfield Audry P. Beck Municipal Building 4 South Eagleville Road Mansfield, CT 06268
Town of Marlborough	Amy Traversa Interim Town Manager Town of Marlborough 26 North Main Street P.O. Box 29 Marlborough, CT 06477
Town of Middlebury	Edward B. St. John First Selectman Town of Middlebury 1212 Whittemore Road Middlebury, CT 06762
Town of Monroe	Ken Kellogg First Selectman Town of Monroe 7 Fan Hill Road Monroe, CT 06468
Town of New Canaan	Kevin Moynihan, III First Selectman Town of New Canaan New Canaan Town Hall 77 Main Street New Canaan, CT 06840-0447
Town of New Fairfield	Patricia Del Monaco First Selectman Town of New Fairfield 4 Brush Hill Road New Fairfield, CT 06812
Town of New Milford	Pete Bass Mayor Town of New Milford 10 Main Street New Milford, CT 06776

Town of Newtown	Daniel C. Rosenthal First Selectman Town of Newtown Newtown Municipal Center 3 Primrose Street Newtown CT 06470
Town of Norfolk	Matthew T. Riiska First Selectman Town of Norfolk 19 Maple Avenue P.O. Box 592 Norfolk, CT 06058
Town of North Canaan	Charles P. Perotti, Jr. First Selectman Town of North Canaan 100 Pease Street, #1 North Canaan, CT 06018
Town of Oxford	George R. Temple First Selectman Town of Oxford 486 Oxford Road Oxford, CT 06478-1298
Town of Plainville	Katherine Pugliese Town Council Chair Town of Plainville 50 Broad Street Plainville, CT 06062
Town of Plainville	Michael T. Paulhus Town Manager Town of Plainville Municipal Center 1 Central Square Plainville, CT 06062
Town of Redding	Julia Pemberton First Selectman Town of Redding 100 Hill Road Redding, CT 06875
Town of Ridgefield	Rudolph Marconi First Selectman Town of Ridgefield 400 Main Street Ridgefield, CT 06877

Town of Seymour	Annmarie Drugonis First Selectman Town of Seymour 1 First Street Seymour, CT 06483
Town of Sherman	Don Lowe First Selectman Town of Sherman 9 Rt. 39 North P.O. Box 39 Sherman, CT 06784
Town of Simsbury	Maria Capriola Town Manager Town of Simsbury 933 Hopmeadow Street Simsbury, CT 06070
Town of Simsbury	Wendy Mackstutis First Selectman Town of Simsbury 933 Hopmeadow Street Simsbury, CT 06070
Town of Southbury	Jeff Manville First Selectman Town of Southbury 501 Main Street South Southbury, CT 06488
Town of Southington	Mark J. Sciota Town Manager Town of Southington 75 Main Street Southington, CT 06489
Town of Southington	Victoria Triano Town Council Chair Town of Southington 33 Bellevue Avenue Southington, CT 06489
Town of Stonington	Danielle Chesebrough First Selectman Town of Stonington 152 Elm Street Stonington, CT 06378

Town of Stratford	Laura R. Hoydick Mayor Town of Stratford 2725 Main Street Stratford, CT 06615
Town of Suffield	Colin Moll First Selectman Town of Suffield 83 Mountain Road Suffield, CT 06078
City of Torrington	Elinor Carbone Mayor City of Torrington 140 Main Street Torrington, CT 06790
Town of Trumbull	Vicki Tesoro First Selectman Town of Trumbull 5866 Main Street Trumbull, CT 06611
Town of Washington	James L. Brinton First Selectman Town of Washington 2 Bryan Plaza Washington, CT 06794
Town of Weston	Samantha Nestor First Selectman Town of Weston 56 Norfield Road Weston, CT 06883
Town of Westport	Jennifer Tooker First Selectman Town of Westport 110 Myrtle Avenue Westport, CT 06880
Town of Wilton	Lynne Vanderslice First Selectman Town of Wilton 238 Danbury Road Wilton, CT 06897-4008

Town of Wolcott	Thomas G. Dunn Mayor Town of Wolcott Town Hall 10 Kenea Avenue Wolcott, CT 06716-2114
Town of Woodbury	Barbara Perkinson First Selectman Town of Woodbury 281 Main Street South Woodbury, CT 06798

Exhibit B

22-07-01 - Application of Aquarion Water Company of Connecticut to Amend Its Rate Schedule

March 15, 2023

Dissent by: John W. Betkoski, III
Vice Chairman

I've been in the water sector a long time. I've never seen a decision that excluded more items than this. Water is a basic necessity- essential to the needs of our citizens in their everyday health and existence for food, hygiene, and sanitation; for our precious environment & wildlife; for the safety of our citizens in protection against disasters, including fire and economic development.

Aquarion stated in their exceptions that, if you wanted to put a chill on investment this is how to do it.

I don't think it was a stretch for the company during orals to say that this decision in places was arbitrary and capricious. The disallowance of items requested by the authority in late files and presented at an agreed upon time I think illustrates this perfectly.

Recognizing that there certainly were issues with excess ADIT and some of the plant in service items from the company which carried through to other calculations. However, this will tell investors to spend their money elsewhere. Not in Connecticut.

As I was going through the proposed decision even the tone of the writing seemed to me to be contemptuous and perhaps condescending.

I have no doubt this decision will be appealed to the superior court. I think the company has legitimately pointed out that there are items in this decision that are trying to make an example of this company.

The ROE is another example. ROE calculations are not an exact science as we hear in all our rate cases, but an over 80 basis point reduction is substantially lower than the OCC's and I think it should be higher as interest rates are projected to continue their increase. By reducing the ROE below usual standards- a massive signal to discourage vital investment in water infrastructure and protection for public health, environment, and safety.

Courts of course often defer to agency expertise but some of the exceptions pointed out that there were new rules being applied to Aquarion in this docket that were not applied to others. Specifically, the recent CT Water Case.

While I'm happy for the relief ratepayers will receive in reduced rates, I worry that the chill on future investment may occur.

I also think that a risk averse company will be very unwilling to invest in any troubled water systems down the road, and that means any CT utility who looks through this decision.

At a time when Connecticut is very successfully encouraging business growth & job creation in our state this decision represents a punitive & anti-business practice message from the state government.

So, I find that I cannot support today's decision. I do want to thank all the parties and intervenors who put so much effort into this docket and I also continue to have the utmost respect for our hardworking PURA staff. But today I disagree and will be voting no.

Exhibit C

STATE OF CONNECTICUT

PUBLIC UTILITIES REGULATORY AUTHORITY
TEN FRANKLIN SQUARE
NEW BRITAIN, CT 06051

DOCKET NO. 22-07-01 APPLICATION OF AQUARION WATER COMPANY OF CONNECTICUT TO AMEND ITS RATE SCHEDULE

February 16, 2023

By the following Commissioners:

Marissa P. Gillett
John W. Betkoski, III
Michael A. Caron

PROPOSED FINAL DECISION

This proposed final Decision is being distributed to the parties in this proceeding for comment. The proposed Decision is not final. The Authority will consider the parties' arguments and exceptions before reaching a final Decision, which may differ from the proposed Decision. Therefore, this proposed Decision does not establish any precedent and does not necessarily represent the Authority's final conclusion.

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PROPOSED FINAL DECISION

I. INTRODUCTION

A. EXECUTIVE SUMMARY

The Public Utilities Regulatory Authority (Authority or PURA) approves an annual revenue requirement for Aquarion Water Company of Connecticut (Aquarion or Company) in the amount of $197,151,842 for the rate year commencing on March 15, 2023. The approved annual revenue requirement represents a decrease of $379,365, or approximately 0.192%, from the Company's currently approved revenue requirement. Additionally, the approved annual revenue requirement represents a decrease of over $36 million compared to the Company's request in this proceeding. While the Company requests a 10.35% return on equity, the Authority determines herein that an allowed return on equity of 8.70% is appropriate.

B. BACKGROUND OF PROCEEDING

Aquarion is a public service company within the meaning of Conn. Gen. Stat. § 16-1. Aquarion is a subsidiary of Aquarion Water Company (Parent Company). The Company currently provides water service, including fire protection service, to approximately 207,000 customer connections in 56 communities across Connecticut. Application, p. 5.

Aquarion previously increased its base rates in October 2013. Decision (2013 Decision), Sept. 24, 2013, Docket No. 13-02-20, Application of Aquarion Water Company of Connecticut to Amend Its Rates (2013 Rate Case).

On July 1, 2022, Aquarion submitted formal notice of its intent to file an application to amend its existing rate schedules.

C. CONDUCT OF PROCEEDING

On August 26, 2022, Aquarion filed an application to amend its existing rate schedules (Application) pursuant to Conn. Gen. Stat. § 16-19, Conn. Agencies Regs. § 16-1-53a, and the Standard Filing Requirements.

The Authority held a noticed scheduling conference on September 8, 2022, via teleconference.

The Authority conducted a noticed revenue audit on September 23, 2022, via remote access, and a noticed audit of the books and records of the Company on September 29 and 30, 2022, at the offices of the Company, 600 Lindley Street, Bridgeport, Connecticut.

The Authority held two noticed in-person public comment hearings; the first on September 8, 2022, at the Westport Town Hall and the second on October 12, 2022, at

the Stratford Library. The Authority also held two noticed virtual public comment hearings on October 6, 2022, and on October 25, 2022.

The Authority conducted inspections of the Company's plant and facilities throughout Connecticut on November 8 and 9, 2022.

The Authority held noticed evidentiary hearings on November 22, 28, 29, and 30, and on December 5 and 6, 2022, at PURA's offices, Ten Franklin Square, New Britain, Connecticut (PURA's Offices).

The Authority held late filed exhibit hearings on December 14 and 15, 2022, at PURA's Offices.

The Authority issued a Proposed Final Decision in this matter on February 16, 2023. All Parties and Intervenors were given the opportunity to file Written Exceptions to the Proposed Final Decision and to present Oral Argument.

D. PARTIES AND INTERVENORS

The Authority recognized the following as Parties to this proceeding: Aquarion Water Company of Connecticut, 835 Main Street, Bridgeport, CT 06604; Office of Education, Outreach, and Enforcement, Ten Franklin Square, New Britain, CT 06051; Office of Consumer Counsel, Ten Franklin Square, New Britain, CT 06051; and the Commissioner of the Department of Energy and Environmental Protection, 55 Elm Street, Hartford, CT 06106.

The Authority designated the following as Intervenors to this proceeding: the Office of the Attorney General; the City of Rye and the Villages of Port Chester and Rye Brooke, New York; Smart Water Westport; Veolia Water New York, Inc.; and all towns and municipalities in Aquarion Water Company of Connecticut's service territory. A list of the towns and municipalities designated as Intervenors is provided in the Appendix.

E. POSITIONS OF PARTIES AND INTERVENORS

The Company acknowledges that Connecticut continues to grapple with the COVID-19 pandemic and that the current economic and global political climate is impacting the cost of energy and other consumer goods. Aquarion Brief, p. 11. The Company asserts, however, that access to "a reliable, safe, and high-quality water supply" remains a public necessity. Id. According to Aquarion, its current rates are insufficient to cover the costs of providing safe and reliable service to customers. Id., p. 12. The Company also alleges that the rates are insufficient to cover the capital infrastructure investments the Company has made since the 2013 Rate Case. Id. Accordingly, the Company is requesting approval to increase base rates for a three-year period to address revenue deficiencies. Id., p. 1.

The Authority's Office of Education, Outreach, and Enforcement (EOE) actively participated in this proceeding,[1] issuing nearly 90 interrogatories, providing expert testimony, conducting cross examination during both the evidentiary hearings and late filed exhibit hearings, and filing a brief. EOE recommends that the Company update its customer notices to educate customers about the process of requesting a return of their security deposit and to identify regulatory security deposit exemptions. EOE Brief, pp. 5-6. EOE also provides suggestions to modify the proposed Low-Income Discount Rate Program. Id., p. 13. As stated by EOE's expert witness, Aaron Rothschild, the Authority should approve a return on equity (ROE) between 7.65% and 8.91%, as it reflects the Company's and ratepayers' needs best compared to other ROEs proposed by experts who testified in this proceeding. Id., pp. 14, 25. Specifically, EOE identifies deficiencies in the testimony provided by Aquarion's ROE expert, Joshua Nowak. Id., pp. 23-25.

OCC also actively participated in this proceeding, issuing over 350 interrogatories, providing expert testimony, conducting cross examination during both the evidentiary hearings and late filed exhibit hearings, and filing a brief. OCC states, among other issues raised, that the Company's proposed Low-Income Discount Rate Program fails to provide a measurable benefit to vulnerable customers. OCC Brief, p. 9. Further, the Company has not demonstrated that it has undertaken the necessary steps to understand why its customers fail to pay their bills and, therefore, should not be able to recover uncollectible revenues. Id., p. 25. OCC asserts that projects less than 100% complete by the last day of the hearing should be removed from the plant in service rate base calculation consistent with past PURA precedent. Id., p. 27. OCC does not support a multi-year rate increase. Id., p. 59. OCC does, however, support the proposed four-tier inclining block rate structure as it will provide relief for low-income residential customers by shifting costs to higher-volume residential users. Id., pp. 61-62.

DEEP actively participated in this proceeding, issuing over 30 interrogatories, conducting cross examination in the evidentiary hearings and late filed exhibit hearings, and filing a brief. DEEP supports an inclining block rate structure but recommends that the Authority approve a three-tier structure for residential single-family customers that more aggressively targets discretionary uses (e.g., lawn irrigation). DEEP Brief, pp. 2-3. DEEP also supports approval of a 15% Low-Income Rate Assistance Program (LIRAP), with suggested modifications. Id., p. 6. Additionally, DEEP requests that the Authority order the Company to submit a plan to bring non-compliant DEEP authorized diversion permits and registrations into compliance and to submit a study evaluating the impact of Aquarion's water withdrawals that may be potentially harmful to the environment. Id., pp. 9-11.

The Office of the Attorney General (OAG) objects to Aquarion's proposed rate increase on the basis that the Company has failed to meet its burden of demonstrating resulting rates are just and reasonable and specifically rejects the multi-year rate proposal. OAG Brief, pp. 1, 16. The OAG states that Aquarion's proposed ROE is unreasonably high, is based upon a biased analysis, and is inconsistent with market conditions and PURA decisions and, therefore, recommends an ROE in the range of

[1] Pursuant to Conn. Gen. Stat. § 16-19j(b), the Authority appointed EOE as a party to the proceeding.

8.33% and 9.00%. Id., pp. 1-2, 10. Further, the OAG finds that Aquarion has overstated its proposed costs and recommends adjustments to reduce the Company's proposed revenue requirement by more than $20 million in Rate Year 1. Id., p. 2. In addition, the OAG recommends that PURA reject the Company's proposed capital structure, in part because the cost of equity is unfairly high given that Eversource Energy (Eversource), Aquarion's parent company, maintains a lower equity level. Id., pp. 5-6.

The City of Rye and the Villages of Port Chester and Rye Brooke, New York (New York Municipalities or NYM) propose adjustments to the calculation of the resale rate by which Aquarion sells water to the New York Municipalities. New York Municipalities Brief, p. 2. The NYM do not take issue with the amended cost allocation methodology (ACAM) as approved in Docket No. 19-12-27, Petition of Aquarion Water Company of Connecticut for Approval of Amended Cost Allocation Methodology Under an Existing Water Supply Agreement with Suez Water Westchester (Docket No. 19-12-27); however, the NYM raise concerns that the corresponding adjustments to the inputs in the ACAM have not been updated in the cost of service. Id., p. 3. Aquarion is making improvements to the Southwest Regional Pipeline (SWRP) to increase water supply, but the allocation of capital costs puts a significant burden on the Greenwich Division. Id., p. 4. As such, the NYM request that the Authority reduce the allocation of capital costs for the SWRP to the Greenwich Division and assigned to Veolia, and flow through adjustments in the rate of return and cost of operations to the methodology used to set the resale rate. Id., p. 9.

Veolia Water New York, Inc. (Veolia) purchases water from Aquarion pursuant to a water supply agreement. The rate is determined by the ACAM, which was approved by the Authority in Docket No. 19-12-27. As proposed in the Application, Aquarion seeks to increase Veolia's rate by $1.6 million, or 41.63%. Given that this rate proceeding is the first time ACAM would be utilized, Veolia sought intervention to ensure that the Company was appropriately complying with ACAM. After conducting limited discovery, Veolia determined that Aquarion did comply with ACAM and is not recommending specific adjustments to the inputs Aquarion used. Veolia Brief, p. 3. Should PURA make any adjustments to Aquarion's proposed rate increase, Veolia requests that those adjustments flow through the ACAM. Id., p. 4.

Smart Water Westport (Smart Water), consisting of Westport residents, raised concerns about Aquarion's transparency in costs, use of data, and marketing as their rationale for opposing Aquarion's rate increase. Smart Water asserts that Aquarion has failed to demonstrate how its marketing benefited ratepayers and seeks a $3 million reduction in capital expenditures. Smart Water Brief, p. 22.

F. PUBLIC COMMENT

The Authority held four public comment hearings, two in person and two virtually. Sixteen people attended the in-person public comment hearing on September 8, 2022, at the Westport Town Hall; seventeen people attended the in-person public comment hearing on October 12, 2022, at the Stratford Library; approximately forty-two people attended the virtual public comment hearing on October 6, 2022; and approximately thirty-

three people attended the second virtual hearing on October 25, 2022. Aquarion provided a presentation via PowerPoint at the beginning of each of the public comment hearings.

The Authority received oral and written comments from forty-eight entities. Of those entities, five were elected officials,[2] two were organizations,[3] and the remaining forty-two were ratepayers. Of those who submitted written comments, four self-identified as senior citizens.[4] The American Association of Retired Persons Connecticut (AARP CT) also filed a petition opposing the rate increase, which was signed by 2,389 of its members. AARP Corresp., Oct. 26, 2022.

Opposition to Aquarion's application for a rate increase was unanimous. None of the comments received advocated for increased rates, and most comments were critical of Aquarion's proposal in full, with the limited exception being that, in some instances, commenters opposed the overall increase but supported one element of the proposal. For example, the Town of Simsbury opposed the rate increase but supported the tiered rate structure.[5] AARP opposed the increase but supported the creation of a low-income rate.[6] The Town of Greenwich opposed the rate increase because of its impact on customers, as well as the impact on municipal costs such as the rental of hydrants.[7] In one instance, a commenter did find Aquarion's response to the 2022 drought to be appropriate.[8]

The top reasons commenters opposed the increase included that the proposed increase was too high (60% of complaints);[9] and general opposition to the proposed rate structure (33% of complaints).[10] More specifically, the majority of these comments were opposed to the inclining-block structure for residential accounts.[11] Commenters also asserted that the proposed increase is due to corporate greed or otherwise not justified (11% of complaints),[12] and expressed general dissatisfaction with water quality (11% of complaints).[13]

---

[2] See Brenda Kupchick, First Selectman, Town of Fairfield, Corresp., Sept. 1, 2022; State Senator Tony Hwang, 28th District, Connecticut General Assembly, Corresp., Sept. 8, 2022 and Jan. 6, 2023; State Representative Joseph Gresko, Tr., Oct. 12, 2022, 17:13-19:22; Maria E. Capriola, Town Manager, Town of Simsbury, et al., Corresp., Sept. 30, 2022; Monica M. McNally, First Selectman, Town of Darien, Corresp., Oct. 20, 2022; Tr., Sept. 8, 2022, 25:17-26:1.

[3] See Gary Wilcox, President, and James Baldis, Fire Chief, Simsbury Fire District Corresp., Oct. 11, 2022; Josh Erlingheuser, Advocacy Director, AARP CT Corresp., Oct. 3, 2022.

[4] See, e.g., Cornelia Baker Corresp., Sept. 28, 2022; Teresita Pastorelle Corresp., Sept. 28, 2022.

[5] Maria E. Capriola, Town Manager, Town of Simsbury, et al., Corresp., Sept. 30, 2022.

[6] John Erlingheuser, Advocacy Director, AARP CT Corresp., Oct. 3, 2022.

[7] Fred Camillo, First Selectman, Town of Greenwich, Dec. 2, 2022.

[8] Tr., Oct. 12, 2022, 18:25-19:1.

[9] See, e.g., Maryanne Joyce Corresp, Sept. 13, 2022; Bill Hunter Corresp., Sept. 13, 2022; Martha Durham Corresp., Sept. 20, 2022; Alistair Phipps Corresp., Sept. 26, 2022; Tr., Oct. 6, 2022, 27:3-6.

[10] See, e.g., Tr., Sept. 8, 2022, 22:22-23:13; Tr., Oct. 12, 2022, 20:17-21:18; Tr., Oct. 25, 2022, 27:15-28:13.

[11] See, e.g., James A. Landmon Corresp., Sept. 28, 2022; Tr., Oct. 12, 2022, 20:17-21:18; Tr., Oct. 25, 2022, 27:15-28:13.

[12] See, e.g., Ronald J. Murray Corresp., Sept. 29, 2022.

[13] See, e.g., Carlos DeCarvalho Corresp., Sept. 29, 2022.

Finally, one commenter raised questions regarding the prudency of two specific projects: the water tank storage in Westport, and Aquarion's recent water diversion project.[14] In the first instance, the commenter felt Aquarion overstated the need for tank storage in Westport, and in the latter instance the commenter questioned whether the diversion project was properly approved.[15]

II. STANDARD OF REVIEW

Aquarion is a public service company within the meaning of Conn. Gen. Stat. § 16-1. The Authority is statutorily charged with regulating the rates of Connecticut's public service companies. Conn. Gen. Stat. § 16-19. Consequently, Aquarion must "file any proposed amendment of its existing rates with the [A]uthority in such form and in accordance with such reasonable regulations as the [A]uthority may prescribe." Conn. Gen. Stat. § 16-19(a).[16] Once a proposed amendment has been filed, the Authority conducts an investigation "to determine whether such rates conform to the principles and guidelines set forth in section 16-19e, or are unreasonably discriminatory or more or less than just, reasonable and adequate, or that the service furnished by such company is inadequate to or in excess of public necessity and convenience, . . ." Id.[17]

The statutory prerogative to establish just, reasonable, and sufficient utility rates is based upon principles established in two landmark United States Supreme Court cases, as recognized by the Connecticut Supreme Court. See Connecticut Light & Power Co. v. Dep't of Pub. Util. Control, 216 Conn. 627, 635 (1990). Specifically, a regulated utility is entitled to an opportunity to recover prudent operating expenses as well as capital costs, including a fair and reasonable rate of return on capital investments. Fed. Power Comm'n v. Hope Nat. Gas Co., 320 U.S. 591, 603 (1944) (Hope); Bluefield Waterworks & Imp. Co. v. Pub. Serv. Comm'n of W. Va., 262 U.S. 679, 690 (1923) (Bluefield); see also Duquesne Light Co. v. Barasch, 488 U.S. 299, 310 (1989).

Ultimately, however, rate setting requires "a balancing of the investor and consumer interests." Woodbury Water Co. v. Pub. Utilities Comm'n, 174 Conn. 258, 264 (1978) (citing Hope, 320 U.S. at 603). Further, the Authority "is not bound to the use of any single formula or combination of formulae in determining rates. Its rate-making function . . . involves the making of 'pragmatic adjustments.'" Id. (citations omitted).

In striking this balance and making pragmatic adjustments, the Authority is guided by Conn. Gen. Stat. § 16-19e(a), which states, in relevant part, that the Authority shall examine proposed rates in accordance with the following principles:

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[14] Tr., Sept. 8, 2022, 19:10-15.

[15] Tr., Sept. 8, 2022, 20:21-23:13.

[16] Conn. Agencies Regs. §§ 16-1-53 *et seq.* apply to rate amendment applications.

[17] Conn. Gen. Stat. § 16-19(a) also permits the Authority to "(A) evaluate the reasonableness and adequacy of the performance or service of the public service company using any applicable metrics or standards adopted by the authority pursuant to section 1 of Sept. Sp. Sess., Public Act 20-5, and (B) determine the reasonableness of the allowed rate of return of the public service company based on such performance evaluation."

(4) that the level and structure of rates be sufficient, but no more than sufficient, to allow public service companies to cover their operating costs including, but not limited to, appropriate staffing levels, and capital costs, to attract needed capital and to maintain their financial integrity, and yet provide appropriate protection to the relevant public interests, both existing and foreseeable . . . ;
(5) that the level and structure of rates charged customers shall reflect prudent and efficient management of the franchise operation[.]

Importantly, the utility "has the burden of proving the proposed rate under consideration is just and reasonable." Conn. Gen. Stat. § 16-22. This burden shift implemented by the General Assembly in rate cases is significant because it attempts to remedy a critical challenge in setting rates — asymmetric access to information. The utility retains the majority of the relevant and critical information necessary for the Authority to make findings of fact and associated determinations on rates. Therefore, the Authority and other parties are at an information disadvantage compared to the utility and must rely on the utility's application materials, the utility's responses to interrogatories, and the utility's witness testimony. The burden shift under Conn. Gen. Stat. § 16-22 addresses this information imbalance by imposing an affirmative obligation on the utility to present sufficient evidence to support the proposed rate amendment.

In administrative proceedings, the appropriate standard of proof is the preponderance of the evidence. Jones v. Connecticut Med. Examining Bd., 309 Conn. 727, 734-735 (2013); Connecticut Light & Power Co. v. Connecticut Dept. of Pub. Util. Control, No. CV094019951S, 2010 WL 797137, at *10; Goldstar Med. Services, Inc. v. Dep't of Soc. Services, 288 Conn. 790, 821 (2008). Consequently, to carry its statutory burden, the utility must provide (or ensure the record contains) a preponderance of evidence that the requested rates are "sufficient, but no more than sufficient" and "reflect prudent and efficient management." See Tianti v. William Raveis Real Estate, Inc., 231 Conn. 690, 702, (1995) (finding that the preponderance of evidence standard is met when a fact is "more probable than not.").

Notably, this burden requires the utility to provide more than mere declarations of fact. Connecticut Nat. Gas Corp. v. Pub. Utilities Comm'n, 29 Conn. Supp. 379, 394 (1971)("[t]here is no sacrosanctity about the testimony of any company officer regardless of his position which gives such testimony any godlike fiat that must be accepted out of hand by the PUC."). More to the point, "[b]ald statements need to be covered with some evidential hair . . . ." Id. Further, "[a]n administrative agency is not required to believe any witness, even an expert." Goldstar, 288 Conn. at 830 (citations omitted). It is the Authority's province to "make determinations of credibility, crediting some, all, or none of a given witness' testimony." Id.

III. TEST YEAR AND MULTI-YEAR RATE PLAN

A. TEST YEAR

The test year is required to "consist of the most recent twelve-month period available ending at a calendar quarter. The data presented in any statement concerning any test year shall be limited to the actual income and expenses as determined on the accrual basis during the subject period without adjustment or alteration." Conn. Agencies Regs. § 16-1-54. Applicants are required to present financial data through the Authority's Standard Filing Requirements. See Conn. Agencies Regs. § 16-1-53a.

Here, Aquarion has proposed the 12-month period ending on December 31, 2021, as the test year. Morrissey Prefiled Test., Aug. 29, 2022, p. 13. Based on its review of the financial data provided, the Authority accepts the period beginning on January 1, 2021, and ending on December 31, 2021, as the test year (Test Year).

B. MULTI-YEAR RATE PLAN

The Authority approves an amended rate schedule effective March 15, 2023, but declines to approve the three-year rate plan requested by the Company.[18] Specifically, in addition to the initially requested $27.5 million rate increase effective March 15, 2023, the Company requested that the Authority approve subsequent rate increases totaling $13.6 million and $8.8 million effective March 15, 2024, and March 15, 2025, respectively, "based on forecasted plant additions for [Rate Years 2 and 3], exclusive of WICA." Morrissey PFT, p. 16.

The Company provides two rationales for a multi-year rate plan – neither of which are persuasive. First, the Company states that its "singular concern is the necessity of supporting the increasing capital requirements of the system." Id. However, as the Company acknowledges, the General Assembly has already established the Water Infrastructure and Conservation Adjustment (WICA), which "provides an opportunity for recovery of a portion of capital investment in between rate cases." Id.; Conn. Gen. Stat. § 16-262w. Specifically, under WICA, Aquarion is permitted to increase revenues to contemporaneously recover the costs of an expansive range of eligible capital projects. See Conn. Gen. Stat. § 16-262v(1) (defining "eligible projects"). This rate case resets Aquarion's WICA to zero, allowing the Company to increase its annual revenues by up to 5% per year and up to 10% between rate case filings. Conn. Gen. Stat. § 16-262w(i). The Company did not provide any explanation as to why these prospective additional WICA revenues are insufficient to address the Company's capital requirements. Instead, the Company simply notes that the rate increases under WICA are capped at 10%. Morrissey PFT, pp. 17-18. However, the existence of a statutory cap on rate increases for capital expenditures between water rate cases is a strong indicator that the General Assembly disfavors substantial rate increases between regulatory reviews and weighs

[18] The Company proposed three rate years: March 15, 2023, through March 14, 2024 (Rate Year 1); March 15, 2024, through March 14, 2025 (Rate Year 2); and March 15, 2025, through March 14, 2026 (Rate Year 3). Morrissey PFT, p. 16.

heavily against the Authority approving a rate plan that would essentially circumvent the statutory cap.

The Company also briefly notes that its proposed multi-year plan is similar to multi-year rate plans approved for Connecticut's electric and gas utilities. Morrissey PFT, p. 17. Even if true, the argument is a non sequitur. Water companies are not similarly situated because electric and gas utilities do not have a statutory mechanism equivalent to WICA that supports capital investments between rate cases. Consequently, there is no evidence to find that a multi-year rate plan is needed to support the Company's capital requirements.

Second, despite capital requirements being its "singular concern," the Company also posits that a multi-year rate plan provides rate stability for customers by "extend[ing] the time period between rate cases and mitigate[ing] the potential for more frequent rate cases." Morrissey PFT, p. 17. Importantly though, Aquarion was not previously on a multi-year rate plan, and its last rate case was nearly 10 years ago. See 2013 Decision. Consequently, there is no evidence in this record to support the argument that multi-year rate plans provide rate stability, or even that "more frequent rate cases" are necessarily to be avoided.[19]

In summary, the Company did not meet its burden of demonstrating that its proposed multi-year rate plan comports with Conn. Gen. Stat. § 16-19e(a).

IV. RATE BASE

A. SUMMARY

Rate base is a fundamental principle of cost-of-service ratemaking. Rate base is comprised of the investor-supplied facilities and other investments necessary to supply utility service to consumers in a safe, reliable, and cost-effective manner. For purposes of ratemaking, rate base is the capital on which the investor is able to earn a return. Bluefield, 262 U.S. at 690 ("This is so well settled by numerous decisions of this court that citation of the cases is scarcely necessary: What the company is entitled to ask is a fair return upon the value of that which it employs for the public convenience.")(citations and internal quotation marks omitted); Pub. Serv. Co. of New Mexico v. Fed. Energy Regulatory Comm'n, 653 F.2d 681, 683 (D.C. Cir. 1981) ("As a general proposition, a regulated utility is allowed to recover . . . a reasonable return on capital invested in the enterprise and allocated to public use.").

Cost-of-service ratemaking provides a return on the capital that has been invested by shareholders and put to public use. This capital invested for public use is known as

[19] Indeed, in its March 16, 2022 Decision rejecting the Company's unsolicited attempt to further delay a rate case proceeding by resetting Aquarion's WICA surcharge, the Authority concluded that the deferral of a general rate proceeding based on the available record offered "limited benefits and material risks for ratepayers." Decision, March 16, 2022, Docket No. 13-02-20RE06, Application of Aquarion Water Company of Connecticut to Amend Its Rates – WICA Reset Settlement, p. 11 (2022 Decision).

rate base. Consequently, to determine an appropriate return on capital, the Authority must first establish Aquarion's rate base.

Rate base is determined by taking the test year net book value of prudent capital investments and accounting for other factors, including accumulated depreciation, working capital, and non-rate base capital such as deferred taxes. The Authority will then allow certain pro forma adjustments to recognize capital investments and other changes to rate base that occur subsequent to the test year. Connecticut Nat. Gas Corp, 29 Conn. Supp. at 390 (utilities are generally "permitted to adjust the test year forward for a reasonable period of time where definitely ascertainable expenses are involved during such future period . . . .").

The purpose of the pro forma adjustments to rate base is to have rates that are reasonably reflective of the Company's actual rate base during the rate year, subject to the limitations of a prospective ratemaking process. Specifically, the adjustments are appropriate for "definite, ascertainable expenses maturing or certain to materialize [and such] expenses of course must not be based upon speculation or contingencies that are likely, but not certain, to occur . . . ." Id. Consequently, the primary limiting principles for pro forma adjustments are that they must be "known and measurable" and supported by substantial evidence, with the burden resting on the utility to make such a showing. Id. Connecticut Nat. Gas Corp. v. Dep't of Pub. Util. Control, 51 Conn. Supp. 307, 322 (2009) (noting that the agency applied the "known and measurable" standard to pro forma adjustments).

Here, the Company proposed a Test Year rate base of $972,488,145 and pro forma adjustments, through December 15, 2022, of $76,531,208, for a total rate base of $1,049,019,354. Late Filed Ex. 1 Suppl. 2 (Dec. 19, 2022), Att. 1,[20] Sch. B-1.0A. As shown in the table below and described in the following sections, the Authority modifies certain components of the proposed rate base, resulting in a reduction of $59,650,924 in rate base for a total approved rate base of $989,368,429.

[20] Late Filed Exhibit 1, Suppl. 2 (Dec. 19, 2022), Att. 1, is hereinafter referred to as Final Late Filed Ex. 1 in the Decision.

Table 1: Pro Forma Rate Base ($)

	Rate Base Component	Company Pro Forma (12/15/2022)	Authority modification	Approved Pro Forma Rate Base
1	Plant in Service	1,875,384,344	(48,060,300)	1,827,324,044
2	Accumulated Depreciation	(620,956,042)	(5,896,018)	(626,852,060)
3	Net in service (1-2)	1,254,428,302	(53,956,318)	1,200,471,984
4	Working capital allowance	13,665,003	(1,966,338)	11,698,665
5	Amortization on CIAC	33,154,785		33,154,785
6	Deferred Tank Painting	10,788,711		10,788,711
7	Deferred Sales Tax	8,475,603		8,475,603
8	Other deferred debits	216,206		216,206
9	CIAC	(140,611,418)		(140,611,418)
10	Customer advances, etc.	(43,225,369)		(43,225,369)
11	Deferred taxes (ADIT)	(87,872,470)	(2,804,252)	(90,676,722)
12	Capitalized Expenses		(924,016)	(924,016)
13	**Rate Base Total**	**1,049,019,354**	**(59,650,924)**	**989,368,429**

B. PLANT-IN-SERVICE

1. Test Year Plant-in-Service

The Company has identified $1,776,894,698 of plant-in-service at the end of the Test Year. Application, Schedule B-2.0A. To determine the test year plant-in-service, the amount of completed capital investments made by the Company through the end of the Test Year is added to the Company's previously approved utility plant. The additional plant includes both WICA and non-WICA investments. Notably, the Company seeks approximately $600 million in new plant additions since its last rate case through the Test Year, one third of which was through the WICA program. Id. Table 2 summarizes the Company's purported plant-in-service through the Test Year.

Table 2: Company's Test Year Plant-in-Service Additions

Plant-in-service (Sept. 30, 2013)[21]	1,175,122,602
WICA Additions	202,312,780
Non-WICA Additions	399,459,316
Total Plant-in-Service	**1,776,894,698**

The plant-in-service includes five categories: (1) source of supply; (2) pumping; (3) water treatment; (4) transmission and distribution; and (5) general plant, as well as certain plant acquisition adjustments. Application, Schedules B-2.1A, B-3.1A, B-2.0A.

A water company may only include in rate base plant that which is in service and used and useful in providing water service. See Smyth v. Ames, 169 U.S. 466, 546 (1889), rev'd on other grounds; Hope, 320 U.S. at 605. ("We hold . . . that the basis of all calculation as to the reasonableness of rates to be charged by a [public utility] must be the fair value of the property being used by it for the convenience of the public."); Southern New England Telephone Co. v. Public Utilities Commission, 29 Conn. Super. 253, 259-260 (1970) (citation omitted) ("Generally speaking, property not employed in the public service should not be incorporated into the base to be used to compute the fair rate of return. It must be kept in mind, however, that whether utility property is used or useful for inclusion in the rate base is a factual determination rather than a legal question."); Decision, May 19, 2021, Docket No. 20-10-31, Application of the Jewett City Water Company to Amend Rate Schedules, pp. 23-24 ("The Authority does not allow for the inclusion of incomplete system additions or improvements into a Company's proforma rate base . . . . The Authority finds that the ratepayers benefit from the plant additions when they are in-service and that the ratepayers should not be responsible for providing a return on plant that is not in-service.").

In addition, and of equal import, the Company may only recover the cost of plant investments that were incurred prudently and reasonably. Conn. Gen. Stat. § 16-19e(a)(5) ("the level and structure of rates charged customers shall reflect prudent and efficient management of the franchise operation"). Specifically, "there exists a distinction between, on one hand, utility property and, on the other hand, the cost of utility property allowed in rate base, because only that portion of utility property that is the result of prudent and reasonable management is included in rate base." Connecticut Light & Power Co. v. Dep't of Pub. Util. Control, 219 Conn. 51, 67-68 (1991). With respect to timing, the prudency determination is typically the critical path because it requires a final accounting of and justification for the incurred costs, which can only occur after the project is completed and final invoices are paid.

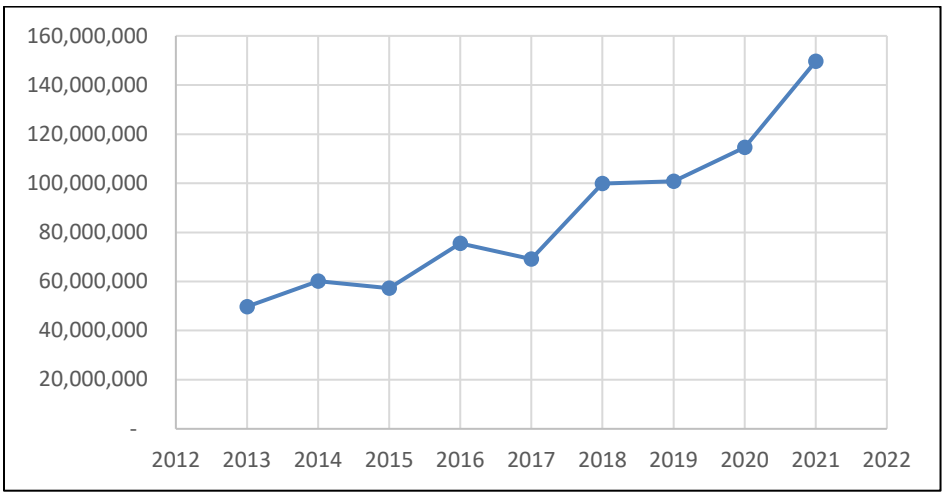
Consequently, for the costs of plant investments to be included in rate base, the Company bears the burden of demonstrating that: (1) the plant is in service; and (2) the costs were prudently and reasonably incurred. To meet this burden, the Company must provide actual supporting evidence. Notably, "[t]here is no sacrosanctity about the testimony of any company officer regardless of his position which gives such testimony

[21] 2013 Decision, pp. 20, 37.

any godlike fiat that must be accepted out of hand by the PUC." Connecticut Nat. Gas Corp., 29 Conn. Supp. at 394 ("Bald statements need to be covered with some evidential hair . . . .").

Since the Company's 2013 Rate Case, it has made approximately $800 million in plant additions through August 31, 2022. Lawrence Prefiled Test., Aug. 29, 2022, p. 28; RRU-127, Att. 1, Summary; Aquarion Interrog. Resp. OCC-6.[22] This is an astounding level of plant investment, averaging almost $100 million per year. Notably, the pace of investment has risen substantially in the last few years, averaging more than $116 million per year since 2018. The figure below illustrates the significant and increasing levels of annual plant addition since 2013.

Figure 1: Annual Capital Additions ($) by Year



Aquarion Interrog. Resp. RRU-127, Att. 1, Summary.[23]

Notably, this level of investment substantially exceeds the amount projected by the Company in the 2013 Rate Case. Specifically, at that time, the Authority expressed concern about the Company spending $287 million as part of its five-year capital plan covering 2013-2017. 2013 Decision, p. 24. In fact, the Authority cautioned the Company that annual capital improvement spending from 2011-2013 had already increased by almost 50% from the $40 million in annual investment for 2008-2010. Id., pp. 20-21. Nonetheless, despite the Authority's determination that the Company "should be scaling back," the Company exceeded even its own projections, spending $312 million ($57 million per year) from 2013-2017. Id., p. 20; RRU-127, Att. 1. Since then, capital additions

[22] In the 2013 Rate Case, the Authority approved a pro forma (through September 30, 2013) utility plant-in-service of $1,175,122,602. 2013 Decision, p. 37. The Company states that its December 31, 2021 Test Year plant-in-service is $1,776,894,698, for a difference of about $600 million. Final Late Filed Ex. 1, Sch. B-2.0A. However, the Company testified that it had completed $763 million as of March 31, 2022, and approximately $800 million as of August 31, 2022. Lawrence PFT, p. 28.

[23] The annual addition of $50 million for 2013 is extrapolated based on $12.4 million for 4Q 2013.

have ballooned to $116 million per year on average. Id.[24] Although capital additions are within the Company's discretion, the rapid and substantial increases in spending, together with the Authority's prior admonitions, would normally signal to a utility that the prudency of such additions would be particularly scrutinized and, thus, would need to be adequately supported by record evidence and balanced against the parameters of Conn. Gen. Stat. § 16-19e(a).

The question before the Authority then is whether the Company has provided sufficient evidence in the record to satisfy its burden of demonstrating that the hundreds of millions of dollars of investments made through the end of the Test Year are in-service and that the costs were prudently and reasonably incurred. To put this in context, it is helpful to consider what level of documentation might be expected if a government agency were to expend, or to authorize the expenditure of, close to a billion (with a "b") dollars. With that in mind, the Authority turns to the evidence in the record.

To support its capital additions through the Test Year, the Company relies primarily on evidence located in two places: (1) the prefiled testimony of Daniel Lawrence, Exhibit A-3-DRL-1, and (2) the Company's response to Interrogatory RRU-127 as supplemented by Late Filed Exhibit 4. See Aquarion Brief, pp. 37-45. Mr. Lawrence's prefiled testimony includes 15 pages related to "Infrastructure Improvement and Pro Forma Plant Additions." Lawrence PFT, pp. 28-42. The testimony includes Table DRL-5, which identifies groups of "Major Additions to Utility Plant" through August 31, 2022, totaling $531.8 million. Id., p. 30. This amount is comprised of 18 relatively discreet projects totaling approximately $138.8 million (Items B, C, D, E, F G, H, I, M, N, O, P, Q, R, S, T, U and V) and five general categories of additions totaling $393 million (Items A, J, K, L, and W).

For each of the discrete projects, the Company provides 2-3 sentences generally explaining the completed additions and providing a cursory rationale for why the projects were undertaken. See, e.g., Lawrence PFT, p. 33 ($8.9 million "to increase the capacity of the raw water main"), p. 36 ($4.3 million to "optimize the performance of . . . filter units"), and p. 37, ($3 million "to replace an inadequate facility"). However, the testimony does not, for any of the discrete projects, specifically address why the chosen investment was the best option or why the incurred costs were prudent and reasonable. A review of the transcript from Mr. Lawrence's cross examination reveals limited details supporting a prudency finding as to the $138.8 million spent on these 18 projects. See, e.g., Tr., Nov. 22, 2022, 93:7-10 ("If you want the actual projects that go with that, I would need to give you a Late-File that actually explains what exactly was going on in each year, but it's varying.").

For the five general categories representing $393 million in plant additions, the prefiled testimony provides a similar paucity of detail despite the significantly larger expenditures. Lawrence PFT, pp. 31, 34-35, 39. The discussion for the $233 million in water main costs (Item A) consists of four sentences, none of which address specific projects or prudency of the costs. Id., p. 31. The Company notes that $149.8 million of

[24] Notably, the sharp increase in capital additions is coincident with Eversource Energy's 2017 acquisition of Aquarion.

the $233 million in water main projects was completed under the WICA program, Id.; however, the Authority does not make prudency determinations on WICA projects until the subsequent rate case.[25] Consequently, a project's eligibility as a WICA project is not evidence of prudency. Similarly, the explanation for $49.9 million to replace "aged and leaking service lines, inoperable valves, and obsolete fire hydrants" also spans four sentences, none of which apportion the costs between those activities or address the prudency of the expenditures. Id., p. 34. The hearing testimony also adds little, if any, evidence as to the prudency of these investments. Tr., Nov. 22, 2022, 72:9-14 ("[the meter replacement program is] going to be about 3 and a half million dollars. So things like that we don't need to devote a lot of time on in the project management process. Similarly, in terms of valves, hydrants and the like, they would follow that type of an approach.").

Importantly, the prefiled testimony is silent on approximately $268.2 million in additions. Mr. Lawrence stated that $800 million in additions were made through August 31, 2022; however, Table DRL-5 and the related testimony covers only $531.8 million. The remaining $268.2 million does not appear to be addressed elsewhere in the prefiled testimony.

The Company also cites to the Company's response to Interrogatory RRU-127, which was ostensibly supplemented by Late Filed Exhibit 4. The Company did not, either in the Application or prefiled testimony, provide an itemized list of projects it seeks to add to the Test Year rate base. Needless to say, the identification of the projects for which a utility seeks recovery is a bare prerequisite for any prudency review and determination. Consequently, the Authority requested such a schedule of capital improvements since 2013 through the 2021 Test Year. Interrog. RRU-127. In this request, the Authority required the Company to provide "the types of construction, the quantities, the actual and estimated costs" and a discussion of "the results of those improvements." Id. In response, the Company provided only a list of projects and associated costs but did not offer other information responsive to the interrogatory. Aquarion Interrog. Resp. RRU-127, Att. 1. The Company's Late Filed Exhibit 4 supplemented the RRU-127 Attachment 1 with "the list of projects 100% complete and closed to plant in 2022 through November totaling $94,897,843." Late Filed Ex. 4, Suppl. Att. 1 (Dec. 19, 2022).[26] Neither the response to RRU-127 nor Late Filed Exhibit 4 provide direct evidence in support of a determination that the investments, either individually or in aggregate, were prudent.

Notably, the Company offered evidence that it has a process for identifying and prioritizing capital investments. Lawrence PFT, pp. 3-16. Specifically, the Company "follows a four-stage process to ensure the Company's capital project objectives are met."

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[25] In a WICA proceeding, the Authority's determination is limited to WICA-eligibility only and is not a prudency finding regarding the final cost to complete each project. See Decision, April 30, 2008, Docket No. 07-09-09, DPUC Review and Investigation of the Requirements for Implementation of a Water Infrastructure and Conservation Adjustment, p. 5. The Authority makes a finding regarding the prudency of any project costs at the time of a rate proceeding. Id.

[26] Late Filed Exhibit 4, Suppl. Att. 1 (Dec. 19, 2022), is hereinafter referred to as Final Late Filed Ex. 4 in the Decision.

Id., p. 4.[27] In particular, during the planning stage, "each capital project goes through an alternatives analysis to identify the project alternative that meets the project objectives most cost effectively." Id. At the design stage, the project is sent out to bid and awarded to the lowest cost qualified contractor." Id., p. 5. Finally, the Company will "track progress against agreed upon budgets and schedules, and update and revise as appropriate" during the project delivery stage. Id. A Project Management Committee (PMC) oversees this process and provides a "quality control step to review proposed projects, costs, technical merit and benefits to the customer . . . ." Id., p. 4.

From this testimony, it can be inferred that a significant portion of capital projects will have documentation supporting, among other things, the project selection, budgeted costs, alternatives analysis, and customer benefits. All of the aforementioned materials would be relevant to a prudency review, and all would be within the Company's exclusive control; however, no such documents were provided by the Company during this proceeding. Consequently, the Company is asking the Authority to obligate ratepayers for almost a billion dollars of expenditures on a mere wisp of "evidential hair" covering "bald statements" of Company executives. Connecticut Nat. Gas Corp., 29 Conn. Supp. at 394.

Neither OCC, DEEP, nor OAG took a specific position on the prudency of the approximately $600 million in additional test year plant-in-service. As a result, the Authority will allow the Company a Test Year plant-in-service of $1,776,894,698.

Prudency determinations on a utility's capital investments are an essential check on a utility's monopoly position. The burden is on the utility to demonstrate prudency; therefore, the utility must provide sufficient evidence. This task is complicated where, as here, the amount of annual investment is substantial, and the period of investment is extended.

2. Pro Forma Plant Additions

The Company has continued to make capital plant investments subsequent to the end of the 2021 Test Year. In recognition of these continued investments, the Authority permits utilities to make pro forma adjustments to the test year plant-in-service for a reasonable period of time for "definite, ascertainable expenses maturing or certain to materialize." Connecticut Nat. Gas Corp, 29 Conn. Supp. at 390. The Authority applies the same standard of review to pro forma plant adjustments as it does for test year plant-in-service. In other words, the Company must demonstrate that: (1) the plant is in service; and (2) the costs were prudently incurred. The pro forma adjustments must also be "known and measurable" and supported by substantial evidence, with the burden resting on the utility to make such a showing. Id.

The Company initially identified a net $47,851,486 of pro forma plant additions and retirements as of the August 31, 2022 Application date. Application, Schedule B-2.2A.

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[27] All capital projects, with the exception of programmatic work and budgeted projects less than $100,000, are subject to the four-stage process. Id.

On December 14, 2022, the Company submitted a supplemental late filed exhibit identifying approximately $88 million in pro forma plant addition activity as of November 30, 2022. Late Filed Ex. 1, Suppl. Att. 1 (Dec. 14, 2022), Sch. B-2.2A; Late Filed Ex. 4, Suppl. Att. 1 (Dec. 14, 2022). Several days later, on December 19, 2022 (also the noticed date of the evidentiary record closing and after the conclusion of both evidentiary and late filed exhibit hearings), the Company submitted another supplemental exhibit identifying this time approximately $99 million in pro forma plant additions as of December 15, 2022. Final Late Filed Ex. 1, Sch. B-2.2A. In addition to these plant additions and retirements, the total plant-in-service adjustment is affected by "Utility Plant Acquisition Adjustments." Application, Sch. B-2.0A, and Final Late Filed Ex. 1, Sch. B-2.0A. The proposed pro forma adjustments are summarized below.

Table 3: Proposed Plant-in-Service Pro Forma Adjustments ($)

	As of 08/31/2022	**As of 12/15/2022**
Plant Additions	60,898,937	109,105,585
Retirements	(13,047,451)	(9,867,393)
Subtotal	**47,851,486**	**99,238,192**
Acquisition Adj.	(551,216)	(748,546)
Total Adjustment	**47,300,270**	**98,489,646**

In the Application, the Company submitted a request for plant additions between the end of the Test Year (i.e., December 31, 2021) and August 31, 2022. Notably, these pro forma additions are covered by the same limited evidential hair as the plant additions through the Test Year (i.e., Lawrence prefiled testimony and Interrog. Resp. RRU-127). However, the Company did not offer any pre-filed testimony or other evidence as to the prudency of capital additions completed subsequent to August 31, 2022; indeed, there is simply *no* evidence (not even a bald statement) on which the Authority could make a prudency determination for these proposed pro forma adjustments.[28] Rather, the only information submitted by the Company is an updated list of capital additions purportedly placed in service as of December 15, 2022. Final Late Filed Ex. 4. By failing to submit evidence as to the prudency of capital additions occurring between September 1, 2022, and December 15, 2022, the Company has failed to meet its burden demonstrating that these capital costs satisfy the standard for inclusion in rate base.

In addition, as the Company knows, late filed exhibits are not the proper vehicle for submitting new evidence on new issues into a contested proceeding.[29] Importantly,

[28] The absence of evidence also makes a determination on the second prong of the rate base test (i.e., in-service, used and useful) impossible.

[29] For purposes of administrative efficiency, late filed exhibits are generally reserved for clarifying or correcting evidence previously introduced or addressed in pre-filed testimony or cross-examination. As such, the procedural schedules typically provide very limited durations for submitting and reviewing such

these new capital additions were identified for the first time by the Company only after the end of the discovery period and, of greater concern, introduced into the record only after the close of the evidentiary hearings. Specifically, both Late Filed Exhibits 1 and 4 were supplemented on December 15 and 19, 2022, and contain significant new plant additions for inclusion in rate base through December 15, 2022. See Final Late Filed Ex. 1; Final Late Filed Ex. 4. Therefore, even if the Late Filed Exhibit 4 provided some evidence for a prudency determination (which it did not), neither the Authority nor other parties and intervenors could have adequately reviewed and challenged the information at such a late stage in the proceeding.[30]

Consequently, the Authority will only allow a pro forma adjustment to plant-in-service for plant additions through August 31, 2022, as shown in the table below.[31]

Table 4: Pro Forma Plant-in-Service Adjustment ($)

	Company Proposed (12/15/2022)	**Authority Allowed (8/31/2022)**	**Authority Modification**
Plant Additions	109,105,585	52,315,630	56,789,955
Retirements	(9,867,393)	(1,137,738)	8,729,655
Subtotal	**99,238,192**	**51,177,892**	**(48,060,300)**

During the proceeding, a debate arose as to which pro forma capital additions should be eligible for inclusion in rate base. In this case, the sheer dearth of evidence with respect to capital additions alleged to be prudent and complete after the August 31, 2022 Application date, regardless of eligibility, renders the debate superfluous. However, for regulatory predictability, the Authority is compelled to address the issue.

Citing the Authority's July 28, 2021 decision in the most recent rate case for a water utility, the Company took the position that eligibility should extend to projects that are 75% complete on the last day of evidentiary hearings (i.e., December 15, 2022). Aquarion Brief, p. 36. Conversely, citing to six prior rate cases, including a decision issued May 29, 2021, OCC argued that capital projects should be 100% complete by the last evidentiary hearing to be eligible. OCC Brief, pp. 26-27.

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exhibits. Using late filed exhibits to introduce significant new evidence is contrary to this administrative process. See discussion in Section VI.A with respect to Late Filed Exhibit 1.

[30] Generally, evidence submitted after an evidentiary hearing is not admissible as the Authority, parties, and intervenors are deprived of the opportunity under the Uniform Administrative Procedure Act to subject such evidence to cross examination "for a full and true disclosure of fact." Conn. Gen. Stat. § 4-178. Even if not formally struck from the record, such evidence may not be reliable.

[31] Although the Company provided the year-to-date actual additions as of November 30, 2022, the Authority was able to sort the data to identify actual additions in-service as of August 31, 2022. Final Late Filed Ex. 4. Similarly, the Authority identified pro forma plant retirements for the same period. Id.

As noted at the outset of this section, capital additions can only be added to rate base upon a determination by the Authority that the project is in service and that the costs incurred are prudent. The issue then is not only when and to what extent a project is complete; rather, the issue is at what point can the Authority review the evidence presented by the utility and other parties and reasonably make the requisite findings. Using a specific percentage complete as of the end of evidentiary hearings has been, at best, an imperfect proxy because it provides a date certain for the regulated utility in preparing and executing its rate application; however, such proxies cannot circumvent the applicable legal standard for pro forma adjustments, nor relieve the utility of its statutorily defined burden to provide substantial evidence on the issues of prudency and usefulness.

As this proceeding has demonstrated, a rate case requires the Authority to assess and make prudency findings on hundreds of millions of dollars in capital expenditures. For water utilities, the Authority has less than 200 days to issue a decision in a rate case. Accounting for the various administrative and procedural steps (e.g., a proposed final decision is typically issued a month in advance of the final decision), the Authority is left with a narrow window within which to review and process massive volumes of documentation, conduct hearings, and make prudency determinations. In addition, the relevant evidence needed for a prudency determination (i.e., final invoices and costs) is not typically available for several weeks or months after a project is placed in service.

Consequently, with respect to water utility rate cases, the Authority finds that pro forma adjustments for plant-in-service should generally be limited to plant that is or will be placed in service as of the date of the rate amendment application – a date that is notably within a utility's sole discretion. The utility will be able to supplement the record for such completed projects through the proceeding as the financial and accounting information becomes available. This will provide the Authority with sufficient time to review and conduct sufficient inquiry into both test year and pro forma plant-in-service additions. Exceptions may be warranted in certain circumstances (e.g., a major capital investment is placed in service shortly after the application filing date); however, utilities will still bear the burden of providing sufficient, reliable evidence for the Authority to determine that a project is both in-service and that the costs incurred were prudent. The submission of a list of projects after the last evidentiary hearing (as occurred in the instant case) will not satisfy this burden.

3. IT Projects

The Company appears to have violated its procurement practices when choosing its suppliers and vendors for information technology (IT) investments. Specifically, six IT projects were subject to the Company's four-stage capital project approval process but were not competitively bid. Aquarion Interrog. Resp. RRU-165; Lawrence PFT, p. 4.[32] The Company's explanations for why these projects were not competitively bid generally focused on the Company choosing an existing vendor or using a "small group" of

[32] The six projects are: (1) Customer Portal; (2) Human Capital Management; (3) Project Portfolio Management; (4) supervisory control and data acquisition (SCADA); (5) S4 HANA Assessment; and (6) Meter Reading Software Upgrade. Id.

consultants rather than seeking out an alternative vendor through competitive bidding. Interrog. Resp. RRU-165 and RRU-376. This practice is not representative of a competitive bid and raises significant questions as to the prudency of the Company's IT expenditures. In this case, the projects were not in-service as of August 31, 2022, and were disallowed as a pro forma adjustment due to the lack of evidence supporting a prudency determination. However, to the extent the Company seeks recovery for these investment in the future, it will need to reconcile deviations from its procurement protocols.

C. ACCUMULATED DEPRECIATION

The Company originally filed a pro forma adjustment to its depreciation reserve of $15,089,370, for a total reserve for accumulated depreciation of $605,276,245. Application, Schedule B-1.0A. Subsequently, the Company increased its pro forma depreciation reserve adjustment to $30,769,168, for a total reserve for accumulated depreciation of $620,956,042. Final Late Filed Ex. 1, Sch. B-1.0A.

The table below shows the adjustment to the Company's accumulated depreciation that results from the disallowance of plant additions made after August 31, 2022, as explained in Section IV.B.2. Pro Forma Plant Additions. In addition, the Authority has also incorporated the $4,266,128 in depreciation expense as discussed in in Section VI.C. Depreciation Expense. The result is an increase in reserve for accumulated depreciation of $5,916,346.

Table 5: Adjusted Reserve for Accumulated Depreciation ($)

	Reserve for Acc Dep. 12/31/21 Sch. B-3.1A (A)	Annual Dep. Expense Sch. B-3.1A (B)	Balance prior to dep. on additions and reduction for Retirements (C)=A+B	Additions as of Final Late Filed Ex. 4 as of 8/31/2022 (D)	½ year Dep. Final Late Filed Ex. 4 as of 8/31/2022 (E)	Retirements as of Final Late File Ex. 4 as of 8/31/2022 (F)	Reserve for Acc Dep. G=C+E-F
	586,389,124	41,34,732	627,729,856	52,315,630	748,648	(1,137,738)	627,340,766
Less: Dep adjustment Section IV.C. of Decision							(4,286,456)
Plus: SWRP Amort. Sch B-3.0A							3,797,750
PURA calculated							626,852,060
Company Proposal							620,956,042
Adjustment							5,896,018

D. DEFERRED INCOME TAX

The Company proposed a pro forma accumulated deferred income tax (ADIT) of $87,872,470, including a pro forma decrease of $1,092,000 from the test-year ADIT of $88,964,470. As discussed in Section VI.E.4., the Authority rejects the Company's proposed annual amortization of $2,804,852 for excess accumulated deferred income tax (EADIT). Consequently, the Authority will increase ADIT by $2,804,252 to reverse the Company's reduction of one year of amortization for the ADIT regulatory asset from rate base. Consequently, the approved pro forma ADIT is $90,676,722.

E. WORKING CAPITAL

Working capital is included in rate base and is a calculation of funds that the Company must provide to fund daily operations due to the timing difference between the payment of expenses and the receipt of payments from customers. The Company performed a lead/lag study as part of its application, which detailed the lead/lag period of expense and revenues and included a working capital allowance of $13,319,003. Application, Schedule B-4.0A. Subsequently the Company adjusted its working capital allowance to $13,665,003. Final Late Filed Ex. 1.

However, the Authority is disallowing approximately $11.1 million in operating expenses (see Section VI.B. Operations and Maintenance Expenses), which results in a lower working capital requirement. The Authority recalculated the working capital using the original lead/lag study, subject to the removal of the cost of chemicals.[33] Application, Schedule H-1.1. Consequently, the Authority will further reduce the required working capital by $1,966,338, for a total working capital allowance of $ $11,698,665.

F. CAPITALIZED EXPENSES

The Company's rate base includes the capitalization of a portion of its expense accounts. Specifically, the Company applies a 76.8% expense / 23.20% capitalization ratio to its expense accounts. Application, Schedule C-3.2. The Authority's disallowance of certain expenses as determined in Section VI.B. Operations and Maintenance Expenses) also requires a concomitant reduction of the capitalized portion of such expenses. The table below identifies the capitalized portion of certain disallowed expenses and the total modification to rate base.

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[33] As discussed in Section VI.B.6.b. Chemicals, the Company included chemical expenses in both its cash working capital calculation and in rate base inventory, leading to a double recovery of the expense. OCC Brief, p. 27. The Company similarly included chemicals in both working capital and rate base in a previous rate proceeding; see Decision (2010 Decision), Sept. 8, 2010, Docket No. 10-02-13, Application of Aquarion Water Company of Connecticut for Amended Water Service Rate Schedules. The Authority's predecessor, the DPUC, determined a cash working capital amount by removing chemicals from the lead/lag calculation. 2010 Decision, p. 25.

Table 6: Disallowed Capitalized Portions of Expenses ($)

Expenses	Capitalized Amount
Payroll	297,043
Employee Incentive Comp	515,573
Employee Benefits	48,139
Payroll Taxes	63,261
Total	**924,016**

G. FIVE-YEAR CAPITAL PLAN

The Company provided a Five-Year Capital Improvement Program (Five-Year Capital Program) for projected construction and maintenance projects. Application, Schedule F-7.0. The following table summarizes the Five-Year Capital Program:

Table 7: Five-Year Capital Improvement Program Summary

FIVE-YEAR CAPITAL BUDGET SPEND ($ millions)						
Description	**2022**	**2023**	**2024**	**2025**	**2026**	**Total**
Mains	51.2	58.4	59.1	62.6	63.9	**295.2**
Dams	1.3	3.8	8.6	7.4	8.8	**29.9**
Trans. & Dist.	10.8	17.7	19.1	22.3	20.5	**90.4**
IT	6.6	9.6	8.1	5.1	4.7	**34.1**
Meters	4.6	3.6	3.7	3.7	3.6	**19.2**
Source of Supply	5.1	5.3	2.5	3.3	2.0	**18.2**
Treatment	31.8	18.3	24.2	25.7	39.3	**139.3**
Pumping	11.8	13.3	14.2	8.9	7.6	**55.8**
SWFC Supply Imp.	14.3	28.6	35.4	39.6	31.6	**149.5**
Housatonic WTP	0.3	1.2	1.2	6.0	18.0	**26.7**
General Plant	5.4	4.4	3.6	3.5	3.4	**20.3**
Total	**143.2**	**164.2**	**179.7**	**188.1**	**203.4**	**878.6**

Lawrence PFT, pp. 43-44.

Within the five-year planning period, the most significant facility upgrades for the Company will occur in the Pipeline Rehabilitation Program (Mains), Dams, Transmission and Distribution, Treatment, Pumping, and Southwest Fairfield County Supply Improvements categories.

Mains ($295.2M) - Most of this investment is for WICA-eligible water main replacement work.

Dams ($29.9M) - This work includes alternative analysis, design, and/or execution on up to 10 dam projects.

Transmission and Distribution ($90.4M) - The major capital investments in this category are Traps Falls Storage Tank, Mansfield HS Tank Replacement, Pine Street

Tank Replacement, Nichols Tank Replacement, Fairchild Wheeler Tank Replacement, Lead Service Line Replacement, and Service Line Inventory.

Treatment ($139.3M) – This category is for treatment improvements due to the increasing age of Aquarion's facilities, increasingly stringent water quality requirements, and regulations.

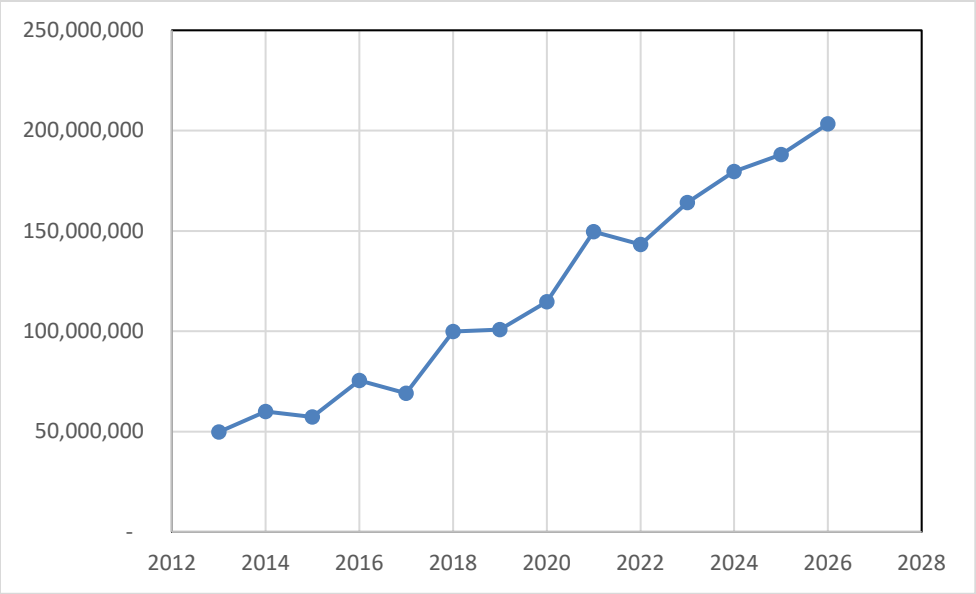
Pumping ($55.8M) – These investments would pertain to alternative analysis, design, and execution of pumping facilities.

SWFC Supply Improvements ($149.5M) – These investments are designed to increase the transfer capacity of the Southwest Regional Pipeline (SWRP) from the Company's Bridgeport Water System to the Southwest Fairfield County Water System to meet water supply demands, improve drought resiliency, and meet the Stream Flow Regulations that go into effect in 2029. Lawrence PFT, pp. 44-48.

Additionally, the Company has identified the following water systems where, in the next five years, increased storage is needed: Nichols Tank in the Greater Bridgeport water system; Pine Street Tank in the Greater Bridgeport water system; Fairchild Wheeler Tank in the Greater Bridgeport System; Mianus Low Service Tank in the Greenwich System; and Greenfield Hill Tank in the Greater Bridgeport System. Aquarion Interrog. Resp. RRU-143.

In summary, between 2022-2026, the Company plans to spend approximately $878.6M on capital improvements to its water systems. The figure below illustrates the Company's actual and projected annual expenditures since 2013.

Figure 2: Actual and Projected Annual Capital Expenditures



Importantly, this rapidly increasing level of capital investment may not be sustainable. At some level, individual projects may be prudent, but the aggregation of even prudent projects within a short time period may not be prudent, particularly when evaluated in the context of the parameters outlined in Conn. Gen. Stat. § 16-19e. As a monopoly, Aquarion does not face the usual market impediments to excessive capital investments; however, those investments (both individually and in aggregate) must be prudent and reasonable – the regulatory proxy for the free market. Importantly, the burden is on the Company to demonstrate prudency and reasonableness at both levels of investment. Yet, this proceeding has demonstrated that the Company's ability to justify the prudence of individual projects, let alone aggregate annual expenditures, is deficient.

The Company's Five-Year Capital Program provides no basis on which the Authority could conclude that the projected level of expenditures is reasonable or prudent. The Authority's prior admonitions about the Company's accelerating capital expenditures have gone largely unheeded. Consequently, the Authority will dispense with such perfunctory warnings and sanguine expectations for judicious capital expenditures. Instead, the Authority will simply, as it must, hold the Company to account. As noted previously, "there exists a distinction between, on one hand, utility property and, on the other hand, the cost of utility property allowed in rate base, because only that portion of utility property that is the result of prudent and reasonable management is included in rate base." Connecticut Light & Power Co., 219 Conn. at 67-68.

The burden will be on the Company to demonstrate that its aggregate capital expenditures are prudent, reasonable, and protect the relevant public interests, both existing and foreseeable. There is certainly no evidence in this proceeding to support such a conclusion at this time.

V. COST OF CAPITAL

A. SUMMARY

The Authority approves a weighted cost of capital of 6.46% based upon an 8.70% return on common equity, a 4.28% cost of long-term debt, a 2.48% cost of short-term debt, and a capitalization mix of 50.35% common equity, 47.07% long-term debt, and 2.58% short-term debt. The Capitalization and Weighted Average Cost of Capital is depicted in the table below.

Table 8: Approved Weighted Average Cost of Capital

Capital Source	Allocation	Cost	Weighted Cost
Long-term Debt	47.07%	4.28%	2.015%
Short-term Debt	2.58%	2.48%	0.064%
Equity (ROE)	50.35%	8.70%	4.380%
Total	**100.00%**		**6.46%**

The determination as to the allocation and cost of each source of capital is provided below.

B. Financial Condition and Flexibility

The Authority finds that the Company has maintained its financial condition and flexibility since the 2013 Decision; specifically, the Company has increased its operating income and rate base and reduced its embedded cost of debt. Overall, the Company achieved improved financial flexibility over the 2013 to 2022 inter-rate case period (i.e., the time since its last fully adjudicated rate proceeding). Based upon the review, the Authority determines Aquarion to be financially stable during the inter-rate proceeding timeframe.

The Company's currently allowed ROE is 9.63%. 2013 Decision, p. 115. This ROE includes a 50-basis point premium awarded pursuant to Section 8 of Public Act 13-78,[34] and a 10-basis point subtraction for a reduction in risk as a result of the revenue adjustment mechanism. Id.

The Company maintains an A3 Stable Rating from Moody's Investor services. The Company's rating was upgraded to A3 following the completion of the Company's merger with Eversource. Aquarion Interrog. Resp. OCC-107, Att. 2, p. 5. The Company's corporate credit issuer ratings from Moody's, since January 1, 2018, are included in the following table.

Table 9: Moody's Rating, January 1, 2018 through May 19, 2022

Date	Moody's Rating
January 1, 2018	Baa1
March 2, 2018	Baa1
May 18, 2018	A3
May 17, 2019	A3
May 20, 2020	A3
May 14, 2021	A3
May 19, 2022	A3

Aquarion Interrog. Resp. RRU-59.

As part of the rationale for a rating upgrade, Moody's indicated that Aquarion benefits from being a part of Eversource, a large and financially low risk regulated utility holding company, after the merger in December 2017. Aquarion Interrog. Resp. RRU-59, Att. 1, p. 5. In its May 19, 2022 Credit Opinion, Moody's cited the Company's ownership by a large, diverse regulated utility holding company like Eversource as a credit positive. Id. Moody's further asserted that Aquarion benefits from synergies as part of a corporate family of regulated utilities with overlapping service territories through cost

[34] Section 8 of Public Act 13-78, An Act Concerning Water Infrastructure and Conservation, Municipal Reporting Requirements and Unpaid Utility Accounts at Multi-Family Dwellings, amended Conn. Gen. Stat. § 16-262s.

sharing services and risk mitigation opportunities. Id. Furthermore, Moody's stated that Aquarion benefits from the increased financial flexibility that comes with being part of a large corporate structure, which allows the Company to retain cash flow and reinvest in its operations when necessary. Id. The Company is owned by Aquarion Water Company, which is owned by Eversource.

Moody's listed several credit strengths in its most recent credit opinion: the Company has a low-risk business profile as a regulated water company; the Company operates in a credit supportive regulatory environment with timely cost recovery provided by key rate adjustment mechanisms; and the Company's financial metrics, although expected to be lower than historic levels (due to its elevated capital expenditure program), continue to support credit quality. Aquarion Interrog. Resp. RRU-59, Att. 1, pp. 1-2.

The following table provides the previous, as well as the most recent, credit ratings of Eversource (the ultimate parent company), Aquarion Water Company (Parent Company), and Aquarion.

Table 10: Current Credit Ratings

	Moody's			**Fitch**	**S&P**	
	Eversource	Aquarion Water Company	Aquarion	Eversource	Eversource	Aquarion Water Company
7/25/19	Baa1	Baa2	A3	BBB+	A-*	A-*
5/17/18	Baa2	Baa2*	A3*	BBB+	A+	A+
12/5/17	Baa3	Baa3	Baa1	BBB+	A+*	A+*
1/1/17	Baa4	Baa3	Baa1	BBB+	A+	BBB
* denotes ratings change						

Aquarion Interrog. Resp. OCC-107, Att. 1.

The Company provided a list of financial metrics that are followed by Moody's investor services. Aquarion Interrog. Resp. RRU-59, Att. 1, p. 1. Moody's indicated the factors that would lead to an upgrade, such as the Company's ratio of funds from operations (FFO) to net debt maintained above 21%, and, conversely, indicated that a ratio of FFO to net debt that is sustained under 16% is a factor that could lead to a downgrade. Id., p. 3. Moody's indicated that the Company's FFO to net debt will be within the 17%-18% range going forward versus its FFO to net debt of 20.4% last year. Id., p. 1.

The Company also provided results of several financial ratios that are core metrics typically reviewed by Moody's for 2019, 2020, and 2021 valued at December 31st. Aquarion Interrog. Resp. RRU-63. The Authority compiled the actual historical ratios for the Company as provided in the table below.

Table 11: Historical Ratios for the Company

	Actual	Actual	Actual
	2019	**2020**	**2021**
FFO Interest Coverage	6.0x	5.9x	6.2x
FFO/ Net Debt	20.8%	21.2%	20.4%
Debt / Capitalization;	41.1%	38.3%	37.8%
Retained Cash Flow (RCF)/Net Debt.	15.3%	16.8%	14.0%

Aquarion Interrog. Resp. RRU-63.

The Moody's benchmarks for each of the above listed Aquarion historical results are included the table below. The Authority takes into consideration the effect the ROE has on these metrics and the revenue requirement.

Table 12: Moody's Rating Factor Benchmarks

Rating Factor	**Weight**	**Aaa**	**Aa**	**A**	**Baa**
Interest Coverage Ratio	12.50%	≥8x	4.5x-8x	2.5x-4.5x	1.5x-2.5x
OR					
FFO Interest Coverage		≥10x	7x-10x	4.5x-7x	2.5x-4.5x
Net Debt/Regulated Asset Base	10%	<25%	25%-40%	40%-55%	55%-70%
OR					
Debt/Capitalization					
FFO/Net Debt	12.50%	≥40%	25%-40%	15%-25%	10%-25%
RCF/Net Debt	5%	≥30%	20%-30%	10%-20%	6%-10%

Aquarion Interrog. Resp. RRU-63.

The Company also projected the financial ratios reviewed by Moody's and several other financial bank solvency ratios under the ROE scenarios proposed by OCC and by EOE's cost of capital witnesses. The scenarios were as follows: OCC proposed ROE of (1a) 8.90% and (2a) 9.00% and the proposed capital structure of 50% Equity and 50% Debt; EOE proposed ROE within a range of (1b) 7.76%, (2b) 8.33%, and (3b) 8.91%, and the proposed capital structure of 48.43% Equity and 51.57% Debt. Aquarion Interrog. Resp. RRU-407, Att. 1 (Redacted).

Under all the recommendations offered by the Company, OCC, and EOE, the Authority concludes that the metrics remain in the range of the core metrics followed by Moody's to maintain its A3 rating. When the Company was questioned on which metrics Moody's considers as "core," the Company cited: FFO interest coverage, debt to capitalization, FFO to debt, and retained cash flows to debt. Tr., Dec. 6, 2022, 1388:5-7. When questioned on Moody's rating determination methodology, the Company indicated that 40% of the rating is based on the aforementioned core metrics, 50% is based on

business profile, and 10% is based on financial policy. Tr., 1388:14-19. Other metrics are considered supplementary. Tr., 1389:5-10. If these supplementary metrics fall outside of Moody's rating range, this is typically not a concern for the Company or Moody's. Tr., 1389:20-25, 1390:1-4. The Authority's analysis concluded that some of the core metrics ratios are reduced when the lower range of ROEs are used; however, the ratios do not breach the lower bound ranges of the metrics.

The Authority weighted the multiple scenarios in its determination of the appropriate required ROE in its analysis to ascertain what the potential impact of various ROEs would have on credit metrics that are deemed significant to the credit rating agencies. The Authority concludes that under various ROE scenarios, as represented in Table 12, and under various pro forma scenarios presented in Attachment 1 of Aquarion's Response to Interrogatory RRU-407 (redacted), the Company's credit metrics remain in acceptable ranges set by the credit rating agencies. Hence, an ROE set within the ranges presented by EOE, OCC, and the Company (i.e., 7.765% to 10.35%) would not adversely affect the Company's credit rating.

C. PROXY GROUP

The methodology of arriving at a cost of equity for a regulated company begins with the selection of a proxy group of comparable companies that can be analyzed to ascertain what the market-based range of the cost of equity is for this group. The Authority typically applies the following criteria (Authority Screening Criteria) in the selection process: (1) predominantly in the same utility industry as the subject utility (70% for electric, 50% for gas) reported by Value Line; (2) publicly traded and reported by Value Line and augmented with AUS Utility Industry for water companies; (3) has paid consistent dividends for 8 quarters and is expected to continue; (4) the company cannot be in financial distress; (5) is not the target of an acquisition or merger activity; (6) credit ratings should be at least investment grade as determined by Standard & Poor's (BBB- and above) and/or (Moody's (Baa3 and above); and (7) has similar revenues to the company being analyzed.

The Authority considered the proxy groups presented by the Company, EOE, and the OCC. All parties recommended using proxy groups consisting of publicly traded water companies and gas companies followed by Value Line.

For the proxy group criteria selection, the Company started with 17 investor-owned domestic water utilities and natural gas utilities and then screened the companies based on specific criteria. Nowak Prefiled Test., Aug. 29, 2022, p. 24. The screening criteria evaluated whether the proxy company: (1) consistently pays quarterly cash dividends; (2) maintains an investment grade long-term issuer rating (BBB- or higher) from S&P; (3) is covered by more than one equity analyst; (4) has positive earnings growth rates published by at least two of the following sources: Value Line, First Call (as reported by Yahoo! Finance), and Zacks Investment Research (Zacks); (5) owns regulated assets that make up more than 60% of the consolidated company's assets (based on a 3-year average from 2019-2021); and (6) is not involved in a merger or other transformative transaction for an approximate six-month period prior to the analysis. Id.

OCC used the proxy group developed by the Company. Woolridge Prefiled Test., Oct. 26, 2022, p. 21. OCC concluded the risk metrics are mixed for the water and gas companies. Id., p. 23. The water and gas companies' relative average Beta (0.82 vs. 0.83), S&P issuer credit rating (A vs. A-), and earnings predictability (71 vs. 59), suggest water companies are less risky than the gas companies. Id. On the other hand, a comparison of the water companies' and gas companies' relative average financial strength (B++ vs. A-), safety measures (2.7 vs. 2.2), and stock price stability (89 vs. 92) suggests that the water companies are riskier than the gas companies. On balance, given the Beta and S&P issuer credit rating, OCC concludes that the water companies in the proxy group are slightly less risky than the gas companies. Id., pp. 23-24.

In addition to using the Company's proxy group, EOE applied the cost of equity models to the following three proxy groups: (1) RFC Water Proxy Group, which consists of publicly traded water utility companies for which Value Line provides quarterly full company reports; (2) RFC Electric LEAPS Proxy Group, which is comprised of the 12 companies that trade LEAPS (Long-Term Equity Anticipation Securities) out of the 36 publicly traded electric utility companies for which Value Line provides quarterly full company reports; and (3) Nowak's Proxy Group, which is comprised of 13 publicly traded water and natural gas utility companies used by Mr. Nowak in his cost of equity analysis. Rothschild PFT, p. 11.

The Authority finds that the proxy group consists of the following 13 companies, as they are most closely aligned with Aquarion's business and financial characteristics and have met the specifications indicated in the Authority's Screening Criteria: American Water Works Company, American States Water Co., Atmos Energy Corporation, California Water Service Group, Essential Utilities, Inc., Middlesex Water Company, New Jersey Resources Corporation, NiSource Inc., Northwest Natural Gas Company, ONE Gas Inc., SJW Group, Spire Inc., and York Water Company (Authority's Proxy Group).

D. CAPITAL STRUCTURE

The Authority finds that the evidence supports a capital structure consisting of 50.35% common equity, 47.07% long-term debt, and 2.58% short-term debt. The table below summarizes the allocation.

Table 13: Approved Capital Structure

Capital Source	Allocation
Long-term Debt	47.07%
Short-term Debt	2.58%
Equity	50.35%
Total	**100.00%**

The Company's current authorized capital structure is 51.53% common equity, 48.23% long-term debt, and 0.23% short-term debt. 2013 Decision, p. 115.

In its Application, Aquarion proposes the following capital structure: 53.06% common equity and 46.94% long-term debt. Nowak PFT, p. 53. The Company believes that this proposed capital structure should enable the Company to maintain or enhance its financial integrity, thereby enabling access to capital at competitive rates under a variety of economic and financial market conditions. Id., pp. 55-56. The Company's assessment of the current operating environment is that an equity ratio of approximately 53% to 54% is consistent with those in place at other similar utilities and is necessary to enable the Company to at least maintain its financial integrity, thereby providing access to capital at competitive rates under a variety of economic and financial market conditions. Aquarion Interrog. Resp. RRU-65. The Company does not anticipate its capital structure will deviate significantly from the current target capital structure over the next three years. Id.

OCC's recommended capital structure is 50.15% common equity, 44.37% long-term debt, and 5.47% short-term debt. Woolridge PFT, p. 5. OCC maintains that the Company's proposed capital structure of 53.06% / 46.94% includes a higher common equity ratio than maintained by the companies in the proxy group; is higher than approved for water utility companies in recent years; and is a higher common equity ratio than is employed by Aquarion's parent company, Eversource. Id.

The average common equity ratio for the water and gas companies in the proxy group is 46.8%. Woolridge PFT, p. 24. These are the capital structure ratios for the holding companies that trade in the markets and are used to estimate an equity cost rate for Aquarion. Id., pp. 25-32. Over the last decade, the average authorized water common equity ratio ranged between 46.9% and 52.89% with a ten-year average of 49.81%. Id., p. 26.

OCC avers that a proposed common equity of 50.15% is more reflective of the capital structures of other publicly held water companies as well as those approved by state utility commissions for water companies. Id., p. 4. Notably, the Company has consistently used short-term debt to finance its operations over the past three years and has consistently held short-term debt outstanding on a daily basis. Aquarion Interrog. Resp. OCC-115, Att. A. Specifically, from 2018 through 2021, the Company consistently used short-term debt in the range of 1.32% to 10.25% on a quarterly basis from 2018 to 2021, with the exception of one quarter (quarter ending June 30, 2021). Tr., Dec. 6, 2022, 1445:12-23; Aquarion Interrog. Resp. OCC-111, Att. 1. The average use of short-term debt over the 2018 to 2021 time period was approximately 3.86%. See Aquarion Interrog. Resp. OCC-111, Att. 1. OCC computed the average daily amount of short-term debt outstanding for Aquarion of $37.5 million in 2020, $44.2 million in 2021, and $99.2 million in 2022, and averaged these figures to arrive at $60.3 million in short-term debt, which OCC then incorporated into its proposed capital structure. Woolridge PFT, p. 31 and Ex. JRW-4.

Based on Aquarion's consistent use of short-term debt, OCC determined that it would be appropriate to include short-term debt in the Company's capital structure. OCC Brief, p. 87.

EOE's proposed capital structure consists of 48.43% common equity, 48.99% long term-debt, and 2.58% short-term debt. Rothschild Supplemental Prefiled Test., Nov. 30, 2022, p. 47. EOE asserts that the Company's proposed capital structure is not appropriate because it contains a significantly higher common equity ratio (51.53%) than the current common equity ratio of its parent, Eversource (45%), and it contains significantly more than the average common equity ratio used by other water utility companies in the country. Id., pp. 46-47. EOE included short-term debt in its recommended capital structure based on the average common equity ratio of the water utility companies in the proxy group and the Company's reported short-term ratio for the Test Year; EOE also observed that Aquarion did not explain why it excluded short-term debt in the Company's preferred capital structure. Id.

The Authority examined the range of common equity percentages within the Authority's Proxy Group. The range for the last two years was a low of 41.92% and a high of 60.04%, and the mean for the most recent year was 53.22%. Aquarion Interrog. Resp. OCC-119. The Authority also analyzed the percentage of equity in the capitalization ratio from 2018-2021; the range of equity capitalization ranged from 50.25% (3rd Quarter 2018) to a high of 54.05% (4th Quarter 2019) at an average of approximately 52.65% over the same time period. The Company's actual equity ratio has, on average, been higher than its approved ratemaking equity ratio during the time frame analyzed.

Aquarion's capitalization structure is based on decisions at various management levels and reflects management choices and decisions related to the allocation of such items as common equity, dividend payments, and retained earnings. The mathematics of the weighted average cost of capital (WACC) calculation affirms that the greater the proportion of common equity, the greater the WACC, all else equal. The practice of balancing the interests of the Company in conjunction with fairness to the ratepayers implies the Authority must broaden its review outside of the management decisions at the operating company level. When establishing the proxy companies used to measure the cost of equity, the relevant companies are those that are publicly traded, not only the operating companies.

Therefore, the Authority considered the holding company level in its analysis, since the cost of capital methods (such as the Discounted Cash Flow Model and the Capital Asset Pricing Model) rely on capital market data and not decisions made by individual company management, as these companies are typically publicly traded. The Authority examined past precedent and utilized industry practice as a guide for its analysis. Accordingly, the Authority finds the ratemaking capital structure must be established with a careful weighing of several factors, such as: the actual capital structure employed by a company at the operating level; the range of capital structures used by the operating companies of the holding companies in the Company Proxy Group; the greater macro level of capital structure used at the parent holding company level (i.e., the range of equity employed by the Company proxy group companies); and the published criteria of credit rating agency requirements, in order that Aquarion maintain its A3 type rating.

For ratemaking purposes, the Authority will use a capital structure consisting of 50.35% common equity, 47.07% long-term debt, and 2.58% short-term debt. This capital structure is consistent with industry practice and was based upon a careful balancing of the actual capitalization mix employed by the Company, the range of equity employed by companies in the Authority's Proxy Group – both at the parent company and operating company level, credit rating agency requirements for maintaining an A3 rating, and the analysis and recommendations of Parties in this preceding. Importantly, the capitalization mix is within the range employed by other companies in the Authority's Proxy Group.

E. COST OF DEBT

1. Long-Term Debt

Long-term debt is defined as debt that matures in more than one year. The Company proposes a cost of long-term debt cost of 4.28%. Application, Schedule D-3.0A. Both EOE and OCC employed the Company's cost of long-term debt of 4.28%. Rothschild PFT, p. 7; Woolridge PFT, p. 4. The proposed cost of debt includes $70 million of projected issuance of long-term debt. Aquarion Interrog. Resp. OCC-113. The actual financing was completed on August 29, 2022, with no variance to the assumed cost and rate of 4.69%. See Aquarion Interrog. Resp. OCC-116, Att. 1.

The Authority requires that ratepayers benefit from any opportunity that company management may have to reduce expenses, such as lowering interest rate payments by refinancing debt at lower rates during periods of declining interest rates. To that extent, the Company has successfully refinanced or replaced seven tranches of higher cost long-term debt totaling over $140 million, reducing the weighted average interest rate from 5.24% down to 4.28% as shown in Schedule D-3.0A of the Application and the table below. The Company's approach to managing its long-term debt has not changed since its last rate case, nor since the acquisition of Aquarion by Eversource. Aquarion Interrog. Resp. RRU-410.

Consequently, the Authority finds that the Company's actual cost of long-term debt is 4.28%. The table below summarizes the Company's long-term debt costs.

Table 14: Cost of Long-Term Debt

Debt Issue	Rate	Amount Outstanding	% of Debt	Net Rate	Weighted Rate
Series R Bonds	6.88%	5,000	0.00%	6.88%	0.00%
2004 Private Placement Issue	6.43%	8,500,000	1.75%	6.94%	0.12%
General Mortgage Bonds, 7.330%	7.33%	14,000,000	2.88%	7.38%	0.21%
General Mortgage Bonds, 9.290%	9.29%	4,500,000	0.92%	9.41%	0.09%
General Mortgage Bonds, 8.040%	8.04%	3,500,000	0.72%	8.15%	0.06%
2012 HIMCO Private Placement Issue	4.40%	30,000,000	6.17%	4.54%	0.28%
2012 Himco/ Babson Private Placement Issue	4.29%	60,000,000	12.33%	4.30%	0.53%
2013 Prudential Private Placement Issue Series A	4.00%	35,000,000	7.19%	4.31%	0.31%
2013 Prudential Private Placement Issue Series B	4.07%	15,000,000	3.08%	4.08%	0.13%
2015 MetLife/Omaha Private Placement Issue	3.75%	46,000,000	9.46%	4.47%	0.42%
2016 NYL Private Placement Issue	3.67%	25,000,000	5.14%	3.83%	0.20%
2017 NYL Private Placement Issue	3.57%	30,000,000	6.17%	3.93%	0.24%
2019 MetLife/NYL Private Placement Issue	3.54%	45,000,000	9.25%	3.55%	0.33%
2021 Met Life Private Placement Issue	3.31%	100,000,000	20.55%	3.32%	0.68%
2022 New Private Placement Issue	4.69%	70,000,000	14.39%	4.72%	0.68%
Total		**486,505,000**	**100%**		**4.28%**

Application, Sch. D-3.0A.

2. Short-Term Debt

The Company obtains cash through short-term loans from Aquarion Water Company at the same rate as Eversource pays through its commercial paper program. Aquarion Interrog. Resp. RRU-412. The Company uses cash available from the short-term loans to pay for capital expenditures until the proceeds of long-term debt financings are available to pay off those loans; in turn, the short-term loans are paid off with the proceeds of long-term debt financings. Id. Since the Eversource acquisition of Aquarion,

the only difference that has occurred is that Aquarion Water Company now borrows from Eversource as opposed to relying on its own revolving credit facility, resulting in interest rate spread savings. Id.

The Company provided the short-term debt and daily cost rates for the years 2020 through August of 2022. Aquarion Interrog. Resp. OCC-115, Att. 1. The Company paid an average rate of 1.13% from January 1, 2022, to August 29, 2022. Id., Column R Rate.

OCC's recommended cost of short-term debt is 2.48%, which was the most recent monthly (August) cost of short-term debt. Woolridge PFT, p. 4. EOE's recommended cost of short-term debt is 0.20%. Rothschild PFT, p. 7, Table 1; Application, Sch. D-2.0. The table below summarizes the short-term debt recommendations.

Table 15: Cost of Short-Term Debt

	Cost
Company	n/a
OCC	2.48%
EOE	0.20%
Approved	**2.48%**

The cost of short-term debt is the most recent monthly cost of debt provided by the Company, Aquarion Interrog. Resp. OCC-115, Att. 1. The Authority will use the OCC's recommended allocated cost of short-term debt for its allocation. Accordingly, the Authority finds that a reasonable cost of short-term debt is of 2.48%.

F. RETURN ON EQUITY

1. Summary

The Authority examined several factors in determining a just and reasonable ROE, including ROEs of similar water companies in other jurisdictions, current economic conditions, and cost of equity capital methodologies such as the Discounted Cash Flow (DCF) Model, Capital Asset Pricing Model (CAPM), and Expected Earnings approach. In reviewing these cost of capital methods, the Authority made determinations regarding each method's input components and reviewed variations of the models. Additionally, other relevant factors were analyzed in the process of evaluating and applying the cost of equity models. The Authority finds an 8.70% ROE to be consistent with these cost of equity methodologies and the factors considered herein.

2. Comparable Allowed ROEs

A review of each Parties' ROE recommendation and corresponding allowed return for the period indicates that there is a wide variation between the recommendations in this proceeding and the corresponding allowed returns in other jurisdictions. For example, over the period 2021 through July 26, 2022, the range of water company allowed ROEs ranged from 7.46% to 10.00%, with an average of 9.37%. Aquarion

Interrog. Resp. RRU-50. The allowed returns for the regulated gas companies ranged between 8.00% to 10.24%, with an average of 9.50% and a median of 9.49% for that same period. Id. Based upon this time period, a range of 7.46% to 10.00%, with a mid-point of 8.58%, represents a reasonable representation of allowed ROEs authorized in other jurisdictions.

Allowed ROEs from other jurisdictions merely serve as a guide to establish the trend in allowed ROEs since the Company's last rate case. Other jurisdictions' authorized ROEs are not the sole basis for an allowed ROE for the Company. The Authority relies on current economic data, market-based cost of capital methodologies (i.e., DCF model, CAPM, etc.), and the Authority's own judgment in interpreting the results of the methods it considers relevant. To merely rely on previously allowed returns from other jurisdictions would ignore the above factors as well as the unique economic conditions of Aquarion.

3. Treasury Rate Trends & Static Analysis

Throughout this proceeding, the Company and the Parties presented to the Authority the state of capital market conditions for the utility space. The Company indicated that capital market conditions have been significantly impacted by the economic repercussions of the COVID-19 pandemic and the subsequent reaction. According to the Company, federal measures taken to contain the economic fallouts from COVID-19 were extraordinary by any measure. Nowak PFT, p. 11. In order to moderate economic consequences of the pandemic, the federal government took a series of unprecedented steps to stabilize financial markets. Id. The Company indicated the Federal Reserve decreased the federal funds rate in March of 2020, resulting in a target range of 0.00% to 0.25%, purchased at least $80 billion per month in Treasury securities from December 2020 through November of 2021, began expansive programs to support credit to large employers, and supported the flow of credit to consumers and businesses through Term Asset-Backed Securities Loan Facilities. Id., pp. 11-12. In addition, U.S. Congress passed approximately $4.5 trillion in fiscal stimulus programs. Id. In March of 2020, for the first time on record, the 10-year treasury bond yield dropped below 1% and remained there for the duration of 2020. Id.

The Company claims that the cost of equity has been affected by these circumstances and claims that utility company stocks have traded more in line with the broader market since February 2020 when the COVID-19 pandemic began; thus, the Company cites higher beta coefficients for the proxy group. Nowak PFT, pp. 16-17. The Company goes on to cite the current economic recovery and inflation risk that has occurred after the pandemic. Id. The Federal Reserve, since March of 2022, started to raise interest rates and unwind its quantitative easing and the Company indicated projections for year-end Federal Open Market Committee jumped from 2.6% to 4.3%. Nowak PFT, pp. 20-21. According to the Company, inflation is at its highest level in approximately 40 years and if investors expect higher levels of inflation, they will require higher yields. Id., p. 22.

OCC contends that despite the 2022 increase in yields, interest rates and capital costs remain at historically low levels and long-term expectations on inflation remain in

the 2.50% range. Woolridge PFT, pp. 5-9. Additionally, inflation and interest rates have increased significantly in 2022, due primarily to: (1) the recovering economy coming out of the height of the COVID-19 pandemic; (2) the production shutdowns during the pandemic, which led to supply chain shortages as the global economy recovered; and (3) the war in Ukraine, which has led to higher energy and gasoline prices worldwide. OCC Brief, pp. 71-72. While inflationary expectations have risen over the next five years, these expectations are lower over ten and thirty years such that long-term inflationary expectations are still in the 2.25% to 2.50% range. Woolridge PFT, p. 13. Authorized ROEs have trended down with interest rates and capital costs in the past fifteen years, hitting an all-time low in 2020 and 2021. Id.

OCC argues that the greater financial burden on utility ratepayers associated with higher gas prices and interest rates should put increased pressure on regulatory commissions to look hard at utility rate increase requests. OCC Brief, p. 75. OCC concluded that studies provide evidence that authorized ROEs have not declined in line with capital costs over the past several decades and past ROEs have overstated the actual cost of equity. Id. To support this conclusion, OCC's witness indicated Moody's recognized that utilities and regulatory commissions were having trouble justifying higher ROEs in the face of lower interest rates and cost recovery mechanisms. Woolridge PFT, p. 71. Consequently, OCC's witness did not feel higher interest rates alone would justify higher ROEs for regulated water companies. OCC Brief, p. 75. OCC's witness referred to significant interest rate decreases during the pandemic, which have come back up. Id. Specifically, interest rates went down 150 basis points while ROEs went down only 20 basis points. Tr., Dec. 6, 2022, 1442:6-17. OCC's witness also indicated the reason ROEs have not increased with higher rates and capital costs is that they did not decline in line with risk free rates. Tr., 1443:1-19.

EOE asserts "that despite high current inflation and recent increases in interest rates, capital market conditions are favorable for utility companies to raise low-cost equity capital." Rothschild PFT, p. 14; Tr., Dec. 6, 2022, 1506-07. EOE notes the outperformance of water utility stocks in the market since March 28, 2013, which indicates a declining cost of equity, relative to the overall market. Rothschild PFT, pp. 14-15. According to EOE, data shows investors have continued to consider water utility stocks to be less risky than the overall market. Id. Since February 2022, there is a significantly lower chance that water utility stocks will experience a large drop as compared to the overall market, which indicates that the cost of capital of water utility stocks remains lower than the overall market. Id., p. 16.

The Authority acknowledges the increased volatility in rates and that this volatility is still present in market trends. As such, the Authority has taken that into consideration in its analysis. Notwithstanding this acknowledged volatility, however, the Authority finds persuasive the reasoning presented by both the OCC and EOE witnesses; particularly, that the correlation between interest rates and ROEs appears to be historically one-sided.

4. Discounted Cash Flow (DCF) Model

a. DCF Model Description

The DCF model is a market-based financial model that attempts to replicate the valuation process that sets the price investors are willing to pay for a share of stock. It is a valuation technique used by major financial institutions and well entrenched in finance theory and academia. The DCF assumes that investors evaluate stocks in a classical economic framework and buy and sell securities rationally at prices that reflect the assets value assessment. Under the DCF model, the value of a financial asset is determined by its ability to generate future cash flows. Specifically, the present value of a financial asset equals the discounted value of its expected future cash flows. Investors discount these expected cash flows at their required rate of return (i.e., the cost of common equity or ROE). The traditional constant growth DCF Model requires the following assumptions: a constant growth rate for earnings and dividends; a stable dividend payout ratio; a constant price-to-earnings ratio; and a discount rate greater than the expected growth rate.

The DCF model is represented by the formula of K = D1 / Po + G, where:

K = the market-required ROE;
D1 = the forecasted dividend paid one period into the future;
Po = an estimate to the current market price of the stock; and
G = investors' long-run growth expectations.

Consequently, once the three inputs (D1, Po, and G) are determined, an ROE can be calculated.

b. Dividend Yield & Stock Price

The Company used analysts' estimates based on market data on dividend yields and analysts' projected earnings per share growth rates from reputable third-party sources. Nowak PFT, pp. 5, 29; Aquarion Interrog. Resp. RRU-52, OCC-118, and OCC-119.

OCC calculated the dividend yields for the companies in the proxy group using the current annual dividend and the 30-day, 90-day, and 180-day average stock prices. Woolridge PFT, p. 43 and Exhibit JRW-5, p. 2. The proxy group mean and median dividend yields using the 30-day, 90-day, and 180-day average stock prices range from 2.2% to 2.5%, with recent yields of 2.50%. Id. Given this range, OCC used 2.40% as the dividend yield for the OCC Proxy Group. Wooldridge PFT, p. 43.

The Authority determines that the Value Line Column (f) is a reasonable means to measure market expectations of the projected dividend for the next 12 months. Furthermore, the Authority finds it to be a more straightforward approach to estimating dividends than otherwise proposed. Using the proposed 1+.5g factor approach to estimate the forecasted composite dividend yield, as proposed by OCC and the Company, is circular as the .5g factor is dependent on each analyst's selection of companies to their respective proxy group. This circularity and proxy group dependence

is absent with the Authority's straightforward use of Value Line Column (f)'s estimate for the forecasted dividend over the coming year.

Indeed, this approach comports with the Authority's past precedent with regards to the expected dividend yield component of the DCF model, which has been to use the forecasted dividend yields available in Value Line: Summary & Index's column (f), Estimated Dividend Yield Next 12 Months (Value Line Column (f)). The Authority has previously expressed a preference for Value Line Column (f). See Decision, Dec. 14, 2016, Docket No. 16-06-04, Application of The United Illuminating Company to Increase Rates and Charges (2016 UI Rate Case Decision), p. 82; Decision, Aug. 14, 2013, Docket No. 13-01-19, Application of The United Illuminating Company to Increase Rates and Charges (2013 UI Rate Case Decision), p. 127. Additionally, the Value Line Column (f) is based upon Value Line's proprietary algorithm that incorporates its years of experience projecting the timing of dividend payments, which the Authority finds is a better representation of when the timing of the next dividend will be paid as opposed to the Company's and OCC's 1+.5g factor approach. For consistency with those Decisions, simplicity, and straightforwardness as articulated above, the Authority incorporates Value Line's estimate of dividends to be paid over the next 12 months (i.e., Value Line: Summary & Index, Column (f)) as the D1 input to the DCF model.

Regarding the time period over which the data is collected, the Authority finds a 30-business day average stock price to be sufficiently long enough to capture changes in stock price movements; it is also relatively simple to obtain from public sources online. See Decision (2021 CWC Rate Case Decision), July 28, 2021, Docket No. 20-12-30, Application of the Connecticut Water Company to Amend its Rate Schedules, p. 35 (citing 2016 UI Rate Case Decision, p. 82; 2013 UI Rate Case Decision, p. 127). In this proceeding, the Authority maintains that the 30-business day period is especially relevant as it is devoid of stock market price shocks or other anomalies that could occur over the longer time periods utilized by OCC (i.e., 90-day and 180-day). Additionally, the Authority notes that the 30-day time period used in its models are representative of the conditions anticipated in the output of PURA models. The Authority may adjust the selected 30-day time frame if the most recent time period is unrepresentative of the current expectations, such as during a recession or pandemic. This was not the case here, however, and the Authority selected a 30-day time frame within the parameters of the Application.

Therefore, the Authority incorporates a timeframe of 30-business days as reasonable for estimating the stock price portion for the dividend yield component of the DCF Model. Based upon updated data used by the Authority for both stock price and estimated dividend yield,[35] the Authority notes that the mean forecasted dividend yield of the Authority's Proxy Group is 2.67%, or 13 basis points (2.80%-2.67%) below the comparable 30-business day price period of the Company's estimate.

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[35] All data used was dated no later than September 31, 2021. The Value Line, Summary & Index was dated July 8, 2022. The Authority's Proxy Group companies' Stock Prices (Adjusted Close) were collected over the 30-business days ended August 12, 2022, from Yahoo!Finance.

c. Growth Rate

The constant growth form of the DCF Model assumes a single growth estimate in perpetuity. To reduce the long-term growth rate to a single measure, one must assume a constant payout ratio, and that earnings per share (EPS), dividends per share (DPS), and book value per share (BVPS) all grow at the same constant rate. Over the long-run, dividend growth can only be sustained by earnings growth. Therefore, it is important to incorporate a variety of sources of long-term earnings growth rates into the Constant Growth DCF Model.

The Company only used the consensus analyst five-year growth estimates in EPS from First Call and Zacks and EPS growth rate estimates published by Value Line. Nowak PFT, p. 29; Aquarion Interrog. Resp. RRU-52, OCC-118, and OCC 119.

OCC noted that the better methodology to employ in estimating the growth component of the DCF Model is to examine a range of growth measures. By definition, this growth component represents investors' expectations of the long-term dividend growth rate. Investors use some combination of historical and/or projected growth rates for earnings and dividends per share and for internal or book-value growth to assess long-term potential. Woolridge PFT, p. 45. OCC analyzed a number of measures of growth for companies in the proxy group; specifically, Value Line's historical and projected growth rate estimates for EPS, DPS, and BVPS. Id. In addition, OCC utilized the average EPS growth rate forecasts of Wall Street analysts as provided by Yahoo!Finance, Zacks, and S&P Cap IQ. Id. These services solicit five-year earnings growth rate projections from securities analysts and compile and publish the means and medians of these forecasts. OCC also assessed prospective growth as measured by prospective earnings retention rates and earned returns on common equity. Id. OCC indicated the overall range for the projected growth rate indicators (ignoring historical growth) is 4.4% to 6.6%. Id. Giving primary weight to the projected EPS growth rate of Wall Street analysts, OCC concluded that the appropriate projected growth rate range is 6.50%. Woolridge PFT, p. 53. OCC noted this growth rate figure is in the upper end of the range of historic and projected growth rates for the proxy group. Id.

EOE asserts that the growth rate "g" must be representative of the constant sustainable growth. Rothschild PFT, p. 59. To obtain an accurate constant growth DCF result, the mathematical relationship between earnings, dividends, book value, and stock price must be respected. Id., pp. 59-60. EOE also stated that growth rates such as five-year projected growth in EPS are not indicative of long-term sustainable growth rates in cash flow. Id., p. 112. As a result, they are not applicable for direct use in the simplified DCF Model. Id.

The Authority has traditionally used a blended approach to ascertain its growth rates. While EPS growth is the primary contributing factor to overall growth of a company, there is not aways a direct correlation with the growth of dividends, book value, and EPS. Therefore, the Authority's approach takes into consideration that dividend growth is the ultimate input factor of the DCF model, since an exclusive reliance on growth in EPS estimates can be misconstrued because dividends and book value may not grow at the

same rates as EPS. A similar rationale was offered by the EOE witness, in which Mr. Rothschild credibly testified that growth rates (in EPS) are not indicative of future sustainable growth rates, in part because the sources of cash flow to an investor are dividends and stock price appreciation. Rothschild PFT, p. 112. While both stock price and dividends are impacted in the long run by the level of earnings a company is capable of achieving, earnings growth is rarely synchronized with cash flow growth from increases in dividends and stock prices. Id.

Mr. Rothschild further explains that a raw, unadjusted, five-year earnings per share growth rate is usually a poor proxy for either short-term or long-term cash flow growth that an investor expects to receive, and further, that a five-year EPS growth is a poor indicator of five-year dividend growth expectations. Id., p 113. In order for earnings growth to equal dividend growth, at a minimum, earnings per share in the first year of the five-year earnings growth rate period would have to be exactly on the long-term earnings trend line expected by investors. Since earnings in most years are above or below the trend line, the earnings per share growth rate over most five-year periods is different from what is expected for dividend growth. Id. Notably, this is one of the main contributing factors in the disparity between the ranges generated by the Company as compared to the Authority and other parties.

The Authority has been presented with this debate between including Value Line's historical growth rates and including Value Line's projected DPS and BVPS growth rates in numerous rate applications. Past precedent established that the Value Line historical EPS, DPS, and BVPS are reviewed but not explicitly included by the Authority. See, e.g., 2021 CWC Rate Case Decision, p. 36; 2013 UI Rate Case Decision, pp. 127-129; and 2016 UI Rate Case Decision, p. 83. However, the Authority has previously included Value Line *projected* DPS and BVPS growth rates in its own DCF model, primarily due to the Authority's expectation that investors will likely examine all the projected growth rate data available. 2016 UI Rate Case, p. 83. Furthermore, the Authority notes that the two measures of growth in question (DPS and BVPS) are not weighed as heavily in the overall composition of the Authority's growth rate as the significant portion from EPS (i.e., in this case Yahoo!Finance, Zacks, S&P Cap IQ, Value Line).

Accordingly, the Authority will incorporate the analysts' 5-year long-run EPS growth rates from Yahoo!Finance, Zacks, S&P Cap-IQ, and Value Line. The Company and OCC made similar arguments regarding the inclusion of Value Line's historical growth rates, projected DPS and BVPS growth rates, and retention growth rates as in previous rate cases proceedings. See 2021 CWC Rate Case Decision, p. 36; 2013 UI Rate Case Decision, pp. 127-129; and 2016 UI Rate Case Decision, p. 83. Consistent with precedent set in those Decisions, the Authority incorporates Value Line's projected DPS and BVPS growth rates, but not the historical growth rates. The Authority finds that historical growth rates can overestimate future growth of mature companies such as public utilities. The growth rate of public utilities is typically a function of the growth of the overall economy; as such, the Authority excludes historical growth rates in its DCF models. With respect to retention growth rates, the Authority computed these using the simple sustainable earnings/retention growth formula and respective data from Value Line's projections for

2025-2027.[36] Specifically, the Authority used a growth rate of the companies in the proxy group within a range of 2.70% to 13%.

d. DCF Analysis

The Company, OCC, and EOE each performed a DCF model, using the constant growth form as well as a non-constant growth form. Nowak PFT, pp. 27-28; Woolridge PFT, pp. 39-42; EOE PFT, pp. 58-60.

The Company's model was based on a constant growth DCF model that assumed a (1) constant average growth rate for earnings and dividends, (2) a stable dividend payout, (3) a constant price-to-earnings multiple, and (4) a discount rate greater than the expected growth rate. Nowak PFT, pp. 27-28. The Company calculated the DCF results using the average stock price, over 30-, 90-, and 180- trading days through June 30, 2022. A summary of the results can be found in the table below. Id.

OCC's model was based on a constant growth DCF model that used a 2.40% dividend yield, a 1 + ½ growth adjustment on dividends, and a dividend growth rate of 6.50%. The result of the OCC DCF model is 9.00%, as reflected in the table below. Woolridge PFT, p. 54.

EOE used two constant growth DCF methods. One of those methods is based on the sustainable retention growth procedure and the other method is based on option-implied growth as indicated from stock option prices. EOE also used a non-constant DCF method. EOE's constant growth DCF Model results in a range between 7.71% and 7.87% when using a sustainable growth rate, and between 6.62% and 7.55% when using an option-implied growth rate. Rothschild PFT, Ex. ALR-2.

Applying the DCF analysis to the Authority's Proxy Group, PURA calculates a ROE range of 7.38% to 10.30%, with a mean of 8.71% and a median of 9.02%. In its calculation, the Authority includes Yahoo!, Zacks, and Reuters' forecasts of EPS in the analysis, Value Line's five-year projected growth rate per share estimates for earnings dividends, and book values, as well as retention growth rates. The single-stage, constant growth DCF Model was applied to the companies in the Authority's Proxy Group over the most current 30-business day period on the stock price. The Authority's analysis is based on a company specific basis, not a point average as per OCC's approach.

Regarding the low side threshold range for the cost of equity models, the Authority finds it a reasonable premise that equity is riskier than debt. In establishing the low-end elimination zone for indicated DCF cost of capital estimates, the Authority's screening practice is to perform a sensitivity analysis on the basis point spread over the corresponding rated bond averages from Mergent Bond Record rating to eliminate results that constitute implausibly low ROEs, while maintaining an Authority Proxy Group that was reasonably robust in size. All data used was dated no later than August 2022. The Authority typically considers a spread between 300 and 400 basis points, and the

[36] All data used was dated no later than October 2022.

Authority eliminated one company on the low end (Middlesex Water), leaving a proxy group of 12 companies.

As stated above, PURA calculated a DCF range for the Authority's Proxy Group, excluding Middlesex Water, of 7.38% to 10.30%, with a mean of 8.71% and a median of 9.02%. This range is reflective of: the ROEs derived from the DCF approach; the Authority's past practice in applying the DCF Model; and current market conditions and updated data inputs incorporated by the Authority through August 2022. The Authority's and Parties' results are summarized in the table below.

Table 16: DCF Results

Type	Mean	Median	Range
Aquarion			
Constant Growth Rate	9.76%	9.88%	
OCC			
Constant Growth Rate			9.00%
EOE			
Sustainable Growth Rate			7.71% - 7.87%
Option Implied Growth Rate			6.62% - 7.55%
Non-Constant Growth Rate			6.54 - 6.87%
Authority Determination	**8.71%**	**9.02%**	**7.38% - 10.30%**

5. Capital Asset Pricing Model (CAPM)

a. CAPM Model Description

CAPM evaluates the relationship between the expected return and risk of investing in a security and is used to calculate the expected returns of an asset. To determine the cost of equity, CAPM first determines the appropriate risk-free rate and then adds a beta, or the degree of co-movement of the security's rate of return with the market's rate of return, multiplied by the expected equity risk premium, which is the amount by which investors expect the future return on equities, in general, to exceed that on the riskless asset.

The CAPM model is represented by the formula $Ke = Rf + \beta (Rm-Rf)$, where:

Ke= the required market ROE;
β = Beta coefficient of an individual security;
Rf = the risk-free rate of return; and
Rm = the required return on the market; the term (Rm – Rf) represents the equity risk premium (ERP).

Consequently, once the three inputs (β, Rf, and Rm) are determined, an ROE can be calculated.

b. Beta Coefficient

The measure of Beta represents the volatility of a proxy group of companies as compared to the aggregate market. The Company noted that Beta coefficients increased substantially between January 2020 and May 2022 for the utility companies used in its cost of capital analysis. Nowak PFT, p. 17. The Company considered two measures of Beta for the proxy group companies: (1) the Beta coefficients from Bloomberg, which are calculated using ten years of weekly data against the S&P 500 Index; and (2) the Beta coefficients from Value Line, which are calculated using five years of weekly data against the New York Stock Exchange Composite Index. Id., pp. 34-35.

OCC noted that utility Betas as measured by Value Line have been in the 0.55 to 0.70 range for the past 10 years, but utility stocks were much more volatile relative to the market in March and April of 2020, which resulted in an increase of above 0.30 to the average utility beta. Woolridge PFT, p. 58. OCC used Value Line Betas in its CAPM. Id., p. 60.

The Authority has traditionally incorporated both Value Line and Bloomberg Betas into its analysis by taking the simple average of the two estimates on a per company basis for the companies included in the Authority's Proxy Group. See 2021 CWC Rate Case Decision, pp. 38-39. By incorporating the average of the two sources of Beta, the Authority finds that such approach is less likely to overstate or understate the reflective Betas in the proxy group. Consequently, the Authority determined the Beta by averaging the Value Line Beta of all companies in the Authority's Proxy Group (0.82) and the Bloomberg Beta of all the companies in the Authority's Proxy Group (.79), thereby resulting in a Beta of 0.805.

c. Risk-Free Rate

As part of the Company's risk-free rate variable in its CAPM analysis, it considered projected bond yields to provide a forward-looking perspective on the cost of capital of its long-term assets. Nowak PFT, p. 34. The Company considered the following three estimates of the risk-free rate: (1) the current 30-day average yield on 30-year U.S. Treasury bonds (i.e., 3.18%); (2) the projected 30-year U.S. Treasury bond yield for Q4 2022 through Q4 2023 (i.e., 3.74%); and (3) the projected 30-year U.S. Treasury bond yield for 2024 through 2028 (i.e., 3.80%). Id.

Conversely, OCC typically uses the Duff & Phelps recommended normalized risk-free rate, which currently stands at 3.5%. Woolridge PFT, 56. If the 20-year Treasury spot rate is above 3.5%, the recommended risk-free rate is the spot on the 20-year, which is 4.5%. Id. During the evidentiary hearings, OCC was asked if it would revise any of the inputs in its CAPM calculation; in response, the OCC witness indicated they would use a 6% market risk premium (MRP) and a reduced risk-free rate to arrive at a CAPM of 8.6%. Tr., Dec. 6, 2022, 1447:1-9.

EOE's short-term risk-free rate is based on the yield of 3-month U.S. Treasury bills, while the long-term risk-free rate is based on the yield of 30-year U.S. Treasury bonds. Rothschild PFT, p. 73. EOE's spot and weighted average short-term risk-free rates are

3.33% and 2.98%, respectively, and the spot and weighted average long-term risk-free rates are 3.79% and 3.42%, respectively. Id.; Ex. ALR-4, p. 2.

The Authority notes that this rate case was filed during a time of both increasing *and* fluctuating rates, with respect to both short-term and long-term rates as described in the Treasury Rates and Static Analysis section of this Decision. See Section V.F.3. Treasury Rates and Static Analysis. As such, the Authority took into consideration both the increase in rates and the volatility of Treasury Market rates in its analysis. Based upon the recent observed trend in interest rate yields, and in an effort to smooth out interest rate volatility, the Authority finds an acceptable and conservative proxy for the return on long-term risk-free asset (Rf) to be 3.70%.

d. Equity Risk Premium

The equity risk premium (ERP) is equal to the expected return on the stock market (e.g., the expected return on the S&P 500 E(Rm) minus the risk-free rate of interest (Rf)). The ERP is difficult to measure because it requires an estimate of the expected return on the market – E(Rm). There was significant debate in this proceeding regarding the estimation of the equity risk premium.

The Company used a modified Constant Growth DCF model to estimate the market capitalization-weighted total market return for the S&P 500 Index, using projected earnings, growth rates, and dividend yields, and considered a subset of S&P 500 companies with growth rates between 0% and 20%, which suggested an expected market return of 12.37%. Nowak PFT, p. 35. OCC recommended 5.5%, based on market risk-premium estimates of Duff & Phelps, KPMG, the Fernandez survey, and Damodaran. Woolridge PFT, p. 68. EOE calculated its ERP using option-implied return expectations. Rothschild PFT, p. 95. Under EOE's approach, once the option-implied growth rate of the S&P 500 has been estimated, the dividend yield is added and the risk-free rate is subtracted to arrive at the market risk premium. Id., p. 96. The market risk premium used in EOE's Weighted Average CAPM analysis with short- and long-term risk-free rates is 7.66% and 7.21%, respectively. Id. The market risk premium used in the Spot[37] CAPM analysis with short- and long-term risk-free rates is 7.65% and 7.19%, respectively. Id., pp. 96-97.

The Authority previously accepted OCC's methodology in arriving at the ERP. See 2013 UI Rate Case Decision, p. 133. Additionally, in past analyses, the Authority incorporated OCC's survey of methodologies (OCC ERP Survey) into the PURA analysis. Woolridge PFT, Ex. JRW-611. While the Authority considered the Company's approach of using a DCF analysis on dividend paying companies in the S&P 500 to back into the equity risk premium, the Authority took exception to such an approach in the 2013 UI Rate Case Decision. 2013 UI Rate Case Decision, pp. 131-133. The Authority maintains that skepticism regarding the indicated CAPM results of this methodology and instead provides equal weight to the Company's indicated ERP range of results with other Authority sources considered. Specifically, the Authority places more weight on OCC's

[37] Here, "Spot" means the most recently available data versus historical data. See Rothschild PFT, p. 50.

6.0% ERP recommendation as it is derived from a careful review of financial literature and history and comports with the findings of other experts, while the Company's FERC approach is in excess and out of step with peer reviewed studies and noted field experts such as Duff & Phelps. Furthermore, the Authority incorporates separately the 2022 Duff & Phelps 5.5% ERP into its analysis given that it is an undisputed estimate in the record.

Accordingly, the Authority's overall estimated ERP range is 5.5% to 9.55%, while finding 6.30% to be the representative component of ERP for the CAPM.

e. CAPM Results

Using the components as determined above, the Authority's CAPM result is 8.77%, based upon the CAPM formula Ke = Rf + β (Rm-Rf). The Authority's components and result are summarized as follows:

Table 17: CAPM Results

Component	Rf	Beta	Rm	ERP	ROE
CAPM Calculation	**3.70%**	**0.805**	**10.00%**	**6.30%**	**8.77%**

6. Expected Earnings Model

The Company proposed using an expected earnings model for determining ROE. The Authority declines to apply this model for the same reasons it has declined to do so in prior rate cases.

First, the Company's Expected Earnings approach uses proxy company ROEs resulting from state and federal regulatory proceedings as input variables. These ROEs are not determined by competitive market forces, which set the standard for an investor's required return. Woolridge PFT, p. 96. Second, the approach is not widely accepted today in utility ratemaking as this benchmarking-comparison methodology has been replaced by regulators with market-based approaches, such as DCF, bond yield plus risk premium, or CAPM.

The Authority most recently rejected the Expected Earnings approach in the CWC Rate Case Decision. 2021 CWC Rate Case Decision, p. 41. In that Decision, the Authority reconsidered the version of the Expected Earnings/Comparable Earnings approach as applied by CWC and found the methodology as applied to be highly dependent on the number of companies included in the comparison group and the time period covered. Id. The Authority found that the Expected Earnings approach did not measure market cost of equity as it is accounting-based and not a measure of investors' market-based required returns. Id.

Consequently, the Authority rejects the Expected Earnings approach.

7. Other Factors

a. Company's Financial Risk

The Authority considers the financial risk of the Company as it relates to the Authority's Proxy Group to determine if there are unique financial risks that should be considered in the establishment of the ROE.

The Company cites its capital expenditures and regulatory risks as components that have a direct bearing on Aquarion's risk profile. Nowak PFT, p. 39. OCC notes these risk factors are already considered by credit rating agencies in assessing the risk of an entity. Woolridge PFT, p. 98. EOE observes that the Company made no specific adjustments to the ROE recommendation to account for the capital investment program or regulatory risk despite claiming these factors impact the Company's risk profile. Rothschild PFT, p. 56.

The Authority did not find any evidence to suggest that the Company has a higher risk profile than the Authority's Proxy Group. Further, the Authority notes that, to the extent any perceived risk exists, ownership from a corporate family of regulated utilities mitigates some financial risk as the entity benefits from the increased financial flexibility and the synergies provided from the ownership structure. The Authority finds that any Company claims regarding incremental risk are already included in the credit review by the credit rating issuers.

Given that the Company's A3 rating is within the range of credit ratings of the water utility industry and the Authority's Proxy Group reviewed as part of the cost of equity analysis, the Authority finds no unique financial risks that would result in granting an ROE higher than that indicated by the methodologies employed by the Authority and discussed herein.

b. Flotation Cost

The Company requests a 0.07% addition to the ROE to account for flotation costs. Nowak PFT, p. 4. Flotation costs are the costs associated with the sale of new issues of common stock. These costs include out-of-pocket expenditures for preparation, filing, underwriting, and other costs of issuance of common stock. To the extent that a company is denied the opportunity to recover prudently incurred flotation costs, Aquarion asserts that actual returns will fall short of expected (or required) returns, thereby diminishing the utility's ability to attract adequate capital on reasonable terms. Nowak PFT, p. 48. The Company contends that if it is denied the opportunity to recover prudently incurred flotation costs through its ROE, its allowed return will be insufficient, and equity share value will be diluted. Id. As such, the Company is requesting the inclusion of 7 basis points in the ROE to account for flotation costs. Nowak PFT, p. 4. The Company provided a breakdown of equity infusions from the parent company and dividends paid. Aquarion Interrog. Resp. OCC-110.

OCC argues that the Company did not provide any evidence that Aquarion has paid flotation costs and, therefore, should not be allowed to collect additional revenues in

the form of a higher ROE for flotation costs that have not been identified or paid. Woolridge PFT, p. 98.

Similarly, EOE also does not think it is appropriate to increase Aquarion's ROE to account for flotation costs because the common stock of water companies is currently selling at a market price that is approximately 200% above book value. Rothschild PFT, p. 57 and Ex. ALR-3, p. 1. As a result, selling new stock becomes a net profit, rather than a contributor to costs, as the effect is book value per share increases. Id.

Flotation costs are reviewed on a case-by-case basis by the Authority, as each utility has a unique corporate structure. The Company stated that no flotation costs were paid over the period 2015-2022. Interrog. Resp. OCC-112. Equity is infused through the ultimate parent Eversource. Id. Floatation costs are incurred by Eversource and netted against the proceeds from the issuance equity at the ultimate parent. Aquarion Interrog. Resp. OCC-123. The Company was not able to quantify the direct costs to the Company as equity issued at the ultimate parent is infused to the holding company, then to the Company itself. Consequently, the Authority finds that the Company has failed to meet its burden of demonstrating that the cost of equity will be specifically affected by the flotation cost incurred at the parent level. As such, the Authority will not factor flotation costs into the ROE determination based on this evidentiary record.

c. ROE Adder under Conn. Gen. Stat. § 16-262s

The Authority denies Aquarion's request, made pursuant to Conn. Gen. Stat. § 16-262s(b), for a 25-basis points adder to its ROE (ROE Adder) for acquiring and taking over the operation of four small water systems since 2013, which the Company asserts were economically non-viable: Bedrock Water Association (Bedrock),[38] Hickory Hills Corporation (Hickory Hills), Interlaken Water Company, Incorporated (Interlaken), and Litchfield Condominium Associates, Inc. (Litchfield). The Authority may award a water company that acquires another economically non-viable water company a ROE Adder if the acquiring water company can demonstrate that the proposed acquisition will provide benefits to customers by (1) enhancing system viability, or (2) avoiding capital costs or savings in operating costs, or as otherwise determined by the Authority. Conn. Gen. Stat. § 16-262s(b). Here, notwithstanding the issue of whether the Authority determined the acquired systems were economically nonviable, Aquarion did not demonstrate that the acquisitions would provide benefits to customers by enhancing system viability or by avoiding capital costs or savings in operating costs. Accordingly, Aquarion failed to sustain its burden of proof for any of the cited acquisitions.

Further, Aquarion did not incur any detrimental effects from the acquisitions. As part of the acquisitions, the Authority required the customers of the acquired water systems to pay surcharges and contributions in aid of construction (CIAC), which

[38] Aquarion is not eligible for an ROE Adder for its acquisition of Bedrock as the Company has already been awarded a ROE Adder for this acquisition pursuant to the September 2, 2015 Decision (2015 ROE Adder Decision) in Docket No. 13-02-20RE03, Application of Aquarion Water Company of Connecticut to Amend its Rates—Premium ROE. 2015 ROE Adder Decision, p. 43.

mitigated the financial impact on Aquarion.[39,40,41] Additionally, Aquarion acquired each of these systems for free, i.e., it did not pay a purchase price or other fee to acquire the systems. Aquarion had no financial disincentive to acquire these systems; therefore, an ROE adder is unnecessary to incent these specific acquisitions, or similarly situated ones.[42,43]

In addition, the acquisition of these systems helped Aquarion meet its growth metric, which in turn benefits both the Company's employees and its shareholders, rather than customers. Specifically, Aquarion has a growth metric that is built into the Company's short-term incentive plan that rewards employees with incentive compensation for increasing the number of customers served by Aquarion through the acquisition of systems. Tr., Nov. 29, 2022, 634:3-21. This approach also rewards shareholders by "[delivering] strong financial results to shareholders through focus on delivery of net income and growth initiatives," such as acquisition of new water systems. Aquarion Interrog. Resp. OCC-31, Att. 4, p. 4. Additionally, the acquisition of water systems is part of Aquarion's growth strategy. Tr., Nov. 30, 2022, 814:18-21, 815:6-13. Requiring the Company's ratepayers to fund an ROE Adder when the acquisition of the systems is part of Aquarion's growth strategy is illogical.[44]

Lastly, even if Aquarion had sustained its evidentiary burden that an ROE adder is warranted (which it did not), the Company failed to demonstrate that the amount of the ROE Adder, i.e., 25 basis points, is appropriate. Aquarion asserts that a 25-basis points

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[39] In the June 15, 2017 Decision (Litchfield Hills Decision) in Docket No. 10-01-16, Joint Investigation of PURA and DPH Regarding Litchfield Condominium Associates, Inc. to Cease Operations as a Water Supply Company, the Authority and the Department of Public Health (DPH; jointly, Agencies) ordered the customers of the Litchfield water system to provide a CIAC in the amount of $284,000 to Aquarion, which was approximately 70% of the estimated cost of the main extension from Aquarion's system to the Litchfield water system. Litchfield Hills Decision, pp. 10, 15.

[40] In the October 4, 2017 Decision (Hickory Hills Decision) in Docket No. 14-05-11, PURA and DPH Joint Review of the Petition of Hickory Hills Corporation to Cease Operations as a Water Company, the Agencies ordered the customers of the Hickory Hills water system to pay a capital surcharge of $29.78 per month for 13 years. Hickory Hills Decision, p. 8. In lieu of the capital surcharge, the Agencies authorized the customers of the Hickory Hills water system to provide a CIAC in the amount of $54,000 to Aquarion. Id.

[41] In the May 15, 2019 Decision (Interlaken Decision) in Docket No. 14-04-22, Petition of Interlaken Water Company, Incorporated to Cease Operations as a Water Supply Company, the Authority ordered the customers of the Interlaken water system to pay a surcharge of $69.33 per month, or $831.96 annually, over a 40-year period. Interlaken Decision, p. 12. The Authority asserted that the "surcharge prevents legacy ratepayers from paying for the full amount of improvements by recovering more than 60% of the revenue requirement from [the customers of the Interlaken water system]." Id., p. 12.

[42] ROE Adders are supposed to be forward looking to encourage future management behavior. Tr., Dec. 6, 2022, 1556:8-10; 1556:24-1557:4. The ROE Adder in this construct, as Aquarion proposes it, is a reward for what a company did in the past, not to incentivize a company to do something in the future.

[43] ROE Adders shift the risk of the adjustment, which in this case is for the acquisitions, from the Company to its ratepayers so that it is the ratepayers who end up paying for the risk. Tr., Dec. 6, 2022, 1450:16-22. Here, the Company was made whole, or close to it, when Aquarion acquired the water systems. Therefore, shifting the risk to ratepayers by requiring that they pay an ROE Adder is not appropriate.

[44] Interestingly, ratepayers also pay the salaries of the Aquarion employees that search for and work on acquisitions. Tr., Dec. 1, 2022, 856-25-857:12.

ROE adder for the acquisition of 3 water systems[45] is appropriate when compared to the 50-basis point ROE adder that the Authority approved in the Company's 2015 ROE Adder Decision for the acquisition of 56 water systems. Nowak PFT, p. 53. This correlation, however, is not proportional and lacks any evidentiary or logical basis.

Accordingly, the Authority finds that Aquarion failed to provide sufficient evidence to support a 25-basis points ROE Adder for the acquisition of the Hickory Hills, Interlaken, and Litchfield Hills water systems.

d. Conn. Gen. Stat. § 16-19kk Factors

In establishing a company's authorized return, the Authority must consider:

> Quality, reliability and cost of service provided by the company, the reduced or shifted demand for electricity, gas or water resulting from the company's conservation and load management programs approved by the authority, the company's successful implementation of programs supporting economic development of the state and the company's success in decreasing or constraining dependence on the use of petroleum or any other criteria consistent with the state energy or other policy.

Conn. Gen. Stat. §16-19kk(c).

In determining the ROE, the Authority considered these statutory factors and finds that the record does not support an adjustment to the Authority-allowed ROE based on these considerations.

8. Approved ROE

The table below summarizes the various methodologies and factors that are considered in determining an appropriate ROE.

Table 18: Summary of Authority's ROE Analysis

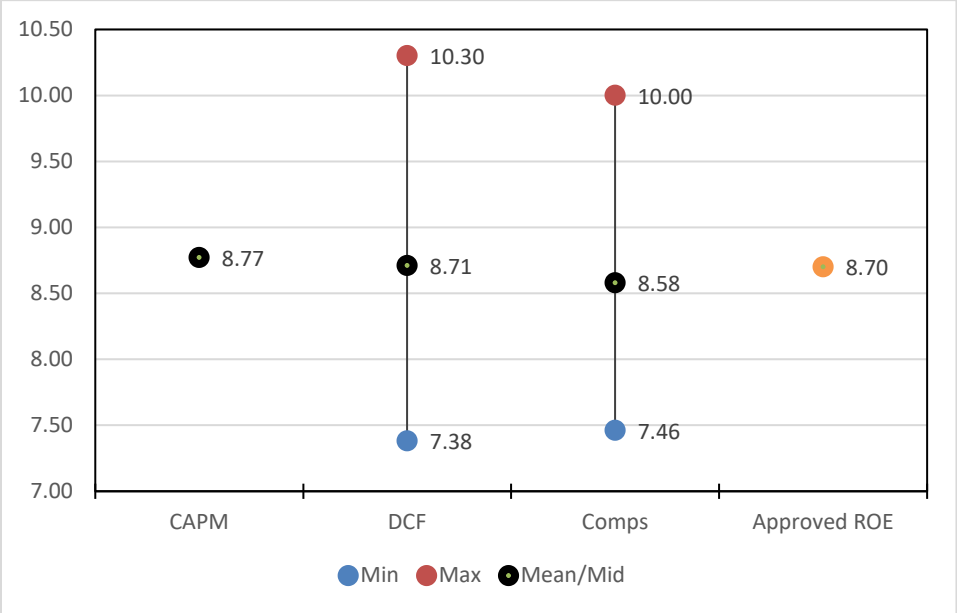
	Range	Mean	Median
ROE Analysis			
CAPM	8.77%		
DCF Model	7.38 – 10.30%	8.71%	9.02%
Benchmarks			
Comparable ROEs	7.46 – 10.00%	8.58%	
Expected Earnings	N/A		
Other Factors			
Flotation Costs	N/A		
ROE Premium	N/A		

[45] As stated above in footnote 37, Aquarion is not eligible to receive an ROE Adder for the acquisition of Bedrock as it has already received one.

Based on the record evidence in this proceeding, the Authority weighs the DCF Model result more heavily than it weighs the CAPM result. In particular, the Authority finds the DCF Model to be more reflective of current market conditions, as it relies on directly observable market data and comports with past Authority precedent, where PURA determined it appropriate to weigh DCF results more heavily during periods of low UST-30 rates. 2021 CWC Rate Case Decision, p. 46; 2016 UI Rate Case, p. 86. The DCF model provides a better measure of the cost of equity for utilities given the relative stability of the utility business and the valuation process. Conversely, the CAPM relies heavily on risk-premium studies. Given the subjective nature of the equity risk premiums, the CAPM may provide a less reliable indication of the cost of equity for public utilities. Therefore, the Authority finds a ROE that reflects the approximate mean of the DCF Model represents a reasonable ROE. Further, as discussed herein, the Authority finds no evidence to justify a departure from its analysis, nor has the Company met its burden to substantiate a ROE adder of any kind.

Accordingly, the Authority concludes that a reasonable allowed ROE for the Company is 8.70%. The figure below summarizes the ROE analysis.

Figure 3*:* ROE Analysis



VI. ALLOWABLE EXPENSES

A. LATE FILED EXHIBITS

At the November 22, 2022 hearing, the Company proposed submitting a customary late filed exhibit, marked as Late Filed Exhibit 1, to provide any corrections and agreed-upon adjustments to the Company's Application identified during the discovery process and evidentiary hearings.[46] In essence, Late Filed Exhibit 1 is intended to revise, as needed, all of the schedules contained in the Application to reflect discrepancies and errors identified during the proceeding.

On December 8, 2022, the Company submitted Late Filed Exhibit 1, which included the anticipated corrections and agreed-upon adjustments; however, Late Filed Exhibit 1 also included new evidence that would materially modify the Application. Late Filed Ex. 1, Att. 1 (Dec. 8, 2022). Subsequently, the Company submitted supplements and revisions to Late Filed Exhibit 1 on December 12 and 14, 2022. At the December 14, 2022 hearing, the Authority requested the Company submit a revised Late Filed Exhibit 1 consistent with the Company's proposal to include only corrections and agreed-upon adjustments, to which the Company agreed. Tr., Dec. 14, 2022, 66:22-67:13.

Notwithstanding this agreement, the Company filed a revised Late File Exhibit 1 (Final Late Filed Exhibit 1), which contained the corrections and agreed-upon adjustment, but also continued to include new evidence that materially modified the Application. See Final Late Filed Ex. 1.[47] Final Late Filed Exhibit 1 was submitted four days after the last evidentiary hearing, which was held on December 15, 2023. Consequently, Final Late Filed Exhibit 1 contains considerable new evidence — the credibility and accuracy of

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[46] See Tr., Nov. 22, 2022, 23:15-24:5 (Attorney Pace: "Chairman, just one evidentiary matter, and that is before we start to take Late-File exhibits, I know in rate cases it's customary that the company provides as a Late-File all of the corrections we've made during the discovery process so there could be one Late-File where, if there are corrections, we would put it in one convenient place for all the parties. We'd like the Authority's permission to mark as Late-File 1 all the corrections identified during the discovery process as well as any that will identified during the hearing process for the benefit of the Authority and for the parties to have it in one convenient location. Is that acceptable to the Chairman?" Chairman Gillett: "That is."; see also Tr., 24:23-25:7 (Chairman Gillett: "And apologies, Attorney Pace, did you say this Late-File exhibit captures any corrections that were made during the discovery process including the prefile testimony?" Mr. Pace: "And also identified during the hearing. So Chairman, if we do identify any further corrections during the course of the hearing, we can always proceed to provide a supplement to the Late-File at the appropriate time.").

[47] The Final Late Filed Exhibit 1 includes two attachments: Supplemental 2 Attachment 1, which is referred to in the body of the Decision as Supplemental Attachment 1 and in citations as Suppl. Att. 1, and Supplemental 2 Attachment 2. According to Aquarion, Supplemental Attachment 1 to the Final Late Filed Exhibit 1 includes: (1) Corrections, agreed-upon adjustments, and material changes to the Company's B Schedules on rate base, which includes actual plant additions as of the end of November and projected closings (100% complete) as of December 15, 2022, and C Schedules on income statement, revenue adjustments, and expenses; and (2) corrections, agreed-upon adjustments, and material changes to Aquarion's Schedules B-4.0 through B-9.0, which are based on actual balances as of November 30, 2022. See Final Late Filed Ex. 1. The Company indicated that Supplemental 2 Attachment 2 includes the corrections, agreed-upon adjustments, and material changes included in Supplemental 2 Attachment 1, plus the impact of plant additions for projects that are at least 75% complete as of December 15, 2022. See Late Filed Ex. 1, Suppl. 2 (Dec. 19, 2022), Att. 2.

which has not been tested through the administrative process. As such, the Authority will only consider those portions of Final Late Filed Exhibit 1 attributable to corrections and agreed-upon adjustments to information in the Application identified during the discovery process and evidentiary hearings.[48]

B. Operations and Maintenance Expenses

1. Summary

Allowable operating expenses must "reflect prudent and efficient management of the franchise operation." Conn. Gen. Stat. § 16-19e(a)(5). Therefore, only those expenses that are reasonable and necessary to provide service to the public may be included as an allowable expense. To determine a utility's allowable expenses, the Authority will consider the Test Year expenses as adjusted for known and measurable changes. The Company has the burden of proving that such expenses under consideration are just and reasonable. See Conn. Gen. Stat. § 16-22.

For purposes of establishing a revenue requirement, the Company proposed operations and maintenance expenses of $80,261,512. Final Late Filed Ex. 1, Sch. C-3.0. The table below summarizes the Authority's modifications to the Company's proposed operations and maintenance expenses by category. The subsequent sections provide an explanation for each of the modifications.

Table 19: **Operations and Maintenance Expenses**

Company Proposed	**$80,261,512**
Jobbing Income	(700,578)
Net Company Proposed	**79,560,934**
Employee Compensation – Salaries	(772,489)
Employee Compensation - COLA	(360,847)
Incentive Compensation – Aquarion	(147,023)
Incentive Compensation - Employees	(1,706,725)
Management Fee	(205,338)
Employee Benefits	(159,359)
SERP	(401,010)
Purchases: Purchased Power Expense	(745,891)
Purchases: Chemicals	(3,149,286)
Merger Cost Recovery	(483,753)
Inflation Adjustment	(1,194,125)

[48] The Company asserts that Final Late Filed Exhibit 1 includes material adjustments to its Application, in addition to corrections and agreed-upon adjustments, "[b]ecause Conn. Gen. Stat. § 4-177c(a) authorizes [Aquarion] to submit evidence on 'all issues involved' in this rate case while the record is open – and because Conn. Gen. Stat. § 16-19e(a)(4) states that rates must be sufficient to enable 'public service companies to cover their operating costs.'" Aquarion Brief, p. 28. However, the question is not whether the Company can submit evidence; rather, the question is whether the Authority can rely on such evidence. The submission of new evidence after the close of evidentiary hearings deprives the Authority and parties of the opportunity to test the evidence. As such, the evidence may not be reliable.

Memberships and Affiliation Dues	(300,712)
Donations	(81,491)
Directors and Officers Liability Insurance	(31,097)
Rate Case Costs	(144,032)
Non-Revenue Water	(138,012)
Communications Expense	(265,948)
Deferred Conservation Expense	(249,975)
Annual Conservation Expense	(94,629)
Entertainment Expense	(37,812)
Relocation Expense	(22,500)
Acquisition Amortization	(111,089)
Maintenance, Non-SAP	(176,954)
Bad Debt Expense	(1,998)
Total Modifications	**($10,870,781)**
Total Allowed O&M Expenses	**68,690,153**

2. Employee Compensation

a. Full-Time Equivalent Positions and Open Positions

The Company requests $28,068,428 for employee salaries, which includes employee salaries for 320.6 full-time equivalent (FTE) employee positions and 12 open positions, for a total of 332.6 FTEs. Final Late Filed Ex. 1, Sch. WPC-3.2. As of December 19, 2022, the Company had 320.6 FTEs. Id. In September 2022, Aquarion had 311 FTEs. Aquarion Interrog. Resp. OCC-260, Att. 2. In the previous five years, the Company has had an average vacancy rate of: 5.7, 6.1, 9.4, 10.4, and 11.5 in 2017, 2018, 2019, 2020, and 2021, respectively, for a five-year average vacancy rate of 8.6 FTEs. Aquarion Interrog. Resp. OCC-57, Att. 1-5. In 2022, the Company averaged 17.6 vacancies for the period from January through September. Aquarion Interrog. Resp. OCC-260, Att. 2.

Based on the evidence in the record, including the Company's average vacancy rate, the Authority determines the appropriate number of FTEs is 324 (332.6 – 8.6), which is further reduced to 323 FTEs as a result of the disallowance discussed below. The Authority concludes that this level of allowed FTEs is sufficient for the Company to provide safe and reliable service to its customers without burdening ratepayers with excessive wage expenses.

Additionally, the Authority notes that the Company currently has two Directors of Business Development, one of which previously worked for the New England Service Company (NESC) and, when the Company acquired NESC, joined Aquarion as a condition of their employment. Late Filed Ex. 35; Tr., Dec. 14, 2022, 133:6-15. Both Directors of Business Development have similar responsibilities, and the Company did not offer any evidence or explanation as to why two identical positions are necessary.

Tr., 133:16-20. Accordingly, the Authority denies recovery for one of the two Directors of Business Development as this is a duplicative job title with duplicative job responsibilities.

Due to this disallowance and using the salary for the open position of Director of Customer Service as a proxy, the Authority adjusts employee compensation by $151,500. Additionally, the Authority is adjusting employee compensation for the Company's average vacancy rate of 8.6 FTEs. The resulting reduction in the Company's request for employee compensation expense is $772,489, which is the average pro forma FTE payroll expense of $76,295, excluding wage increases and incentive compensation, multiplied by the average vacancy rate of 8.6, plus the wage expense of $116,352 ($151,500 * 0.768) for the elimination of the duplicative position of Director of Business Development (($76,295 * 8.6) + (151,500 * 0.768).

b. Wage Increase

The Company requests $1,135,723 for a 4% wage increase for non-union employees effective April 2023, as it "expects to provide a slightly higher general increase in 2023 of [4%]." Teixeira Prefiled Test., Aug. 29, 2022, p. 37; Szabo & Unger Prefiled Test., Aug. 29, 2022, p. 33; Final Late Filed Ex. 1, Sch. WPC-3.2. A wage increase of 3% was provided to non-union and union employees effective April 1, 2022. Teixeira PFT, pp. 36, 37. The Authority finds that the Company did not substantiate its burden for the additional 4% wage increase, explaining only that it expects to provide a "slightly higher general increase in 2023" due to "current market trends." Id., p. 37. Accordingly, the Authority denies the Company's request for the 4% wage increase; however, the Authority will permit a 3% wage increase commensurate with the survey data cited to justify the 3% increase afforded to non-union employees effective the previous calendar year. Id. As such, the Authority allows $774,976 [($30,995,046*.03)/12)*10 months] for a 3% wage increase effective April 2023. The adjustment to the requested amount results in a reduction of $360,847 ($1,135,723-$774,876).

c. Officer Compensation

The Company requests $2,940,460 for Aquarion officer compensation in base rates, which includes Aquarion officers' base salary, incentive, and benefits. Application, Schedule G-2.12.

The Authority approves the inclusion of 90%, or $2,646,414, of Aquarion officer compensation in base rates. Similar to Eversource officer incentive compensation, discussed infra in Section VI.B.3. Management Fee Compensation, the Authority approves the inclusion of 50% of the remaining 10%, or $147,023 (($2,940,460*10%)(50%)), in base rates (but importantly, subjects such amount to reconciliation), and the inclusion of the other 50% of the remaining 10%, or $147,023, to be recovered through the revenue adjustment mechanism (RAM), *if* the Company meets the metrics discussed in Section VI.B.4. Performance Metrics. The amount the Company may ultimately recover from ratepayers is dependent on the percentage by which Aquarion meets the metrics. For example, if the Company meets 50% of the metrics, then the 5% of the Aquarion officer compensation included in rate base would be used to compensate the Aquarion officers. With respect to the 5% of the Aquarion officer

compensation for which recovery is disallowed (due to the Company achieving only 50% of the defined metrics), the Company would take no action toward seeking recovery of the remaining 5% of the Aquarion officer compensation from customers in RAM. If, however, the Company fails to meet less than half of the metrics, then the Company is directed to return the proportional share of the Aquarion officer compensation included in rate base ($147,023) to customers through the RAM as a credit and will again forego recovery of the other 5% through the RAM. The Company may seek recovery from its shareholders of any portion of the Eversource officer compensation for which recovery from customers is disallowed. The Authority directs the Company, no later than February 1, 2024, and annually thereafter, to file as a compliance filing the amount of Aquarion officer compensation customers are paying through base rates and through the RAM, or conversely how much is being returned to customers through the RAM.

d. Employee Incentive Compensation

The Company requests $2,222,298 to fund its employee incentive compensation program (Incentive Program). Final Late Filed Ex. 1, Sch. WPC-3.2. According to the Company, the Incentive Program is designed to promote its mission by incentivizing employee behavior towards the achievement of the goals and objectives outlined in Aquarion's business plan. Teixeira PFT, p. 38. The Company asserts that by tying a portion of employee compensation to the employee's performance of the goals and objectives, Aquarion's total employee compensation package provides "great motivation for employees to increase operating efficiencies and productivity." Id., pp. 38-39. In addition, the Company asserts its "total rewards" approach is "designed to compensate employees competitively in comparison to the general industry sector." Id., p. 33.

The Authority is not persuaded that the Incentive Program properly incentivizes employees or that it benefits ratepayers. First, almost 100% of eligible employees receive employee incentive compensation, which hardly provides motivation to meet or exceed any goals set. See Aquarion Interrog. Resp. OCC-30. Second, employees only receive employee incentive compensation if the Incentive Program is funded. Teixeira, Szabo, Unger Rebuttal Prefiled Test., Nov. 9, 2022, p. 14. If the Incentive Program is not funded, an employee has little motivation to meet or exceed their goals because, regardless of whether or not an employee does meet their goals, the employee will not receive any incentive compensation. Third, since 70% of the employee incentive compensation is tied to achievement of financial goals, the Incentive Program benefits the Company's shareholders, but not necessarily its ratepayers. See Aquarion Interrog. Resp. OCC-30. Accordingly, the Authority denies the Company's request to recover $2,222,298 from ratepayers to fund the Incentive Program as the program provides little, if any, benefit to ratepayers. Instead, the Authority suggests that the Company fund 100% of the Incentive Program using Aquarion's 50% share of its Earnings Sharing Mechanism (ESM), which is a more appropriate indicator of whether the Company has achieved financial goals that are mutually beneficial to shareholders and ratepayers. If there is no ESM triggered in any given year, then the Company's shareholders may opt to fund the Incentive Program, since it primarily incents achievement of shareholder-prioritized financial goals.

The adjustment to employee incentive compensation expense is a reduction of $1,706,725 ($2,222,298 * 76.8%). Final Late Filed Ex. 1, Sch. WPC-3.2.

3. Management Fee Compensation

Aquarion requests recovery of $410,676 ($474,550*86.54%), which represents the Company's share (Management Fee) of the flat fee that Eversource charges Eversource's affiliates for a portion of the Eversource officers' compensation[49] (Flat Fee) based on the Massachusetts (MASS) Formula.[50] Aquarion Interrog. Resp. EOE-45; Late Filed Ex. 18, Att. 1; Final Late Filed Ex. 1, Sch. WPC-3.28(2). Aquarion pays 86.54% of the Flat Fee and the other Eversource subsidiaries pay the other 13.46%. Final Late Filed Ex. 1, Sch. C-3.28(2). The Management Fee equates to $7,898 per week, or $197 an hour (based on a 40-hour work week). The way in which Eversource determines the amount charged for the Flat Fee, which is set annually, is unclear. Tr., Nov. 28, 2022, 358:15-259:4. In addition, whether the Eversource officers track their time spent on the affiliates is unknown. Tr., Nov. 28, 2022, 358:15-259:4. The Company also does not know how the decision was made to include the 12 officers listed in the Management Fee. Tr., Dec. 14, 2022, 140:6-19.

Accordingly, if the Company seeks recovery of the Management Fee in a future rate case, Aquarion is on notice that the provision of evidence to support the imposition of such fees is a prerequisite to recovery; in other words, detailed documentation will be required regarding, at a minimum, how Eversource chose the officers included in the fee, the tracked time Eversource officers spend on Aquarion work, and examples of demonstrable benefits that accrued to the Company's ratepayers traceable to the direct management provided by each officer included in the Flat Fee.

Despite the lack of information regarding how Eversource determined the amount of the Flat Fee, the Authority approves the inclusion of $205,338 (50% of $410,676) of the Management Fee in base rates (but importantly, subjects such amount to reconciliation), and the inclusion of the remainder of the management fee, or $205,338 (50% of $410,676), in RAM, but only *if* the Company meets certain metrics discussed <u>infra</u> in Section VI.B.4. <u>Performance Metrics</u>. The amount the Company may ultimately recover from ratepayers is dependent on the percentage by which Aquarion meets the metrics.

For example, if the Company meets only 50% of the metrics, then the 50% of the Management Fee included in rate base would be used to pay the Management Fee, while the Company would forgo seeking recovery of the other 50% from customers through the

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[49] The Eversource officers whose compensation is included in the Flat Fee are: executive vice president and general counsel; chairman, president, and chief executive officer; executive vice president-customer and corporate relations; executive vice president and chief operating officer; vice president, controller; vice president, investor relations; senior vice president, finance and regulatory and treasurer; corporate secretary and deputy general counsel; vice president, internal audit and security; senior vice president and chief financial officer; and director of taxes. Late Filed Ex. 18, Att. 1; Tr. Dec. 14, 2022, 138:24-140:5, 140:25-141:10.

[50] The MASS Formula used to allocate current year expenses are based upon *prior year* actual revenues, gross plant, payroll, and customer counts.

RAM. If, however, the Company fails to meet less than half of its metrics, then the Company is directed to return the proportional share of the Management Fee included in rate base ($205,338) to customers through the RAM as a credit and will again forego recovery of the other 50% through the RAM. The Company may seek recovery from its shareholders of any portion of the Management Fee for which recovery from customers is disallowed. The Authority directs the Company, no later than February 1, 2024, and annually thereafter, to file as a compliance filing the amount of the Management Fee customers are paying through base rates and through the RAM, or conversely how much is being returned to customers through the RAM.

4. Performance Metrics

The Authority is required in a rate case to "consider the implementation of financial performance-based incentives and penalties and performance-based metrics." Conn. Gen. Stat. § 16-19a. Additionally, in exercising its discretion regarding whether to allow the recovery through rates of any portion of the compensation package for executives or officers or of any portion of any incentive compensation for employees of a water company, the Authority is required to consider whether to require that any such compensation that is recoverable through rates be dependent upon the achievement of performance targets. Conn. Gen. Stat. § 16-19yy.[51] If the Authority approves such performance-based incentives and penalties for a particular company, PURA is required to include in the framework for periodic monitoring and review of the company's performance pursuant to metrics developed by the Authority. Id. Based on the record in this proceeding, the Authority determines that implementation of financial performance-based incentives is both appropriate and necessary.

The Authority is tying the Company's recovery from ratepayers of a portion of the Aquarion officer compensation expenses and the Management Fee expenses to the achievement of affordability metrics to appropriately motivate its executives to develop and faithfully implement programs that directly and meaningfully benefit the Company's low-income customers. In 2017, as a condition of approval for the merger between the Company and Eversource, the Authority directed the Company to "develop and propose in its next rate case a low-income program that could best benefit its customers in need." Decision (Merger Decision), 27, 2017, Docket No. 17-06-30, Joint Application of Eversource and Macquarie Utilities Inc. for Approval of Change of Control, p. 26 (emphasis added). Despite having over five years to compile and analyze data regarding its low-income customers to develop a program that would best benefit those customers, the Company instead proposed a program providing a 15% credit to low-income customers simply because the Authority approved a 15% credit for Connecticut Water Company in the 2021 CWC Rate Case Decision. Aquarion Interrog. Resp. RRU-325; Tr., Dec. 5, 2022, 1160:3-5; 1255:12-18.

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[51] Given that the Company did not substantiate its burden with respect to the Management Fee in particular, as discussed in Section VI.B.3. Management Fee Compensation, the opportunity to recover these costs from ratepayers subject to achievement of certain performance metrics is more beneficial to the Company than the alternative, which is the disallowance of recovery of 100% of the Management Fee from ratepayers.

In addition, rather than leveraging the experience of Aquarion's affiliated companies, The Connecticut Light and Power Company d/b/a/ Eversource Energy (CL&P) and the Yankee Gas Services Company d/b/a Eversource Energy (Yankee), both of which have extensive experience with implementing financial hardship programs, the Company instead elected to have only high-level discussions with them. See Aquarion Interrog. Resp. EOE-41; Tr., Dec. 1, 2022, 1028:9-10. Lastly, when asked about the Company's familiarity with the Authority's recent Decision in which PURA ordered the electric distribution companies in Connecticut, including CL&P, to implement a low-income discount rate, the Company replied that they were not aware of it. Tr., 1075:23-1076:7. The Authority is equally perplexed and disheartened by Aquarion's apparent lack of awareness considering CL&P was actively engaged in the proceeding, which occurred over an almost two-year period, and was ultimately ordered to implement a low-income discount rate. Accordingly, the Authority finds it is more than necessary and appropriate to connect the recovery of Eversource and Aquarion officer compensation to achievement of certain affordability metrics.

The Authority finds that the following metrics by which PURA will measure Aquarion's performance are reasonable and appropriate. Aquarion is deemed to have met or exceeded the performance metrics if the difference between the data for the calendar year for which the Company is reporting (Current Year) is equal to or greater than 10% of the data for the Historical Period, based on the average of the results of all four metrics. The Company is deemed to have met 90% of the performance metrics if the data for the Current Year is between 9% but less than 10% greater than the data for the Historical Period, based on the average of the results of all four metrics; 80% if the difference between the data for the Current Year is between 8% and 9% greater than the data for the historical, based on the average of the results of all four metrics; 70% if the difference between the data for the Current Year is between 7% and 8% greater than the data for the historical, based on the average of the results of all four metrics, etc. The Historical Period shall be the average of the data from 2017 through 2022, unless the Authority finds that such data is unreliable due to missing or incomplete data, in which case the Historical Period shall be data from the Test Year.[52]

1. Payment Regularity Ratio Metric: Aquarion shall calculate the payment regularity ratio (Payment Regularity Ratio) for its residential customers by using data for the Historical Period and comparing it to the data for the Current Year to determine how many payments the Company received for every 100 residential monthly bills rendered. The Payment Regularity Ratio is calculated by placing the number of payments in the numerator and the number of bills in the denominator. Late Filed Ex. 75, pp. 8-9.

2. Payment Coverage Ratio Metric: Aquarion shall calculate the payment coverage ratio (Payment Coverage Ratio) for its residential customers by using

[52] In the event that the Company is unable to supply baseline data for one or more metrics in any of the years, the Authority will be unable to assess the Company's achievement of the metrics for a given cycle; thus, the Company would be prohibited from recovering any portion of the compensation earmarked as contingent on these performance targets for the applicable year.

the data for the Historical Period and comparing it the Current Year to determine how many payments the Company received for every 100 residential monthly bills rendered. The Payment Coverage Ratio is calculated by dividing the dollars of payments by dollars of bills. Colton Prefiled Test. Oct. 26, 2022, pp. 21-22.

3. Nonpayment Disconnection Ratio Metric: Aquarion shall calculate the rate of nonpayment disconnections (number of nonpayment disconnections per 100 customers) for its residential customers by using data for the Historical Period and comparing it to number of nonpayment disconnections for every 100 customers in the Current Year. See Late Filed Ex. 75, p. 8.

4. Average Monthly Arears Metric: Aquarion shall calculate the average number of accounts in arrears monthly by using data for the Historical Period and comparing it to average number of accounts in arrears monthly in the Current Year. Id., p. 8.

The Authority directs the Company to submit as a motion for review and approval no later than May 1, 2023, the data for each year from 2017 through 2022 required to calculate the baseline for each of the performance metrics. In its ruling on the motion, PURA will approve the Company's use of either an average of the data from 2017 through 2022, or the data from the Test Year for Aquation's calculation of the various performance metrics in Rate Year 1, depending on whether the Authority finds the data submitted for 2017 through 2022 is unreliable due to missing or incomplete data.[53] In addition, the Authority directs the Company to annually, on or before January 15th, submit as a compliance filing detailed information regarding whether Aquarion met or exceeded each of the metrics during the preceding calendar year. The compliance filing shall include an unlocked workable Excel spreadsheet providing the data on which the Company relied in making its determination.

5. Benefits

a. Employee Benefits

As a result of the disallowance of 8.6 FTEs and the Director of Business Development position in Section VI.B.2.a., the employee benefits expense, which includes Group Medical and Dental, Life Insurance, and Long-Term Disability, is reduced by $159,359. This is the total of the average expense portion of the benefits per FTE

[53] This determination will also affect whether the baseline used to assess achievement of the Company's progress in 2024 is calendar year 2023 data, or a rolling average between 2018-2023. For clarity, the February 1, 2024 RAM filing will assess whether the Company achieved its performance metrics during calendar year 2023, using the baseline of either the Test Year or the 2017-2022 Historical Average as determined by the Authority, and any necessary adjustments would be made to the RAM rate effective April 1, 2024. The February 1, 2025 RAM filing will assess whether the Company achieved its performance metrics during calendar year 2024, using the baseline of either calendar year 2023 data, or a rolling average between 2018-2023, as determined by the Authority, and any necessary adjustments would be made to the RAM rate effective April 1, 2025; and so on.

($16,599) multiplied by the 8.6 vacancy rate plus $16,599 for the disallowed Director position.

b. SERP

The Authority denies Aquarion's Supplemental Executive Retirement Plan (SERP) expense of $401,010, which is consistent with PURA's past precedent of denial of this optional employer sponsored benefit that accrues to only a select few highly compensated employees. See 2013 Decision, pp. 68-69. The Authority also finds that lack of clarity with which the Company identified the SERP expenses in the instant Application provides further support for the denial as the Company has not met its burden.

In its Application, the Company did not include a specific pro forma adjustment schedule for SERP. The Application included Schedule WPC-3.25, which made reference to SERP expense for Connecticut Business Tax purposes. See Application, Schedule WPC-3.25. OCC initially identified a disallowance of only the $13,746 for the defined benefit portion of the SERP and $97,728 (later corrected to $26,613) for the 401k portion of the SERP that were not included in the Management Fee. OCC Defever Prefiled Test, Oct. 26, 2022, pp. 15-16; Final Late Filed Ex. 1, Sch. 3.19(2) and 3.28; Late Filed Ex. 29 and 30; Suppl. Late Filed Ex. 30, Dec. 16, 2022; Tr., Dec. 14, 2022, 121:1-25.

Through discovery and testimony at the Late Filed Exhibit hearing, the Authority learned that the $13,746 and $26,613 amounts for Defined Benefit and Defined Contribution SERP, respectively, provided in the Application were related to the Connecticut Business Tax portion only. The Company indicates that the amounts questioned by OCC (i.e., $13,746 related to the SERP Defined Benefit portion and $26,613 related to the SERP 401k employer match portion) were a distinct part of the SERP expense excluded from the inflation adjustment of the Application. The remainder of the proposed SERP amount of $360,651 was included in the Management Fee. Final Late Filed Ex. 1, Sch. 3.19(2) and 3.28; Late Filed Ex. 29; Late Filed Ex. 30; Tr., Dec. 14, 2022, 121:1-25.

Aquarion's SERP currently covers three active participants hired prior to 2009 and eight retired employees that are eligible for the benefit. Aquarion Interrog. Resp. RRU-3; OCC-68. The purpose of SERP is to provide a two-pronged benefit[54] to eligible executives whose compensation exceeds the maximum level allowed[55] (IRS Limits) by the Internal Revenue Service (IRS) for consideration under Defined Benefit and 401k pension plans (jointly, Qualified Plan), which are both qualified retirement plans. Aquarion Interrog. Resp. OCC-67, OCC-69. Thus, if an executive's compensation exceeds the IRS

[54] SERP allows an employee to contribute pre-tax dollars in excess of IRS Limits (savings benefit) and allows the employee to receive a credit for compensation in excess of the IRS Limits (pension benefit). Aquarion Interrog. Resp. OCC-67.

[55] The 2023 IRS Limits are $265,000 for the qualified defined benefit plan and 401k plan. OCC Interrog. Resp. RRU-445. Furthermore, the 401k plan limits employee contributions and employer match to the lessor of 100% of compensation or $66,000 for 2023. OCC Interrog. Resp. RRU-446; Tr., Nov. 29, 2022, 522:1-9 and 527:1-20.

Limits (which are indexed annually), then no benefit may be earned under the Qualified Plan. Aquarion Interrog. Resp. OCC-67. The SERP is an employer benefit that relates only to the compensation exceeding the IRS limits. Id.

OCC recommends that the Authority continue with its past precedent of disallowing both the Defined Benefit and 401k SERP expenses given that these expenses relate to the portion of salary of a few highly compensated executives whose salary exceeds the IRS salary limits for qualified pension plans.[56] Defever PFT, pp. 15-16.

Based on the evidence in the record, the Authority finds no reason to revise PURA's past precedent to instead allow this expense for customer ratemaking purposes. The SERP expense accrues to a few select executives and relates only to the portion of employee salary that exceeds IRS Limits for Qualified Plans. Therefore, the IRS Limits prevent a high earning employee from earning a pension benefit on the portion of their salary that exceeds the limit; thus, that portion of an employee's salary is essentially considered excessive for ratemaking purposes. Accordingly, the Authority denies in total Aquarion's SERP expense of $401,010 ($360,651+13,746+$26,613).

Moreover, the Authority is deeply concerned by the Company's convoluted presentation of the SERP expense through the course of this proceeding. It appears that the Company's initial Application only presented a small portion of SERP expense for Authority review. See Application, Schedule WPC-3.25. The Company buried the greater portion of the SERP expense in the Management Fee section of the Application, which had to be ferreted out by Authority staff. See Application, Schedule C-3.28. This led to much delay and confusion in the record as to what the Company was actually proposing to recover.

Furthermore, the Authority finds that there were other instances where the Company included pro forma O&M benefits-related expenses for ratemaking purposes but did not include separate schedules in the Application. Specific examples include the defined benefit pension plan expense, post-retirement health care benefit, and 401k pension expense. Accordingly, in future rate amendment applications, the Authority directs the Company to provide a separate schedule for each O&M expense item included in the Test Year and for pro forma ratemaking purposes in the Rate Year. In addition, the Authority directs the Company to provide, in future rate amendment applications, a separate schedule for the SERP expense that provides a detailed breakdown of the actual amount of SERP expense proposed, both direct and allocated.

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[56] OCC's disallowance initially identified only the $13,746 for the defined benefit portion of the SERP and $97,728 (later corrected to $26,613) for the 401k portion of the SERP that were not included in the management fee. Defever PFT, pp. 15 and 16; Final Late Filed Ex. 1, Sch. 3.19(2) and 3.28; Late Filed Ex. 29 and 30; Late Filed Ex. 30 Suppl. (Dec. 16, 2022); Tr. Dec. 14, 2022, 121:1-25.

6. Purchases

a. Fuel or Power Purchased for Pumping

The Company requests recovery of the $6,665,992 ($6,524,248+$141,744) purchased power expense in the Test Year. Application, Schedule C-3.19. The Company subsequently (and belatedly) requested recovery of an additional $722,379 purchased power expense to reflect increased supply costs to be potentially incurred in 2023 for accounts not currently under contract. Final Late Filed Ex. 1, Sch. C-3.23. As stated in Section VI.A. Late Filed Exhibits, the Authority is not considering any material adjustments provided in Late Filed Exhibit 1, as that is beyond the scope of the Late Filed Exhibit 1 request. Moreover, as highlighted by OCC during the proceeding, the Company failed to substantiate that it has exercised prudent and efficient management by documenting efforts to mitigate or to avoid such dramatic supply increases; rather, the Company exposes up to 20% of its purchased power to the default generation rates offered by the electric distribution companies. Tr., Dec. 14, 2022, 87:20-90:14.[57]

Therefore, the Authority is not considering the Company's subsequent request for recovery of expenses allegedly incurred after August 31, 2022, or to be allegedly incurred in 2023 and beyond. The Authority finds, however, that since the Company purchases the majority of its power through multi-year fixed contracts, see Tr., Dec 14, 2022, 87:20-90:14, the denial should not materially impact Aquarion. Accordingly, the Authority approves the Company's recovery of only the Test Year $6,665,992 purchased power expense. Based on the Company's purchased power expense request of $7,411,883 in Final Late Filed Ex. 1, Sch. C-3.29(2), the Authority reduces the purchased power expense by $745,891 ($7,411,883 -$6,665,992).

b. Chemicals

The Company requests recovery of the $5,446,444 chemical expense, which represents an increase of $1,375,420 above the Test Year amount of $4,071,025. Application, Sch. C-3.4. Subsequently, on December 19, 2022, the Company submitted an updated chemical expense of $8,595,720, which represents an additional increase of $3,149,286 above the request in the Application (and represents more than double the *actual* incurred chemical expense in the Test Year). Final Late Filed Ex. 1, Sch. C-3.4. As stated in Section VI.A. Late Filed Exhibits, the Authority is not considering any material adjustments provided in Late Filed Exhibit 1 as that is beyond the scope of the Late Filed Exhibit 1 request. Therefore, the Authority is not considering the Company's subsequent belated and unsubstantiated request for additional recovery. Accordingly, based on the evidence in the record, the Authority finds the recovery of the $5,446,444 chemical

[57] OCC recommends that the Company utilize the Energize Connecticut Rate Board to obtain the lowest generation rate and to minimize the purchased power expense. OCC Brief, p. 48. The Authority agrees that the Company should review competitive supply rates to ensure its fixed multi-year contracts provide market competitive electric rates, particularly since, as OCC notes, many of the supply offers have a minimal or no exit fee and can result in a less expensive offer to the default service rates. Id.

expense requested in the Application to be appropriate; therefore, the Company may recover that expense in rate base.[58,59]

Notwithstanding the above finding, the Authority concurs with OCC's recommendation to delve deeper into the Company's rapidly ballooning chemical expense in the future. OCC Brief, pp. 46-47. Had the Authority permitted the Company's request in the instant proceeding, Aquarion ratepayers would have been on the hook for a chemical cost more than double what the Company actually incurred during the Test Year ending December 31, 2021.

7. Eversource Merger

a. Merger Costs

The Authority denies recovery of Aquarion's share of the costs associated with the Company's merger with Eversource.[60] In the Merger Decision, the Authority stated that "Eversource will only recover transaction costs to the extent savings from [the Merger] exceed costs as adjudicated in future rate cases." Merger Decision, p. 13. The Authority further conditioned recovery on such request being submitted in a rate proceeding within a seven-year timeframe from the closing date of the transaction, Id., which the Company purports to do here; however, Aquarion failed to substantiate its burden. Accordingly, the Authority denies recovery of Aquarion's share of the merger costs.

The Company requests recovery of $4.9 million (Aquarion Merger Costs) out of approximately $5.3 million in total merger costs, as Aquarion's share of the merger costs.[61] Szabo & Unger PFT, p. 42. Rather than recover the Aquarion Merger Costs from customers all in one year, the Company proposes to amortize the costs over 10 years, which results in a pro forma adjustment expense of $483,753 for the Test Year. Id.; Final Late Filed Ex. 1, Sch. WPC-3.13. The Company asserts that the savings it experienced as a result of the merger exceed the amount of the Aquarion Merger Costs. Szabo & Unger PFT, p. 44. The table below provides a breakdown of the total merger costs, including the Aquarion Merger Costs.

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[58] With respect to the subsequent $3,149,286 alleged increase in the Company's chemical expense, OCC recommends that the chemical expense be set at $5,446,444, which is the amount in the Application, as it "does not believe that Rate Year expenses should be based on these inflated levels." OCC Brief, pp. 46-47.

[59] While the Company is permitted to recover this expense in rate base, as discussed in Section IV.E. Working Capital, the Authority adjusts herein the Company's cash working capital by removing chemical expenses from the lead/lag study. As highlighted by OCC, the Company improperly included chemical expenses in both its cash working capital calculation and in its rate base inventory, leading to a double recovery of the chemical expense. OCC Brief, p. 27.

[60] The Authority approved the merger of Aquarion and Eversource in 2017. See Merger Decision.

[61] The total amount of Eversource's merger costs is $5.3 million. Aquarion Interrog. Resp. Suppl. RRU-413. By contrast, for the Kelda/Yorkshire Water's (Kelda) acquisition of Aquarion in 2000, and the Macquarie Utilities acquisition of Aquarion from Kelda in 2006, the Company stated that "[t]here were not transaction costs requested or permitted related to the two acquisitions of Aquarion prior to Eversource." Late Filed Ex. 50.

Table 20: Aquarion's Share of the Merger Costs.

Category	Costs
Investment Banker	$3,017,000
Legal Services	$1,417,128
Other Outside Services	$717,287
Application approval fees	$125,000
Environmental Outside Services	$27,177
Printing services for customer bill inserts	$9,486
Other	$1,581
Total	**$5,314,659**
Costs allocated to AWC MA	($163,679)
Costs recovered in AWC NH rate case	($249,671)
Costs allocated to non-utility	(63,776)
Aquarion's Total Share of Merger Costs	**$4,837,534**

Final Late Filed Ex. 1, Sch. C-3.13.

b. Claimed Merger Savings

The Authority finds that Aquarion has failed to provide evidence demonstrating savings as a result of the merger.

The Company asserts it achieved net savings in the amount of $2,563,000 annually (Merger Savings) as a result of the merger and, therefore, argues that the Authority should approve recovery of the Aquarion Merger Costs. Late Filed Ex. 44. According to the Company, the Merger Savings are the result of specific cost reduction initiatives undertaken by management personnel in the following five areas, with savings quantified through the comparison of pre-merger cost levels to current cost levels: employee benefit costs (medical insurance); consolidation of corporate insurance policies; legal costs provided by Eversource's in-house counsel, which Aquarion previously out-sourced at a higher cost; migrating the Company's external auditor to Eversource's auditor; and engaging Eversource's internal auditor to provide internal audit reviews, which were performed pre-merger by an external auditor. Szabo & Unger PFT, pp. 39-40. Aquarion asserts that it also achieved costs savings in other areas, such as procurement and fleet vehicles, but is unable to discretely identify and quantify these savings as direct benefits to customers; therefore, they are not included in the claimed Merger Savings. Id. The table below provides a breakdown of those claimed annual savings as a result of the merger, followed by the Authority's analysis with respect to each category.

Table 21: Aquarion's Claimed Annual Merger Savings

Category	Savings
Medical Insurance	$1,571,000
Other Insurance	$548,000
Long-Term Debt	$161,000
Rating Agency	$99,000
Audit – internal	$108,000
Legal	$76,000
Total	**$ 2,563,000**

Late Filed Ex. 44.

The Company claims it saved $1,571,000 in employee medical insurance costs as a result of the Merger. Szabo & Unger PFT, p. 40; Late Filed Ex. 44, Att. 2 (supplementing Interrog. Resp. RRU-185). Prior to the Merger, the Company routinely solicited requests for proposals for medical insurance but elected to self-insure because a fully insured plan from a third-party provider was not financially viable for the Company to purchase on its own. Szabo & Unger PFT, p. 40; Tr., Nov. 30, 2022, 792:17-793:1. In 2020, however, the Company states that CIGNA, a previous insurer for Eversource, offered Aquarion medical insurance for $7,723,000, which the Company asserts is $1,571,000 less than the Company's self-insurance plan. Szabo & Unger PFT, p. 40.

While the Company asserts it experienced costs savings in employee medical insurance as a result of the merger, Aquarion did not provide any evidence with which to support that assertion. Specifically, when asked how CIGNA's bids compared with bids received prior to the merger, Aquarion responded that it does not have any analysis related to marketing done for fully insured medical plans pre-merger as the Company switched vendors and did not retain any physical reports. Late Filed Ex. 43. Accordingly, the Authority finds that the Company did not produce evidence to support its claim that Aquarion experienced cost savings in medical insurance after the merger or, if it did experience any costs savings, that the merger was directly responsible for the cost savings.

The Company also asserts it experienced $548,000 in costs savings with respect to other types of non-medical insurance, including property insurance, auto liability, excess liability, and workers compensation. Szabo & Unger PFT, p. 42; Late Filed Ex. 44, Att. 2. When the Authority requested evidence to support the claimed savings, the Company stated that it did not have any quotes, but rather based the claimed savings on Aquarion's "experience of what the policy premium was prior to the merger and the impact of consolidating policies [post] merger. Tr., Nov. 30, 2022, 800:8-21. While the Company did provide a spreadsheet showing a calculation of insurance savings, Late Filed Ex. 44, Att. 2, the corresponding narrative failed to include an explanation of or evidence for the various inputs and assumptions in the spreadsheet. Accordingly, the Authority finds that the Company did not produce sufficient evidence to support its claim that it experienced

savings in non-medical insurance costs after the merger or that, if it did experience any costs savings, the merger was directly responsible for the cost savings.

The Company indicated that the merger resulted in approximately $260,000 related to debt costs and rating agency fees. Late Filed Ex. 44, Att. 2; Szabo & Unger PFT, pp. 41-42. As with the other purported merger savings, the Company relies on a cursory description of the savings and a tabulation based on unknown and unexplained assumptions. Consequently, there is insufficient evidence in the record to support a finding that these savings will accrue.

The Company asserts it saved $76,000 annually in legal costs as a result of the merger. Late Filed Ex. 44, Att. 2; Tr., Nov. 30, 2022, 805:22-806:3. However, the general explanations provided by the Company and the submitted spreadsheet comparing external and internal legal costs for 2021 are insufficient to support a finding that the Company has been or will be saving $76,000 per year in legal costs. Among other things, there is no explanation as to why 2021 is representative of average legal costs; nor is there evidence supporting the assigned hourly rates of external or internal counsel. Accordingly, the Authority denies the Company's $76,000 in claimed savings in legal costs and removes it from overall claimed Merger Savings.

Lastly, the Company asserts it saved $108,000 by migrating Aquarion's external auditor to Eversource's auditor and by engaging Eversource's internal auditor to provide internal audit reviews, which were performed pre-merger by an external auditor. Szabo & Unger PFT, pp. 39-40; Aquarion Interrog. Resp. RRU-185, Att. 1, Supp. The general explanations provided by the Company along with a spreadsheet purporting to show audit savings is insufficient to support a finding that the Company has been or will be saving $108,000 per year, as neither provide actual evidence of savings. Among other things, while Eversource is now performing some of the audit services, there is no indication as to how much the Company is paying Eversource for such services through allocated costs or the Management Fee. Accordingly, the Authority denies the Company's $108,000 in claimed savings in audit costs and removes it from overall claimed Merger Savings.

Based on the evidence in the record, or rather the lack thereof, the Authority finds the Company has not demonstrated its claimed Merger Savings.[62]

c. Benefits of the Merger to Aquarion and Eversource Shareholders

The Authority finds that the merger benefitted Aquarion, Eversource, and their shareholders, not the Aquarion ratepayers. Specifically, any savings that did accrue to

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[62] As noted by OCC, in other merger and acquisition proceedings of financially viable companies, the companies have either not requested, or the Authority has not allowed, recovery of transactions costs. OCC Brief, p. 51; see Decision, Nov. 10, 2010, Docket No. 10-07-09, Joint Application of UIL Holdings Corporation and Iberdrola USA, Inc. for Approval of a Change of Control of Connecticut Natural Gas Corporation and The Southern Connecticut Gas Company, p. 26. ("The Department's position remains that any goodwill or acquisition adjustment and other acquisition related expenses resulting from an acquisition or a merger of a public service company will not be recorded as reductions to income for regulatory accounting purpose nor included in rates charged to customers.")

the Company by virtue of the merger also likely increased the earnings of Aquarion, which is a benefit to the Aquarion shareholders, not its ratepayers. For example, prior to the merger in 2017, Aquarion's earned ROE was 8.35%, whereas in 2018, 2019, and 2020, the Company's realized ROE was 9.44%, 8.81%, and 8.68%, respectively. Aquarion Interrog. Resp. RRU-58. When asked about the increase in Aquarion's ROE in the years following the merger, the Company stated that it was "certainly reasonable to think that some of the increase is due to synergy, but I would also think there is a lot of variables, a lot of pieces that may have led to that increase." Tr., Nov. 30, 2022, 818:1-5. The Company also agreed that in the absence of the merger, Aquarion's earned ROE would likely have been lower.[63] Tr., 819:1-5. Accordingly, the Authority finds that the increase in Aquarion's ROE was reasonably attributable to the merger and, thus, the merger benefitted Aquarion and its shareholders through increased earnings, not the Company's ratepayers.

Additionally, the Authority finds the merger benefitted Eversource and its shareholders in other ways too. In communications with its Board of Trustees, Eversource states that it viewed the acquisition of Aquarion as a "unique investment opportunity" that "provides entrance into a new, regulated utility segment and a platform for future growth." Aquarion Interrog. Resp. RRU-416, Att. 1, p. 5. The merger also furthered Eversource's strategic plan to expand into the regional water utility realm. Aquarion Interrog. Resp. RRU-416, Att. 1, p. 12; Tr., Nov. 20, 2022, 814:15-816:1, 816:4-19. Accordingly, since Eversource's acquisition of Aquarion furthered Eversource's growth strategy, to the benefit of Eversource and its shareholders, Aquarion ratepayers should not have to pay for the Company's share of Eversource's acquisition costs.

In addition, the merger benefitted Eversource as it was the most advantageous use of the proceeds from Eversource's sale of generation assets in New Hampshire as the merger would provide $0.07 in EPS in the first year. Aquarion Interrog. Resp. RRU-416, Att. 1, p. 5; Tr., Nov. 30, 2022, 813:19-24. From an EPS perspective, Eversource's investment banking advisory firm stated in its market value opinion of the merger that acquiring Aquarion is accretive compared to the alternative use of the proceeds to pay down debt, but is dilutive to EPS when compared to using the proceeds to buy back shares. Aquarion Interrog. Resp. RRU-416, Att. 1, p. 5; Tr., 813:9-13. The Company testified, therefore, that the long-term prospects of purchasing Aquarion were more favorable to Eversource than the other two options under consideration. Tr., 813:14-18. Accordingly, the acquisition of Aquarion benefitted Eversource and its shareholders, not the Aquarion ratepayers.

Lastly, the Aquarion ratepayers likely already paid for the Aquarion Merger Costs, at least in part, by paying the salaries of the Company's employees who worked on the

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[63] The Company states that as a result of the higher ROEs, it avoided coming in for a rate case sooner, which it asserts benefitted ratepayers. Tr., 819:25-820:1. The Company did, however, acknowledge that it continued to pursue a WICA surcharge increase during those intervening years. Tr., 820:5-8. Further, as discussed supra in Section III.B.2. Multi-Year Rate Plan, the Authority has previously articulated that a rate case deferral may not necessarily be to the benefit of ratepayers. See 2022 Decision, p. 11.

merger. Since, however, Aquarion employees do not track their time spent on acquisitions, including the merger at issue here, there is no way to quantify these costs. Aquarion Interrog. Resp. RRU-415; Tr., Dec. 1, 2022, 855:14-22, 855:23-856:7, 863:1-7. The Authority finds this practice to be unacceptable, and thus directs the Company to track all employee time spent on future acquisitions, including mergers. As an addendum to the Company's next rate case filing, the Company shall append an unlocked, workable Excel spreadsheet that details the requested information for each year between 2023 and the test year proposed in the next rate proceeding.

8. Inflation Adjustment

a. Inflation Rate

The Company requests a 12.150% inflation factor. Final Late Filed Ex. 1, Sch. WPC 3.19. According to Aquarion, the 12.150% inflation factor is based upon its adoption and application of the methodology (2021 CWC Rate Case Methodology) used in the 2021 CWC Rate Case Decision. Szabo & Unger PFT, pp. 33, 34.

Initially, the Company used the 2021 CWC Rate Case Methodology to calculate a composite factor and calculated a proposed composite inflation factor of 10.625%. Id., p. 34. The Company used the Gross Domestic Product Price Index (GDP-PI) from the Blue Chip Financial Forecast, Vol. 41, No. 4 (BCFF), dated April 29, 2022, to calculate the composite. Id. The Company subsequently revised the inflation factor based upon an updated BCFF dated November 1, 2022 (Aquarion Methodology). Late Filed Ex. 19.

The Aquarion Methodology develops a GDP-PI composite inflation factor that spans nine financial quarters – the period from the mid-point of the Test Year through and including the mid-point of the Rate Year (i.e., Q3 2021 through Q4 2023). Id., Atts. 1 and 2. Essentially, the Company summed up nine quarterly GPD-PI inflation factors to arrive at the 12.150% proposal.

The Authority subsequently requested that the Company update Aquarion's proposed inflation factor using the methodology approved in the 2013 Decision. Tr., Nov. 28, 2022, 410:19-411:12. The methodology from the 2013 Decision also uses the GDP-PI inflation factor but instead computes a percentage change of inflation from the mid-point of the Test Year to the mid-point of the Rate Year (i.e., compares Q2 and Q3 2021 with Q1 and Q2 2023).[64] The application of the 2013 Decision methodology to today's GDP-PI inflation figures results in an inflation factor of 6.814%. Late Filed Ex. 19, Suppl. Att. 1; Tr., Dec. 14, 2022, 74: 21-25; 77:20-25 and 78:1-6:

OCC recommends denying all proposed inflation based upon its assessment that the Company was applying inflation to O&M expenses that do not consistently increase. Defever PFT, pp. 7-8. OCC did not, however, take a position as to the validity of the method used to compute the proposed inflation rate. OCC Interrog. Resp. RRU-442, RRU-443, and RRU-444; Tr., Nov. 28, 2022, 450:20-25, 451:1-12.

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[64] The source of this data is the US Bureau of Economic Analysis (BEA) and Moody's Analytics Forecasts. Late Filed Ex. 19, Suppl. Att. 1.

The Authority rejects the Company's proposed 12.150% inflation factor derived from Aquarion's modified application of the 2021 CWC Rate Case Methodology. The Authority finds the approach flawed as it incorrectly provides for inflation to accrue during the interim regulatory lag period dating from the first quarter of 2022 through the first quarter of 2023. Instead, the Authority finds the simple percentage change methodology used in the 2013 Decision to be appropriate for ratemaking purposes. Accordingly, the Authority adopts a 6.814% inflation rate, as the methodology is consistent with the 2013 Decision methodology, and because the accrual of inflation during the interim regulatory lag period is inappropriate for ratemaking purposes.

b. Inflation Expense Items

The Company requests recovery of an inflation adjusted expense of $3,191,826. Final Late Filed Ex. 1, Sch. WPC-3.19.

The Authority determines that the Company included expenses in Aquarion's calculation that should not be increased for inflation. Specifically, the Authority determines that $557,172 of the $21,652,752 inflation adjusted expenses ($21,091,735 + $561,017 Valley) should not be adjusted for inflation. The $557,172 consists of disallowed expenses for membership dues ($270,712), conference ($20,512), and communications expense ($265,948), which are disallowed for reasons discussed in subsequent sections. Accordingly, the Authority adjusts the expenses subject to inflation downward by $557,172 to $21,095,580.

Further, based upon the adopted inflation rate of 6.814%, the total inflation expense is reduced from $3,191,826 to $1,997,626. Therefore, the Authority reduces the Company's requested inflation adjusted expense by $1,194,200. Accordingly, the Authority allows the recovery of an inflation adjusted expense of $1,997,626 ($3,191,826-$1,194,200). The table below summarizes the changes to the inflation calculation and expense reduction.

Table 22: Approved Changes to the Inflation Calculation and Expense Reduction

Company's proposed inflation adjustment for eligible items	$21,652,752
Expenses not subject to inflation adjustment.	($557,172)
Items eligible for inflation adjustment	$21,095,580
Allowed Inflation Rate	6.81%
Inflation Adjustment for Aquarion	$1,436,609
Valley Jan.-Nov. 2022 unadjusted expenses	$561,017
Subtotal Inflation Expense	**$1,997,626**
Company's Proposed Inflation Expense	$3,191,826
Inflation Expense Adjustment	**$1,194,200**

9. Administrative and General Costs

a. Industry and Non-Industry Dues

The Company requests recovery for $210,750 in industry membership dues and $89,962 in non-industry membership dues, for a total of $300,712. Late Filed Ex. 34, pp. 1-2. In response to the Authority's questions regarding how membership and affiliation dues benefit ratepayers, the Company stated that they are not able to "quantify what the cost would be or detriment to a customer if we didn't engage in these activities." Tr., Nov 29, 2022, 564:11-13. Additionally, the dues of at least one of the organizations "were for expenditures paid or incurred in connection with lobbying activities," for which the Company itself has no expense. Aquarion Interrog. Resp. OCC-19. Therefore, the Authority finds that the Company failed to demonstrate that memberships in these industry and non-industry organizations provides a quantifiable benefit, if any, to the ratepayers. Accordingly, the Authority disallows recovery of 100%, or $300,712, of the Company's requested industry and non-industry membership dues from ratepayers. The Authority does not prohibit the Company from engaging in such activities, but rather directs the Company's shareholders to bear these costs.

b. Charitable Donations

The Company requests recovery of $81,491 in civic and community related activity expenses (Charitable Donations). Aquarion Interrog. Resp. OCC-11. This amount includes the $73,644 Test Year amount plus an inflation adjustment. Id.; Application, Sch. G-2.9.

The Authority finds that the Company failed to demonstrate that the Charitable Donations benefit ratepayers. For example, when asked how ratepayers benefit from donations to the Beardsley Zoo, the Company testified that it believes in supporting non-profits in Aquarion's service area. Tr., Nov. 28, 2022, 414:5-11. The Company also conceded, however, that it is ratepayers, not the Company or its shareholders, who are paying for the donations. Tr., 414:12-17. In addition, when asked about the Company's internal review process for providing such donations, the Company stated that approval for donations under $1,000 is not required as long as the donations fall within the approved operating budget. Tr., Dec. 14, 2022, 137:18-138:6; Tr. Dec. 15, 2022, 6:5-9. Further, the Authority has historically disallowed recovery of charitable donations in the Company's previous rate cases. 2013 Decision, p. 51; Decision, Sept. 8, 2010, Docket No. 10-02-13, Application of Aquarion Water Company of Connecticut for Amended Water Service Rate Schedules, p. 69; Decision, Dec. 12, 2007, Docket No. 07-05-19, Application of Aquarion Water Company of Connecticut for Amended Water Service Rate Schedules, p. 56.

Accordingly, the Authority denies recovery of the $81,491 Charitable Donations expenses, as well as the inflation adjustment associated with such expenses, from ratepayers. The Authority does not prohibit the Company from engaging in such activities, but rather directs the Company's shareholders to bear these costs.

c. Directors and Officers Liability Insurance

The Company requests recovery of the Company's share of the $35,936 policy for Directors and Officers Liability insurance (DOL Insurance) maintained by Eversource, which Aquarion includes as part of the corporate expenses for the Test Year. Final Late Filed Ex. 1, Sch. C-3.28. The $35,936 represents Aquarion's share of Eversource's DOL Insurance costs, which is then allocated to Aquarion Water Company of Connecticut at 85.64% based on the MASS Formula. Id.; Aquarion Interrog. Resp. OCC-18. The Company does not carry separate DOL Insurance. Aquarion Interrog. Resp. OCC-18.

The Authority denies recovery of the Company's share of the $35,936 policy for DOL Insurance because it is the directors and officers who are protected by and benefit from the DOL Insurance, not the ratepayers. Aquarion's shareholders, who are the ones who typically bring the cases against the officers and directors, also benefit from the DOL Insurance if the shareholders win their case and receive a payout from the insurance. Accordingly, the Authority denies recovery of 100% of Aquarion's allocated portion of DOL Insurance expense, or $31,097 (35,936*85.64%), as the Company's ratepayers are not the beneficiaries of the DOL Insurance; rather, the direct beneficiaries are Aquarion's officers, directors, and shareholders.[65]

d. Rate Case Costs

The Company requests recovery of $1,050,320 in expenses related to this rate case. Final Late Filed Ex. 1, Sch. WPC-3.12. Rather than seeking recovery of the total rate case expenses in one year, the Company is proposing to recover the costs over a period of five years, which results in an amortization expense of $210,064 per year. Id.

As part of the rate case expense, the Company has allocated $390,000 for outside legal costs. The Authority denies the recovery of the $390,000 in outside legal costs as being duplicative due to Aquarion's access to legal counsel through Eversource. In addition, the use of outside legal services for rate cases benefits the Company's shareholders, not its ratepayers. Accordingly, the Authority directs the Company to split the recovery of the remaining $660,320 equally between ratepayers and shareholders, as a rate case benefits shareholders and, as such, the costs of the case should not be borne solely by ratepayers. As a result, the annual amortization for rate case expenses to be recovered from ratepayers is $66,032. [($660,320/2) / 5 years]. This equates to a reduction of $144,032.

10. Conservation

a. Non-Revenue Water

Non-revenue water (NRW) is the difference between the volume of water produced or purchased by a company's water system and the volume of water delivered to its customers. Aquarion Interrog. Resp. OCC-85; Tr., Nov. 20, 2022, 686:25-687:8. NRW

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[65] Both OCC and OAG recommend denial of recovery of at least 75% of DOL Insurance expense. OCC Brief, p. 44; OAG Brief, p. 14. OAG asserts that allowing recovery of only 25% of the DOL Insurance expense is consistent with the Company's past rate case decisions. OAG Brief, p. 14.

losses may be due to theft and illegal connections, water used at unmetered connections, fire hydrant usage, overflowing tanks, and water leakage within the distribution system. Tr., 689:1-20. A company can reduce NRW by implementing leakage management techniques, carrying out main replacement programs, and calibrating all large production meters on an annual basis. Id.

At a minimum, 85% of the water produced by a water system should be used to supply water to its customers. Therefore, a water system should not have more than 15% of NRW, which is the guideline accepted by the National Association of Regulatory Utility Commissioners (NARUC). Tr., Nov. 30, 2022, 691:16-692:1. All water companies should continue to initiate supply and demand management techniques to curtail high NRW levels. When a company has more than 15% NRW loss within the system, the Authority recommends that the company investigate various ways to reduce the operating cost associated with the power and chemicals required to supply the water, including the NRW.

Separate but related is the concept of unaccounted for water (UAW), which put simply is the water that cannot be accounted for; therefore, the Company discounts the NRW amount slightly given that some sources of NRW are identifiable. Tr., Nov. 30, 2022; 687:9-11. In other words, UAW is the difference between the NRW and the Company's water usage, such as flushing hydrants, flushing of the water mains, water main breaks, and any other Company water usage of the system. Aquarion Interrog. Resp. RRU-139; Tr., 687:11-22. The Company has some control over the amount of its UAW. Tr., 689: 9-15. For example, when the Company flushes its mains or when a water main breaks, Aquarion is in control and can quantify the amount of water expended during those planned or unplanned events, but the Company does not have control over the actions of fire departments or landscapers that use fire hydrants. Tr., 689:1-15. To calculate the total amount of UAW, the Company subtracts from the amount of NRW the amount of UAW over which it has control. Tr., 689:11-18. For example, in 2021, Aquarion's NRW was 15.2%, but the Company knew about a main break and the approximate usage attributable to it, and thus discounted the NRW percentage resulting in 11.8%. Application, Sch. G-6.0; Tr., 690:4-18.

The Company has not performed any specific studies of the causes of NRW in its systems. Aquarion Interrog. Resp. OCC-85. In order to reduce its NRW, Aquarion did, however, purchase and install acoustic loggers in 2020 for $774,000 as part of a pilot program. Ulrich Prefiled Test., Aug. 29, 2022, p. 20; Aquarion Interrog. Resp. RRU-117. As a result of installing loggers, Aquarion asserts it saved approximately $126,000 in 2020, and $44,000 in 2021, in cost of water production. Aquarion Interrog. Resp. RRU-117. The Company also performs leak surveys on an average of approximately 3,600 miles of main each year. Ulrich PFT, p. 18.

The Authority reviewed the impact that installing loggers has on reducing NRW and concludes that the loggers are a useful tool for leak detection, *in water deficient areas*. Although Connecticut experiences drought conditions, they are not chronic and if a drought occurs during warmer months, Connecticut usually recovers from drought

conditions during cooler months. Moreover, loggers are just one of the tools used for water conservation and leak detection. Aquarion has other tools that can help to conserve water and reduce NRW, some of which are presented in the Company's water conservation plan (WCP). Application, Sch. H-3.0. As such, the Authority recommends that the Company review all options before making expensive investments, including the investment in loggers, moving forward. Specifically, as a prerequisite to cost recovery associated with prospective logger investments, the Authority will require the Company to conduct a cost/benefit analysis of the installation of loggers compared to other leak detection tools or mitigation measures, and to submit the results of such analysis coincident with any rate amendment application through which associated cost recovery is sought.

The Company provided the five-year history of NRW and UAW for the Company as a whole, as well as for 13 of its water systems with annual production of over 20 million gallons (MG). Ulrich PFT, p. 14; Application, Sch. G-6.0. Over the past five years, the Company's systemwide NRW has ranged between a low of 13.79% (11.2 million gallons per day (MGD)) in 2016, up to a high of 19.3% (15.1 MGD) in 2019. Ulrich PFT, p. 14. Between 2019 and 2021, 48 water systems exceeded the 15% NRW threshold. Aquarion Interrog. Resp. RRU-125.

The Company's overall variable cost of production of NRW is $420 per MG, which represents the average of the variable cost metric for 2019, 2020, and 2021. Id. Aquarion allocates the cost of production of NRW to all customer classes within the cost-of-service study according to their relative average water consumption. Aquarion Interrog. Resp. OCC-86.

For each of the Company's water systems, the Authority calculated a historical five-year average NRW using data for years 2017-2021, as well as the average water produced for these same years, finding a number of water systems to have exceeded the 15% NRW threshold based on averages derived for years 2017-2021. Based on these calculations, as detailed in the below table, the Company spent $138,012 on the production of water above 15% of NRW. For many of the water systems in the following table, such as the Chimney Heights, Newtown, and Arlington Acres water systems, the Company acquired the systems and did not seek surcharges or CIAC from the customers to cover the costs to own and operate the systems. See, e.g., Decision, May 13, 2009, Docket No. 08-10-09, DPUC and DPH Joint Investigation into the Application of United Water Connecticut, Inc. to Acquire Assets of Bethel Consolidated Company, Inc.; Decision, Aug. 22, 2012, Docket No. 12-03-08, PURA and DPH Review of Joint Application of Aquarion Water Company of Connecticut, United Water Works, Inc. and United Water Connecticut, Inc. for Approval of a Change of Control of United Water Connecticut Inc. and Merger of United Water Connecticut Inc. into Aquarion Water Company of Connecticut; Decision, Jan. 30, 2019, Docket No. 17-08-10, PURA and DPH Review of the Application of the Aquarion Water Company of Connecticut and Arlington Homes, LLC, and Valleywood LLC for Aquarion Water Company of Connecticut to Acquire the Assets of the Arlington Acres and Pleasure Valley Systems. In addition, the Company does not plan to install advanced metering infrastructure (AMI), which would positively impact NRW and conservation efforts. Tr., Nov. 28, 2022, 284:3-8. Therefore,

despite having ways in which to reduce NRW and its costs to customers, the Company has not done so. Accordingly, the Authority denies recovery of $138,012.

Table 23: Calculation of the Cost Associated with NRW above 15%

Water System	NRW (%)			Production (MG)		Cost ($/MG)	
	Total	Allowed	Excluded (2-3)	Total	Excluded (4x5)	Cost ($/MG)	Reduced (6x7)
1	2	3	4	5	6	7	8
Greenwich	17.86	15	2.86	5,324.6	152.3	420	63,966
Simsbury	20.38	15	5.38	755.6	40.6	420	17,052
New Canaan	21.42	15	6.42	582	37.4	420	15,708
Mystic	17.68	15	2.68	479.6	12.9	420	5,418
Ridgefield	15.76	15	0.76	333.8	2.5	420	1,050
Newtown	28.74	15	13.74	229.2	31.5	420	13,230
Lakeville/ Salisbury	17.08	15	2.08	108	2.2	420	924
Woodbury	24.0	15	9	59	5.3	420	2,226
Chimney Heights	18.5	15	3.5	67.2	2.6	420	1,092
East Derby	16.88	15	1.88	50	0.9	420	378
Norfolk	32.88	15	17.88	31.4	5.6	420	2,352
Other < 20 MG	24.78	15	9.78	356	34.8	420	14,616
Grand Total					**328.6**	**420**	**138,012**

See Application, Sch. G-6.0; Aquarion Interrog. Resp. RRU-125.

b. Deferred Conservation Expense

The Company requests approval of its deferred conservation costs in the amount of $2,996,101 to be amortized over six years. Aquarion Suppl. Interrog. Resp. OCC-151; Final Late Filed Ex. 1, Sch. C-3.18. The Authority authorized deferred regulatory asset treatment for any new conservation expenses approved in the July 6, 2016 Decision (Conservation Decision) in Docket No. 13-08-16, PURA Investigation of Water and Energy Conservation Programs Eligible for Costs Recovery during General Rate Cases,[66] and incurred prior to the company's next rate case, provided that the company

[66] The Authority initiated Docket No. 13-08-16 on its own motion pursuant to Section 2 of Public Act 13-78, An Act Concerning Water Infrastructure and Conservation, Municipal Reporting Requirements and Unpaid Utility Accounts at Multi-Family Dwellings (Public Act 13-78), which required PURA to identify water and energy conservation programs that would be eligible for recovery by any water company in a general rate case, provided that the company implements them and demonstrates that the expenses for such programs were reasonable and prudent. Public Act 13-78, § 2.

"implements [such programs] and demonstrates that the expenses for such programs were reasonable and prudent." Conservation Decision, pp. 2-3 (emphasis added).[67]

The Company's deferred conservation costs consist of: (1) communication costs, including costs incurred for television ads, radio spots, social media, print media, including its Water Watch bill insert, and its website; and (2) costs incurred for pilot programs in nine towns, education and irrigation consultants, and summer help to patrol during irrigation season. Ulrich PFT, pp. 22-24; Aquarion Interrog. Resp. OCC-93; Aquarion Suppl. Interrog. Resp. OCC-151; Late Filed Ex. 41. According to the Company, the objective of its conservation program is to "protect water resources" and "change people's behaviors to reduce overall demand, reduce the strain on the environment, on the amount of water that has to be withdrawn . . . " Tr., Dec. 1, 2022, 765:6-15.

To support a prudency determination, the Company provided invoices for conservation expenses being sought for deferred treatment. Aquarion Interrog. Resp. 130, Att. 1-5; Aquarion Suppl. Interrog. Resp. OCC-151. The Company did not, however, demonstrate that 100% of the expenses are reasonable and prudent.

When asked how it assesses the efficacy of its conservation program, Aquarion testified it compares the amount of usage in the current year with the amount of water usage in the five years prior to implementation of the program. Ulrich PFT, p. 25.; Tr., Nov. 30, 2022, 763:9-20. According to the Company, the average annual reduction from 2017-2021 is 754 million gallons, or 12% of production. Ulrich PFT, p. 26; Aquarion Interrog. Resp. EOE-52. The Company also had Ms. Vickers, the same individual who Aquarion worked with to identify water conservation opportunities and who ultimately recommended the 2-day per week irrigation program, assess the success of the program. Tr., Nov. 30, 2022, 764:2-14. Predictably,[68] Ms. Vickers concluded that the program resulted in decreased water use. Late Filed Ex. 42, Att. 1, p. 96.

While the Company is able to determine whether water usage has decreased in the aggregate across its systems, it is unable to attribute these reductions specifically to its conservation program; nor does the Company have any other way in which to assess the program's success, particularly with respect to its heavy reliance on customer communication and behavioral programs. Specifically, the Company does not have any goals regarding water conservation. Tr., Nov. 30, 2022, 776:1-2. It also does not have any Key Performance Indicators (KPIs) associated with its conservation communication campaigns, which encompasses the majority of the costs of Aquarion's conservation program. Tr., 776:11-12; Final Late Filed Ex. 1, Sch. 3.18.

The Company asserts it experienced costs savings as a result of its conservation program due to both variable cost savings that result from less consumption, primarily

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[67] The Authority allowed deferred regulatory asset treatment until a formal conservation expenditure budget is established in the Company's next rate case. Id., p. 3.

[68] The Authority notes that a long-held best practice in the energy efficiency arena is to use an independent third-party evaluation, management, and verification consultant, who is not the same entity or individual that designed or implemented the initial program.

driven by reductions in chemical and power costs, and present and future plant avoidance. Aquarion Interrog. Resp. RRU-108, EOE-52; Tr., Nov. 30, 2022, 743:18-744:6. According to the Company, it saved approximately $1.5 million in variable cost savings. Aquarion Interrog. Resp. RRU-108, EOE-52. When asked regarding savings associated with the remaining approximately $1.5 million in costs, the Company testified that the costs savings are due to capital investment avoidance. Tr., Nov. 30, 2022, 743: 8-20. The Company was, however, unable to quantify those savings. Tr., 740:24-741:7, 742:25-743:7, 744:2-6.

Based on the foregoing, the Authority finds that only $1,498,051 million, or 50%, of the deferred conservation expenses were reasonable and prudent. Accordingly, the Authority denies recovery for $1,498,050 of the deferred conservation expenses.

c. Annual Conservation Expense

The Company requests approval of an annual conservation expense of $494,629, which is based on a five-year average of costs. Final Late Filed Ex. 1, Sch. C-3.7. The annual conservation expense includes costs for conservation messaging and implementation of the two-day per week irrigation program. Ulrich PFT, pp. 26-27. The conservation messaging consists of costs for television, print, and social media advertising; automated letters sent to customers with high meter reads; and conservation kits provided to customers by request and at community events. Id., p. 26.

As discussed above, the Company's historical expenditures through its conservation program are heavily dependent on customer communications, and also include various pilot programs and consultant fees. Late Filed Ex. 41. As such, EOE questions whether the requested annual conservation expense is appropriately determined by the Company, or whether it should be adjusted downward to reflect the lessons learned from previous pilots and one-time consultant expenditures. EOE Brief, p. 12. The Authority is persuaded that the proposed amount may be inappropriate for the reasons articulated by EOE, and regardless, finds that the proposed amount is certainly inappropriately high given the dearth of detail associated with the Company's planned expenditures. Therefore, the Authority approves recovery of a $400,000[69] annual conservation expense; further, the recovery is conditioned on the successful completion of several items.

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[69] In 2021, the Company reports that it spent approximately $525,000 on its conservation program, primarily for conservation messaging ($310,000); the remainder ($215,000) was spent on implementation of its twice-weekly irrigation program conducted in 10 towns. Ulrich PFT, pp. 26-27. In the absence of detailed projections and KPIs for the conservation expenditures moving forward, the Authority is unable to comprehensively determine the appropriate budget moving forward; however, at a minimum, the Authority is not persuaded that monies earmarked for communications should more than double expenditures on actual programs and measures. Further, the Authority reminds the Company that should it find additional opportunities for demonstrable savings through conservation expenditures, such as through the purchase of leak detection equipment, the purchase of energy efficient equipment for its company operations, etc., all such expenditures would qualify under the statutory definition of "eligible projects" through the WICA program, for which the Company could seek interim rate increases to accommodate. Conn. Gen. Stat. § 16-262v.

First, the Authority directs the Company, within 60 days following issuance of the Decision, to provide as a compliance filing projections associated with conservation expenditures to be made in the first rate year (i.e., March 15, 2023 – March 14, 2024), as well as for the subsequent two rate years.[70] Such projections should include, at a minimum, budgeted values on a per measure (or per sub-program) basis for administrative and customer incentive costs, as well as for the projected water and electricity (if applicable) savings associated with each measure or program. Second, the Authority directs the Company to provide an annual compliance filing indicating its performance against the previously submitted targets no later than June 1 following completion of the rate year. Third, no later than January 15, 2026, provided Aquarion has not filed an intervening rate proceeding, the Authority directs the Company to submit as a compliance filing annual projections associated with conservation projections for the three years commencing March 15, 2026. Such projections shall include, at a minimum, budgeted values on a per measure (or per sub-program) basis for administrative and customer incentive costs, as well as for the projected water and electricity (if applicable) savings associated with each measure or program. Fourth, the Authority advises the Company, that to the extent that it plans to seek recovery of an annual conservation expense in future rate cases, it is expected to retain an independent third-party evaluation, management, and verification (EM&V) consultant to review and assess the Company's conservation program results after every three-years of implementation, including for the expenditures authorized herein. The EM&V consultant shall not be the same consultant responsible for designing or implementing the Company's conservation program. The consultant's report shall be filed in the instant Docket as compliance no later than September 15, 2026, and every three years thereafter until the Company's next rate case proceeding.

Finally, the Authority directs the Company in its next rate case to include a breakdown of costs included in the planned annual conservation expense, as well as a cost-benefit calculation of the total conservation expense. The application shall also include invoices provided by third parties for each year of conservation expenditures incurred in the intervening years between rate cases, along with a narrative and data that compares and contrasts the authorized annual conservation expenses with actual expenditures, as well as the savings targets compared to actual realized savings.

11. Communication Expense

The Company requests recovery of $265,948 for communication expenses. Aquarion Interrog. Resp. EOE-66, Att. 1. However, the Company did not provide sufficient evidence to demonstrate that this amount is not already included in the $494,629 requested for annual conservation expenses.

The Authority disallows recovery of the proposed $265,948 communications expense because the Company provides no explanation as to why it has two communications budgets, i.e., one for conservation communications and the other for

[70] Annual projections for the subsequent three years commencing March 15, 2026, shall be submitted as compliance no later than January 15, 2026, provided that the Company has not filed an intervening rate proceeding.

corporate communications, especially when the Company stated that its communication efforts are predominantly conservation related. Aquarion Interrog. Resp. EOE-66, Att. 1; Tr., Nov. 28, 2022, 429:4-430:11. It is therefore difficult to distinguish between the two communications budgets, or to ascertain how such expenditures are made in furtherance of the Company's statutory obligations or are in the public interest.

In addition, while the Company does have KPIs related to the corporate communications plan that it tracks on a monthly basis (e.g., the number of impressions Aquarion makes on social media), the way in which the KPIs influence the corporate communications budget or how the Company uses KPIs to determine success of a specific communications campaign is unclear. Tr., 430:6-15. Further, because the Company did not start tracking KPIs until around 2020 when it hired a manager of social media, Tr., 430:12-13, there is not historical data available to assess or to correlate certain expenditure levels to specific outcomes. Lastly, it is unclear why the Company has a separately defined corporate communications budget when it appears communication budgets are built into other non-conservation program costs as well, e.g., communications regarding LIRAP. See Tr., Dec. 1, 2022, 1040:5-14. Accordingly, the Authority denies the $265,948 communications expense.

12. Entertainment Expenses

The Company requests $37,812 for entertainment expenses in the Test Year. Aquarion Interrog. Resp. OCC-25. The $37,812 entertainment expense includes $25,000 for a Webster Bank Arena suite and $9,180 for reserved seats at the Hartford Healthcare Amphitheater, as well as a 10.625% inflation factor. Id.; Tr., Nov. 28, 2022, 412:9-12. The Company testified that employees who volunteer in the community are given first preference on tickets for both venues. Tr., 412:23-413:1.

The Authority disallows the $37,812 entertainment expense as the suite and reserved seats are not necessary for the provision of water service. In addition, ratepayers should not pay for amenities and perks for Aquarion employees who volunteer in the community, as such service is defined as voluntary. Further, it is unclear based on the instant record whether such volunteer hours occur outside of working hours, or are incremental to the hours for which the Aquarion employees are appropriately compensated. As such, the Authority directs the Company to track the amount of time Aquarion employees spend volunteering during paid working hours as these costs are charged to ratepayers. In its next rate case application, the Company shall provide an unlocked, workable Excel spreadsheet that details the requested information for each year between 2023 and the test year proposed in the next rate proceeding.

13. Relocation Expense

The Authority denies the Company's proposed employee relocation expense of $22,500, which the Company asserts represents the Test Year expense associated with the recruitment process. Aquarion Interrog. Resp. OCC-65. Though Aquarion stated, "it is common market practice to reimburse certain candidates for the cost of relocating to the Company's service territory," the Company also conceded that there was no relocation expense during the years 2017-2020. Id. Further, the Company stated it

incurred the Test Year expense for one employee only, and that said employee worked for Aquarion for less than six months; incredibly, the Company did not include any "clawback" provision associated with this expense and thus could not recover the expenditure from the separated employee. Tr., Nov. 29, 2022, 569:21-25, 570:1:13. Perhaps more egregiously, the Company did not seek any estimates for the moving expenses from multiple vendors, instead relying on the one-time expense as the basis of its request. Tr., 560:14-17. Lastly, the Company has not demonstrated that this expense will likely occur annually, as it has only occurred once in the last five years. Based on the evidence in the record, the Authority disallows the Company's relocation expense of $22,500.

14. Acquisition Adjustment Amortization

The Company requested to amortize the acquisition adjustments over three years. Final Late Filed Ex. 1, Sch. WPC-3.22. To prevent over recovery of the amortization expense, the Authority finds that five years, not three, is the appropriate period for amortizing the acquisition adjustments as it is more in line with the typical period of time between water company rate cases. In the Authority's experience, water companies do not typically file rate cases every three years, but rather tend to stay out longer (as illustrated by the instant case). This increase in the amortization period from three to five years applies to acquisition adjustments allowed in the 2013 Decision, as well as any new deferrals since the Company's last rate case. Consequently, the Authority authorizes the Company to recover the $833,173 acquisition adjustment amount over five years, which amounts to $166,635 ($833,173 / 5 years). The Authority's adjustment to the Company's revised amortization expense of $277,724 is a reduction of $111,089 ($277,724 - $166,635). Final Late Filed Ex. 1, Sch. WPC-3.22.

15. Fee Free Program

The Authority approves Aquarion's proposed Fee Free program in which the Company would eliminate the convenience fee for residential customers who pay their bills using credit and debit cards. Teixeira PFT, p. 21. Under this Fee Free program, instead of the residential customer being charged a convenience fee, the Company would cover the cost of the transaction fee in its cost of service to be recovered in rates from residential customers. Id. Aquarion modeled its program after the fee free programs approved by the Authority for other Eversource affiliates. Id.; see Decision, Apr. 18, 2018, Docket No. 17-10-46, Application of The Connecticut Light and Power Company d/b/a/ Eversource Energy to Amend its Rate Schedules, pp. 12-14; Decision, Dec. 12, 2018, Docket No. 18-05-10, Application of Yankee Gas Services Company d/b/a/ Eversource Energy to Amend its Rate Schedules, p. 16.

The Company contracts with a third-party vendor, Kubra, for payment processing. Aquarion Interrog. Resp. RRU-303. The rate Aquarion negotiated most recently is $1.95 per one-time transaction; this fee would remain the same under the Fee Free program. Id. Aquarion derived the value based on transaction fees incurred in the Test Year. Teixeira PFT, p. 26. In 2021, 42% of customers paid their bills using a credit or debit card, incurring the $1.95 transaction fee, which in aggregate totaled $271,137. Id., pp. 22-23. The Company reduced this amount by $54,207 for certain adjustments, resulting

in an annual program cost of $216,930. Application, Sch. WPC-3.17, p. 1; Tr., Dec. 1, 2022, 1044:22 - 1045:1. Any under-collection of program costs incurred would be deferred for recovery in rates at the time of the Company's next rate case and any over-collection of these program costs would be credited to residential customers. Teixeira PFT, p. 27.

Aquarion indicated that the purpose of implementing the Fee Free program is solely to improve customer satisfaction. Tr., Dec. 1, 2022, 1048-49. The Company does not anticipate any cost savings in eliminating the transaction fee, Tr., 1049:18-20, nor does the Company anticipate an impact on reducing uncollectibles. Aquarion Interrog. Resp. RRU-314. In fact, the Company anticipates that the number of customers who would benefit from this program will decrease as more customers enroll in e-billing, which does not charge customers a transaction fee when paying their bills by credit or debit card. Aquarion Interrog. Resp. RRU-307. The Company anticipates customer enrollment in e-billing will increase 3% per year. Id.

In addition to improving customer satisfaction, the Company intends for the Fee Free program to benefit vulnerable customers who may pay their bills using a secured credit card, a prepaid debit card, or an Electronic Benefits Transfer (EBT) card. Teixeira PFT, p. 25. Specifically, low-income customers would benefit from saving the $1.95 when they pay their bills. Tr., Dec. 1, 2022, 1050:14-19.[71] The Company indicated that it would track the information about the Fee Free program on an annual basis using the same metrics approved in The Connecticut Light and Power Company d/b/a Eversource Energy and Yankee Gas Services Company respective rate cases. Teixeira PFT, p. 24. In addition to those compliance metrics, the Company stated it would track the program by other means that the Authority determined were appropriate, such as data regarding actual write-offs. Aquarion Interrog. Resp. RRU-315. Consistent with the tracking metrics implemented in the Eversource affiliate rate cases, the Authority directs Aquarion, on an annual basis, beginning March 1, 2024, to file compliance as outlined in Section X.B. Orders. As envisioned by the Company, the Fee Free program will last until the Company's next rate case, at which time the Authority will determine whether the program should be continued and in what form.

Currently, Aquarion covers the transaction fees associated with other forms of customer payments of bills. For example, customers enrolled in autopay through the Company's portal, who pay in person, or who pay through their banks do not pay a transaction fee; instead, the Company covers the fees. Tr., Dec. 1, 2022, 1047:19 - 1048:3; Late Filed Ex. 65. Such costs are already accounted for in the Company's O&M expenses. Tr., 1061:7-14. The Company stated numerous times that eliminating the transaction fee is "a normal form of doing business." Tr., 1053:6-7. Given this view of the Company absorbing the credit and debit card transaction fee, in the Company's next rate case, the Authority will consider whether the Fee Free program should exist as a

[71] Customers also informed Aquarion about frustration that they must pay the transaction fee in addition to a reconnection fee when they seek to have their service restored after it has been shut off. Teixeira PFT, p. 23.

standalone program when it operates like the other transaction fees the Company already covers instead of the customer.

The Company anticipates starting the Fee Free program 30 days after approval. Aquarion Interrog. Resp. RRU-306. Implementation will involve configuring Aquarion's billing system with Kubra, updating the website language and phone system, and training service technicians and customer service representatives about the new program. Tr., Dec. 1, 2022, 1058:17 – 1059:11. The Company is directed to implement the program within 30 days of the issuance of this Decision.

The Company's original Fee Free program proposal only included the cost of the $1.95 transaction fee. However, Aquarion recognizes there are additional fees that could be adjusted to better reflect the savings that are associated with implementation of the Fee Free program, such as the impact on other bill related costs (e.g., postage, bill printing, and bank fees). Late Filed Ex. 73. For example, the removal of the transaction fee may result in customers who typically pay via a check to pay with their credit card. As such, the Authority will reconcile the costs of the Fee Free program as well as its impact on other bill related costs at the Company's next rate case. Based on the facts and analysis presented by the Company, the Authority approves the proposed Fee Free credit card/debit card program, subject to the modifications discussed herein.

16. Software Maintenance, Non-SAP Costs

The Company proposed several adjustments to its Test Year level of information technology-related O&M expense. Application, Sch. WPC-3.14. The Company claimed these adjustments were known, measurable, and incremental to the costs the Company incurred during the Test Year. Tr., Nov. 29, 2022, 539.

One component of these proposed adjustments was an increase in expense of $217,277 attributable to Microsoft Office 365 (O365) software.[72] Application, Sch. WPC-3.14(2). The Company testified that the $217,277 cost of O365 should be deemed incremental to the costs incurred during the Test Year because "generally accepted accounting principles" allow Aquarion to "capitalize the first year of licenses." Tr., Nov. 29, 2022, 541-542. The Company further testified that O365 licenses were expensed as depreciation during the first year. Tr., 542.

To determine whether the O365 costs claimed by the Company were truly incremental, the Authority sought additional information that would help validate that neither O365 costs nor costs related to other similar software (i.e., software that would be redundant with O365) were embedded in the Company's test year amounts.[73] The information requested included the date the Company switched to O365. The Company did not disclose this information, nor did Aquarion make any reference to the O365

[72] For ease of reference, this, and related figures, are shown on a pre-allocated basis. In its Application, the Company allocated 8.54% of these costs to its affiliates. Tr., Nov. 29, 2022, 549.

[73] The Company initially offered to provide this information as Read-In F at the evidentiary hearings. The Company subsequently requested to provide this information in Late Filed Ex. 32. Tr., Nov. 29, 2022, 562.

transition date in the Late Filed Exhibit it filed in response to this request. Tr., Nov. 29, 2022, 547-548, 562; Late Filed Ex. 32. Without knowing the date on which the Company made the transition to O365, it is impossible for the Authority to determine whether a full year's worth of expense was taken during the Test Year, or if a portion of the capitalized licenses remained unamortized at the end of the Test Year.

The Company was also asked by the Authority to provide the Test Year costs "related to Microsoft products or other products that Office 365 would encompass that would no longer be necessary given [the Company's] subscription to Office 365." Tr., Nov. 29, 2022, 547-548. With regard to this request, the Company appears to have provided an incomplete list of such costs. Specifically, the Company's response included a $12,800 expense reduction adjustment related to legacy Microsoft office products incurred during the Test Year, but the response did not reference any other software utilized during the Test Year that would be redundant with O365 (thereby indicating there were no examples of such software). Late Filed Ex. 32. However, based on responses from the Company during cross-examination at the hearings, there is at least one example — specifically, the virtual meeting service Zoom — of software used by Aquarion during the Test Year that would clearly be redundant with the functionality encompassed in O365. Tr., Dec. 14, 2022, 108-109. Based on the Company's responses, there is insufficient information to determine what the cost to Aquarion of this virtual meeting software was during the Test Year. Late Filed Ex. 32.[74]

The information sought, but not provided, in these requests was critical in assessing the reasonableness of the Company's adjustment. Without this information, it is not possible to reasonably conclude whether, and to what extent, the costs being sought by the Company are truly incremental to the Test Year. Accordingly, the Authority denies this adjustment and approves rate recovery for only those costs actually incurred during the Test Year. Specifically, the Authority disallows the Company's proposed adjustment made in the Application to increase its O&M expense by $217,277, and the Authority also disallows the proposed adjustment made in the Company's revenue requirement update to reduce O&M expense by $12,800. Application, Sch. WPC-3.14(2) and Late Filed Ex. 32.

In addition to the findings described above, the Authority discovered another issue related to the O365 licenses: the Company purchased dozens more O365 licenses than it has employees.[75] Specifically, as of the Application date, the Company had only 323 employees, yet the Company purchased (or, more accurately, was assigned) 358 licenses — 35 more licenses than employees. Morrissey PFT, p. 6; Late Filed Ex. 32. The Company claimed the additional licenses were appropriate in order for Aquarion to have them available for "seasonal or temp employees, consultants and the overlap

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[74] While the Company claimed such costs were removed from the Company's revenue requirement, the Authority sees no evidence of this removal in the related Application schedule. Application, Sch. WPC-3.14(2); Tr., Dec. 14, 2022, 108.

[75] This finding did not impact the quantification of the Authority's ultimate ruling for these costs. However, the Authority will address such incongruities between employees and software licenses in future proceedings, as necessary.

required during computer refreshes." Late Filed Ex. 32. The Authority is not convinced that charging customers for dozens of excess software licenses is fiscally prudent or standard business protocol — particularly when such additional licenses would result in several thousand dollars of increased costs to ratepayers. Aquarion Interrog. Resp. OCC-184, Att. 2.

The expenses above are allocated to the Company at 86.54%. Therefore, the Authority will adjust the Software Maintenance expense downward by $176,954 [($217,277 x .8654) – ($12,800 x .8654)].

17. Bad Debt Expense

As noted in Section VIII.F.2. Rate-Related Proposals, the Authority allows $195,996 in bad debt expense. The Company requests $197,994 for bad debt expense. Final Late Filed Ex. 1, Sch. WPC-3.15. The Authority therefore adjusts bad debt expense by $1,998.

C. Depreciation Expense

1. Summary

The Company proposes a depreciation expense of $44,356,567. Final Late Filed Ex. 1, Sch. WPC-3.0A. The following table summarizes adjustments to the depreciation expense. The sections below provide a detailed analysis for each of the adjustments.

Table 24: Depreciation Expense ($)

Company Proposed	**44,346,567**
Authority Adjustments	**(5,591,122)**
General Plant Reserve	577,287
Service Life and Net Salvage	(4,286,456)
Plant-in-Service Adjustment	(1,881,953)
Total	**38,755,445**

2. Depreciation Study

Aquarion filed a depreciation study related to the utility plant-in-service as of December 31, 2021. Allis Prefiled Test., Aug. 29, 2022, Ex. A-7-NWA-3 (Aquarion 2021 Study). Aquarion's 2021 Study employed a depreciation system composed of the straight-line method, average service life procedure, and remaining life technique. Allis PFT, Ex. A-7-NWA-1, p. 4. Ned Allis of Gannett Fleming Valuation and Rate Consultants, LLC (Gannett Fleming) performed Aquarion's 2021 Study. Id., p. 1.

The application of the present depreciation rates to the depreciable plant-in-service as of December 31, 2021, results in an annual depreciation expense of $44,128,798. Id., p. 2. In comparison, the application of the proposed rates to the depreciable plant-in-service as of December 31, 2021, results in an annual depreciation expense of

$41,322,676, which represents a decrease of $2,806,122 from current rates. Id. The composite annual depreciation rate under present rates is 2.78%, while the proposed December 31, 2021 composite depreciation rate is 2.60%. Id.

In preparing the Aquarion 2021 Study, Gannett Fleming utilized actual Company data to investigate and analyze historical plant data to determine the remaining plant asset lives. Allis PFT, pp. 5-6. The Aquarion 2021 Study applied the Retirement Rate method to analyze the Company's service life data sorted by age to develop a survivor curve for each account. Id., p. 6. For every account, a survivor curve served as the basis on which smooth curves (standard Iowa Curves) were fitted to determine the average service life (ASL) being experienced by the property account under study. Aquarion 2021 Study, pp. 54-194.

3. Amortization of General Plant Reserve

The Company recommends a five-year amortization to adjust the reserve for the amortization accounts because "[t]his approach will achieve consistent amortization rates for existing assets as well as future assets and is consistent with the approach previously adopted by PURA for The Connecticut Light and Power Company and Yankee Gas Services Company." Allis PFT, p. 11.

The OCC contends an adjustment or accounting order from the Authority is necessary in this rate proceeding to ensure that ratepayers receive the appropriate accounting of this reserve adjustment. Instead of the five-year period suggested by the Company, the OCC recommends a 10-year amortization of the unrecovered reserve adjustment. OCC Brief, p. 54. The OCC argues that a ten-year amortization more closely follows the period for which Aquarion has performed new depreciation studies in rate cases. Id.

The Authority finds that the ten-year amortization period to adjust the reserve for the applicable general plant accounts proposed by OCC is reasonable in this proceeding. The Authority will continue to review the general plant reserve amortization issue on a case-by-case basis in future rate cases and recognizes that longer amortization periods may be appropriate in some cases. The ten-year amortization period results in a $577,287 increase to depreciation expense, as opposed to the five-year amortization, which results in $1,154,573, or a reduction of $577,287 as shown in the table below.

Table 25: General Plant Reserve Amortization ($)

	Company Proposed	PURA Finding	Adjustment
General	5,872,822	5,872,822	0-
Unrecovered Reserve	1,154,573	577,287	(577,287)

4. Depreciation Rates

a. Service Life

For service life estimates, the Aquarion 2021 Study relies on original life tables (OLT), which can be displayed in the form of an original survivor curve (OLT curve). See Aquarion 2021 Study, pp. 54-194. The exposures at the beginning of the age interval are obtained from the corresponding age interval of the exposure schedule, and the retirements during the age interval are obtained from the corresponding age interval of the retirement schedule. The retirement ratio is the result of dividing the retirements during the age interval by the exposures at the beginning of the age interval. The percent surviving at the beginning of each age interval is derived from survivor ratios, each of which equals one minus the retirement ratio. The percent surviving is developed by starting with 100% at age zero and successively multiplying the percent surviving at the beginning of each interval by the survivor ratio, i.e., one minus the retirement ratio for that age interval. Id., p. 26.

The smoothing of the original survivor curve eliminates any irregularities and serves as the basis for the preliminary extrapolation to zero percent surviving of the original stub curve. In the Aquarion 2021 Study, the smoothing of the original curve with established type curves was used to eliminate irregularities in the original curve. The Iowa type curves are used in the Aquarion 2021 Study to smooth those original stub curves, which are expressed as a percent surviving at ages in years. Each original survivor curve can be compared to the Iowa curves using visual and mathematical matching in order to determine the better fitting smooth curves. Id., p. 28.

The Authority has conducted visual and mathematical analyses of the Iowa curves selected by Gannett Fleming to represent the service lives and depreciation rate calculations for each depreciable account included in the depreciation study. The Authority finds that the methods, procedures, and depreciation system relied upon by the Company are generally reasonable; however, based on the Authority's analysis, the service life estimates proposed in the depreciation study for five accounts are unreasonably short given the historical data upon which the service life estimates were based. The five accounts impact three categories of assets (source of supply plant, pumping plant, and transmission and distribution plant). The table below presents a summary of the Iowa curves proposed by the Company and those determined by PURA to more accurately reflect the service life for those accounts.

Table 26: Aquarion and PURA Iowa Curve Comparison

Account No.	Description	Company Iowa Curve	PURA Iowa Curve
	SOURCE OF SUPPLY PLANT		
312.00	COLLECTING AND IMPOUNDING RESERVOIRS	S0 - 75	R0.5 - 84
316.00	SUPPLY MAINS	S3 - 65	S3 - 75
	PUMPING PLANT		
325.00	ELECTRIC PUMPING EQUIPMENT	S1.5 - 30	S1.5 - 33
	TRANSMISSION AND DISTRIBUTION PLANT		
342.00	DISTRIBUTION RESERVOIRS AND STANDPIPES	R3 - 65	R3 - 75
343.00	TRANSMISSION AND DISTRIBUTION MAINS	R3 - 65	R4 - 65
346.00	METERS	L3 - 14	L3 - 17

For each of these accounts, the Iowa curve adopted by PURA results in a closer mathematical fit to the observed retirement data presented in the OLT curve for each account. The Authority finds that, for each of these accounts, the Company did not present sufficient evidence beyond the statistical analysis to warrant a material deviation from the service lives indicated by the historical statistical data. As demonstrated in the figures, the Iowa curve selected by the Authority more reasonably correspond to the OLT curves for each of these accounts.

Figure 4: Account 312.00 – Collecting and Impounding Reservoirs

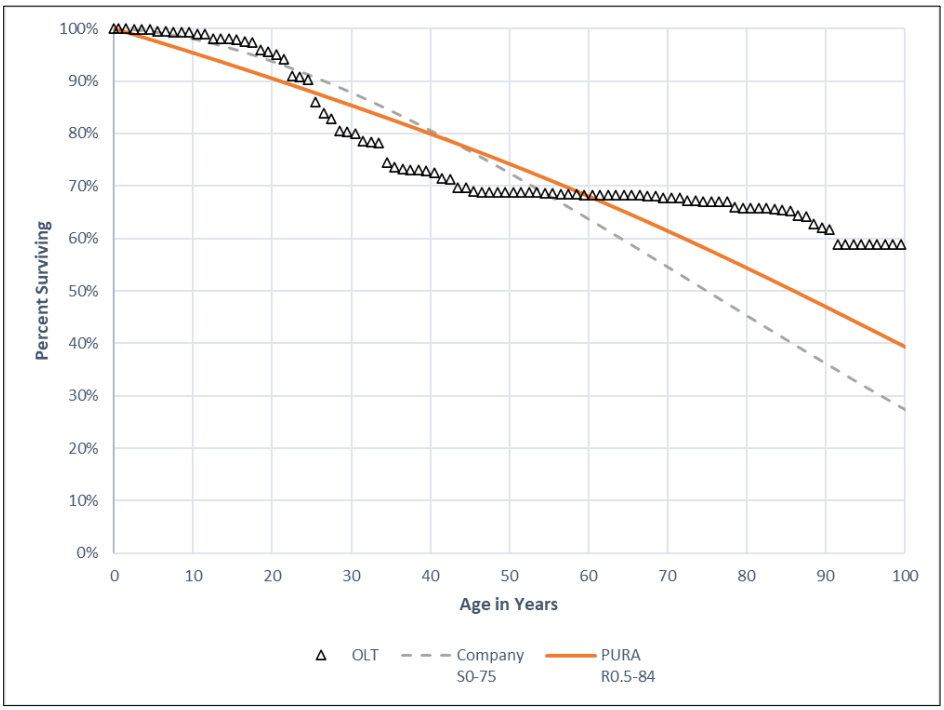


Figure 5: Account 316.00 – Supply Mains

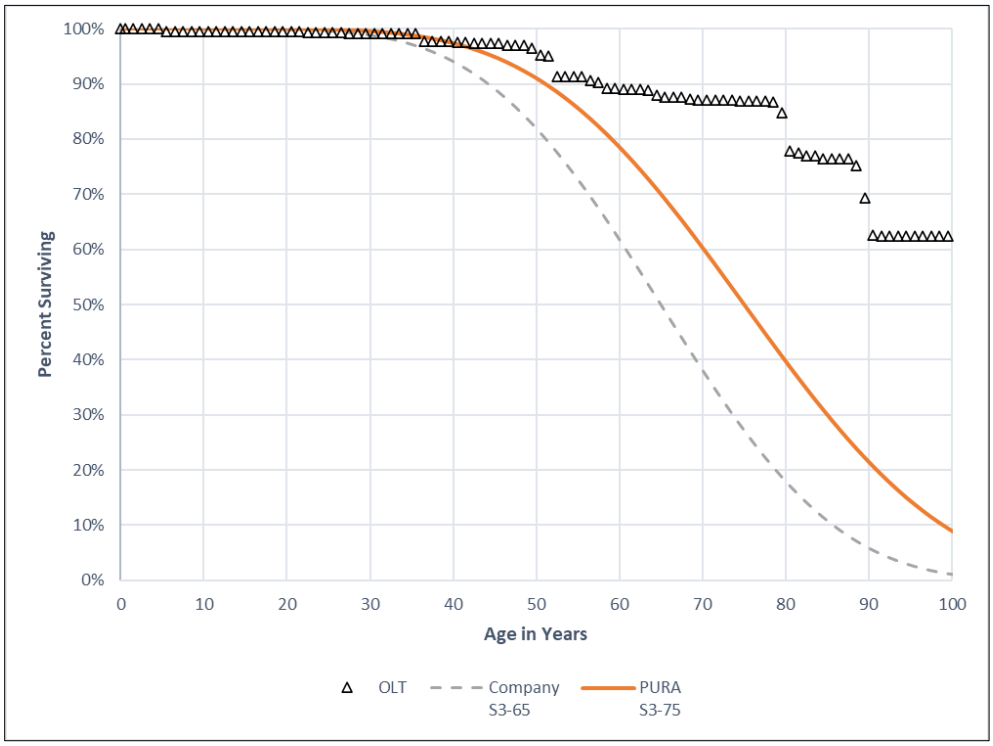


Figure 6: Account 325.00 – Electric Pumping Equipment

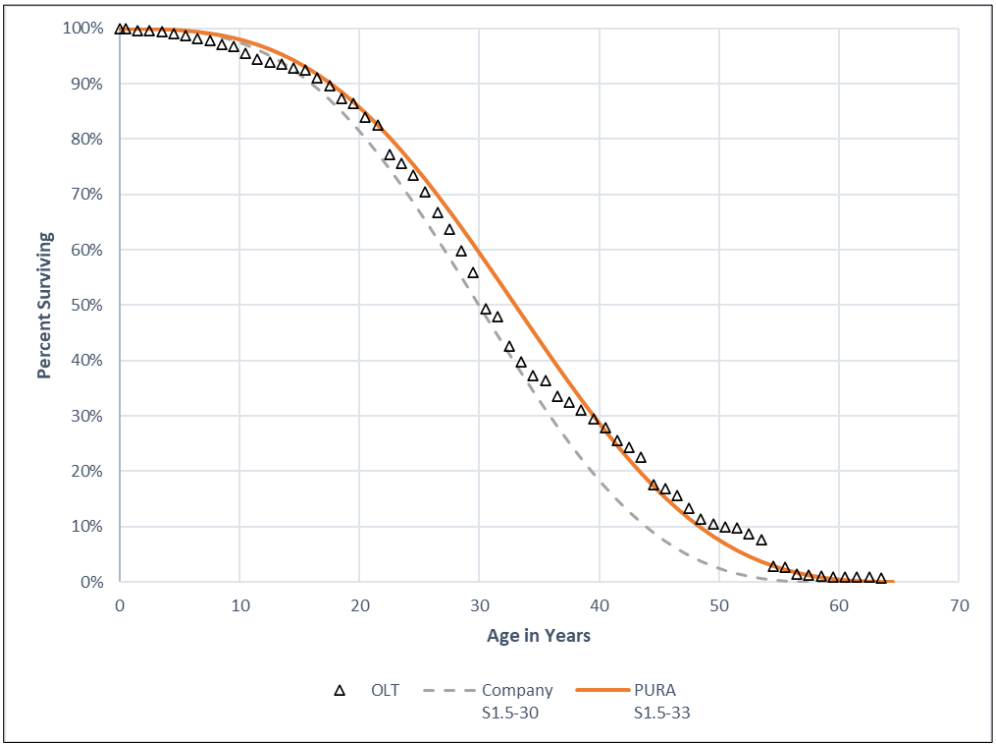


Figure 7: Account 342.00 – Distribution Reservoirs and Standpipes

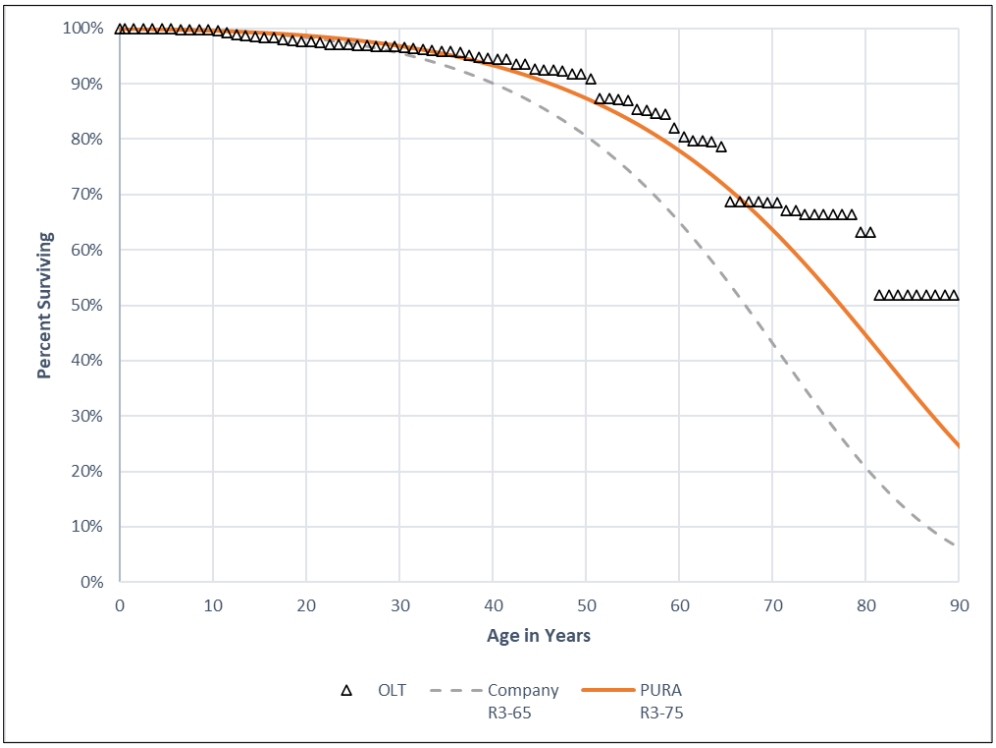
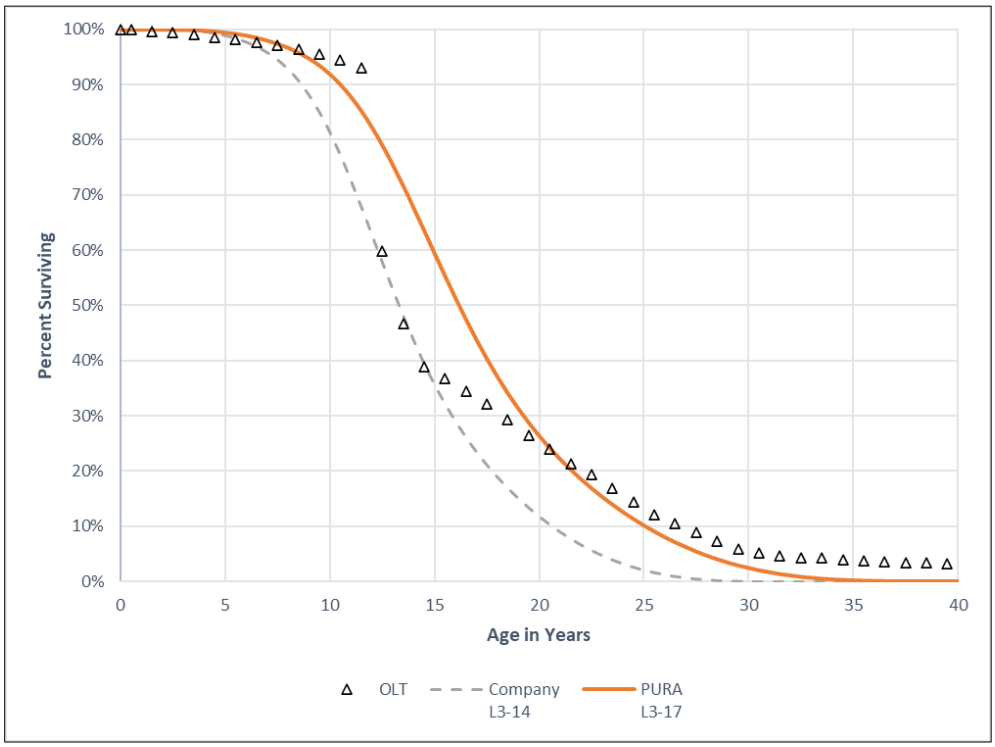


Figure 8: Account 346.00 – Meters



The primary reason the Iowa curves presented here are more reasonable than those proposed by the Company is that they result in mathematically closer fits to the observed OLT curves for each account. Specifically, the distance between each point on the OLT curve and the Company's proposed Iowa curve is longer than the distance between the OLT curve and the Iowa curves adopted by the Authority.

Applying these more reasonable Iowa curves to these accounts results in a reduction to the Company's proposed annual depreciation expense.

b. Net Salvage

Net salvage is the gross salvage less the cost of removal. The estimates of future net salvage are expressed as percentages of surviving plant in service. In cases in which removal costs are expected to exceed salvage receipts, a negative net salvage percentage is estimated. Aquarion 2021 Study, p. 39. The Company's analyses of historical costs of removal and salvage data are presented in the Aquarion 2021 Study. Id., pp. 195-219.

The Authority conducted an analysis of the historical net salvage data presented in the Aquarion 2021 Study and determines that the net salvage estimates proposed in the Aquarion 2021 Study for nine accounts are unreasonably low given the historical data upon which the net salvage estimates were based. These nine accounts affect four categories of assets (source of supply plant, pumping plant, water treatment plant, and

transmission and distribution plant). The results of the analysis are presented in the table below.

Table 27: Net Salvage Rates

Account No.	Description	Company Salvage	PURA Salvage
	SOURCE OF SUPPLY PLANT		
312.00	COLLECTING AND IMPOUNDING RESERVOIRS	-25%	-16%
314.00	WELLS AND SPRINGS	-15%	-3%
316.00	SUPPLY MAINS	-10%	0%
	PUMPING PLANT		
325.00	ELECTRIC PUMPING EQUIPMENT	-15%	-5%
326.00	DIESEL PUMPING EQUIPMENT	-10%	0%
328.00	OTHER PUMPING EQUIPMENT	-10%	0%
	WATER TREATMENT PLANT		
332.00	WATER TREATMENT EQUIPMENT	-10%	-7%
	TRANSMISSION AND DISTRIBUTION PLANT		
343.00	TRANSMISSION AND DISTRIBUTION MAINS	-15%	-2%
348.00	HYDRANTS	-10%	-4%

For each of these accounts, the negative net salvage rate proposed in the Aquarion 2021 Study is greater than the negative net salvage rate observed over the past five years. Conversely, each of the net salvage rates listed under the "PURA Salvage" header in the above table equates to the most recent five-year average net salvage rate. Aquarion 2021 Study, pp. 197, 199, 200, 204, 205, 206, 208, 211, 215. The Authority finds that, for each of these accounts, the Company did not present sufficient evidence beyond the statistical analysis to warrant a material deviation from the service lives indicated by the historical statistical data. Accordingly, the Authority determines that the net salvage rates in this case are more appropriately determined to coincide with the most recent five-year average net salvage rates for the accounts in question.

c. Adjustment to Depreciation Expense

Based on the adjustments to the Iowa curves and salvage rates, the Authority adjusts the Company's depreciation expense. The table below summarizes the adjustments.

Table 28: Service Life and Net Salvage ($)

Plant Function	Plant Balance 12/31/2021	Company Accrual	PURA Finding	Adjustment
Source of Supply	131,192,586	3,202,230	2,662,484	(539,746)
Pumping	114,824,883	3,176,177	2,790,724	(385,453)
Water Treatment	302,443,904	7,313,874	7,088,437	(225,437)
Trans. and Dist.	948,994,303	20,603,000	17,467,180	(3,135,820)
Total Depreciation	**$ 1,587,195,960**	**$ 41,322,676**	**$ 37,056,548**	**$ (4,286,456)**

D. Adjustment to Plant-in-Service

The Company's depreciation expense is calculated based on the Company's plant additions through December 15, 2022; however, as discussed in Section IV.B.2. Pro Forma Plant Additions, the Authority will only include in rate base plant additions completed as of August 31, 2022. Consequently, the Company's depreciation expense must be adjusted to reflect the allowed rate base. Specifically, the Authority will decrease the Company's depreciation expense by $1,881,953 which is the Authority allowed depreciation expense of $1,282,609 for plant through August 31, 2022, as opposed to the Company requested depreciation expense of $3,164,562 for plant through December 15, 2022. Final Late Filed Ex. 4.

E. Taxes

1. Payroll Tax

The Company requests $2,213,635 as a payroll tax expense. Final Late Filed Ex. 1, Sch. WPC-3.23. As a result of the reduction in allowed FTEs to 323, the Authority authorizes a $2,004,219 payroll tax expense, which is a reduction of $209,416 ($2,213,635-$2,004,219) to the Company's request.

2. State Tax

The Company requests $4,042,930 as a state tax expense. Final Late Filed Ex. 1, Sch. WPC-3.25. The Authority adjusts the state tax expense by $2,056,693 to instead authorize an expense of $1,957,161 ($4,042,930 - $2,056,693) to reflect changes in taxable income as a result of Authority adjustments in expense, capital structure, and ROE.

3. Federal Tax

The Company requests $6,949,815 as a federal tax expense. Final Late Filed Ex. 1, Sch. WPC-3.26. The Authority adjusts the federal income tax expense by $5,346,475 to

instead authorize an expense of $1,547,672 ($6,949,815 - $5,346,475) to reflect changes in taxable income as a result of Authority adjustments in expense, capital structure, and ROE.

4. Excess Accumulated Deferred Income Taxes

When the 2017 Tax Cuts and Jobs Act (Tax Act) reduced the corporate tax rate from 35% to 21%, there was a corresponding reclassification of deferred taxes the Company had accumulated on its books as of the date of the change in the tax law. Tr., Nov. 28, 2022, 315-316. This reclassification resulted in a category of deferred taxes called Excess Accumulated Deferred Income Taxes (EADIT). Tr., 315. EADIT represent funds collected from Aquarion customers in the past that are now owed back to customers based on the reduction of the corporate tax rate. Id. There are two categories of EADIT: (1) Protected EADIT and (2) Unprotected EADIT. Szabo & Unger PFT, p. 37. The table below summarizes the EADIT amounts claimed by the Company.

Table 29: Unamortized EADIT as December 31, 2021

	Protected	Unprotected	Total
Aquarion	($49,750,714)	($1,020,029)	($50,770,743)
Valley	($636,100)	$0	($636,100)
Total	**($50,386,814)**	**($1,020,029)**	**($51,406,843)**

Application, Sch. WPC-3.16.

While both categories of EADIT are similar in that they represent amounts owed back to customers, the speed in which these different categories of EADIT can legally be refunded to customers is different. Tr., Nov. 28, 2022, 316-17. IRS normalization provisions restrict how quickly Protected EADIT may be refunded to customers, while there are no such restrictions for Unprotected EADIT. Szabo & Unger PFT, p. 37. The additional restrictions placed on the timing of when Protected EADIT may be refunded to customers make the categorization of EADIT critically important to all stakeholders, including customers. Tr., Nov. 28, 2022, 317-18. Specifically, due to these IRS restrictions, Protected EADIT is refunded to customers more slowly than Unprotected EADIT. Tr., p. 317.

Here, the Company proposes to refund Protected EADIT to customers over an approximately 20-year period and to refund Unprotected EADIT over a four- to five-year period. Application, Sch. WPC-3.16. The Company's aggregate annual amortization is ($2,804,852). The table below provides the amortization periods and annual amortization amounts for the EADIT liability proposed by the Company.

Table 30: Proposed Amortization of EADIT

	EADIT Liability	Amortization Period	Annual Amortization
Depreciation	($49,750,714)	19.41	($2,563,149)
FCIC	($822,043)	5	($164,409)
Other	($197,986)	4	($49,497)
	($50,770,743)		($2,777,054)
Valley Division			
	($636,100)	22.8825	($27,799)
Total	**($51,406,843)**		**($2,804,852)**

Application, Sch. WPC-3.16.

Approximately 98% ($50,386,814 of $51,406,843) of the Company's claimed EADIT has been categorized by the Company as Protected EADIT. Application, Sch. WPC-3.16.

The Company has the burden of proving that its rates are just and reasonable. Conn. Gen. Stat. § 16-22. In order for a public service company to adequately satisfy the burden of proof standard, the Authority concludes that a necessary (though not necessarily sufficient) condition is that the subject company provides witnesses who are adequately experienced and knowledgeable in the subject areas they sponsor. The Company chose not to provide such a witness for this proceeding. Even though the EADIT is a highly complex and unusual tax issue that has significant consequences to ratepayers, the Company offered no tax expert to support its EADIT quantification and categorization. See Tr., Nov. 28, 2022, 314, 321:8. Nor was the sponsoring witness involved in calculating the EADIT. Tr., 318:22-319:1. The Company also did not produce a witness who could provide a reliable description of the EADIT workpapers (i.e., the documentation that memorialized the calculation of the EADIT). Tr., 319:12-24. The Authority is not critical of the individual Company witness who sponsored this subject area; rather, the Authority's critique is targeted at the Company for choosing not to utilize alternative Company personnel (e.g., the Company's Director of Taxes) who are experts in the field of taxation, and, thus, would have presumably been able to adequately respond to the Authority's inquiries related to this issue.

In addition to not producing an appropriate witness, there were multiple instances in which the Company provided either inaccurate or incomplete responses to interrogatory requests related to its EADIT proposal. For example, Interrogatory RRU-221, subpart b, asked the Company to provide "Any and all workpapers that were developed and relied upon for purposes of establishing the EADIT regulatory liability." It was later discovered that the Company had not provided all workpapers with its original response. Late Filed Ex. 12. While the Company provided additional workpapers in a subsequent filing, the sponsor of the supplemental response was the same witness who explicitly stated that she was not a tax expert during the evidentiary hearings. Aquarion Interrog. Resp. RRU-221; Late Filed Ex. 12; Tr., Nov. 28, 2022, 314, 321:8. Thus, although the Company ultimately provided additional documentation related to its EADIT

calculation (several weeks after the initial response was due), it failed to produce a tax expert who could corroborate these calculations.[76]

In summary, based on the record evidence in this proceeding, the Authority finds that the Company has not adequately met its burden of proof with regard to its quantification and categorization of the EADIT. The Authority directs the Company to reverse the proposed annual amortization adjustment of $2,804,852 and return this amount to the unamortized EADIT liability (which totaled $51,406,843 as of the end of the Test Year) to be used as a reduction to rate base.[77]

Furthermore, the Authority directs the Company to engage an independent third-party accounting firm (i.e., not the Company's current financial statement auditor) to perform a review to vet both the quantification and categorization of the Company's claimed EADIT. The Authority orders this review to be conducted as an agreed-upon procedures engagement in accordance with the attestation standards established by the American Institute of Certified Public Accountants. The Authority directs the Company to have the review conducted and results of the review submitted to the Authority for review and approval no later than one year after issuance of the Decision. Because this review is necessitated by the failure of the Company to substantiate its burden herein to the detriment of ratepayers, the cost of this review shall not be recoverable in rates. Upon satisfactory completion of the third-party review, the Authority will determine the appropriate method for returning the unamortized EADIT back to customers, which may include, but is not limited to, an immediate return to customers either through a distribution bill credit, a credit adjustment in the RAM calculation, or continuation of the regulatory liability until the Company's next rate case. The Authority further orders that the EADIT liability shall accrue carrying charges at the WACC rate until the conclusion of the third-party review.

5. Summary of Tax Adjustments

Based on the foregoing, the Authority determines that the reasonable and appropriate tax adjustments are as follows:

Table 31: PURA Determined Tax Adjustments ($)

Payroll Tax	(209,416)
State	(2,056,693)
Federal	(5,346,475)
EADIT Amortization	2,804,852
Total	**(4,815,315)**

[76] The Company also provided no explanation for why the full set of workpapers were not produced with its original response, even though such an explanation was explicitly requested by the Authority. See Aquarion Interrog. Resp. RRU-221; Tr., p. 320; Late Filed Ex. 12.

[77] Based on the Company's Application and evidence in the record, it is the Authority's understanding that the Company has recorded a regulatory liability for the EADIT, and that this regulatory liability is being used as a reduction to rate base. Application, Sch. WPC-3.16; Interrog. Resp. RRU-221. If the Company disagrees with the Authority's assertion, the Company shall note such disagreement, as well as the basis for such disagreement, in its Written Exceptions.

VII. APPROVED REVENUE REQUIREMENT

The table below summarizes the various components of the Company's approved revenue requirement, as adjusted by the Authority, and provides the total approved revenue requirement for the rate year.

Table 32: Approved Revenue Requirement

Section in Decision	Component	Amount
	Cost of Capital	
IV	Rate base	989,368,429
V	WACC	6.46%
	Subtotal	**63,913,201**
	Allowable Expenses	
VI.B	Operations & Maintenance	68,690,153
VI.C	Depreciation Expense	38,755,445
VI.B.14	Acquisition Adjustment	166,635
VI.E	Taxes	
	Taxes, Sales and Payroll	2,004,219
	Property Taxes	17,312,504
	State Taxes	1,957,161
	Federal Taxes	1,547,672
VI.E.4	EADIT Amortization	2,804,852
	Total Revenue Requirement	**197,151,842**

VIII. RATE DESIGN

A. SALES FORECASTS AND REVENUE

In order to determine the sales and estimated revenues the Company would achieve during the rate year, Aquarion used its 2021 Test Year billing determinants and applied adjustments in customer growth and usage per customer across residential, commercial, industrial, and public authority rate classes. Application, Sch. E-5.4. Projected annual growth adjustments to the Test Year data were based on actual usage data over a four-year average using data from 2017, 2018, 2019, and 2021. Id., p. 2. For usage adjustments, the Company excluded 2020 because usage patterns across rate classes were impacted by the COVID-19 pandemic. Aquarion Interrog. Resp. RRU-253.

Aquarion asserts that its current rates are insufficient to recover the cost of providing safe and reliable service to its customers. Szabo & Unger PFT, p. 5. The Company attributes capital improvements placed into service since the Company's 2013

Rate Case as the primary driver of the revenue deficiency under its current rates. Id. According to the Company, the incremental revenue deficiency is approximately $27.5 million for the Rate Year. Id., p. 10. The Company provided an exhibit that compared current rates and revenues to the proposed rates and revenues for Rate Year 1 by rate class, division, and for the total company. Application, Sch. E-5.1A, p. 5. Under current rates, total retail revenues were approximately $198.25 million. Under the Company's proposed Rate Year 1 rates, the projected revenues totaled approximately $225.75 million, a difference of $27,497,825. Id.

The Company's Application included an exhibit that identified its miscellaneous service revenues. Application, Sch. E-5.2A, p. 94. In that exhibit, Aquarion identified pro forma and proposed revenues of $546,925 in fees collected for late payment charges (LPC). Id.

The Authority examined the Company's Rate Year 1 forecast growth and usage adjustments. The Authority determines that the 2020 usage data was atypical as the impact from the pandemic influenced the increase or decline in water usage depending on rate class when compared to years 2017-2019 and 2021.[78] The Authority accepts the usage adjustments for the rate year as reasonable.

B. Cost Allocation

The Company's Cost of Service Study (COSS) utilized the Base-Extra Capacity method. Under this method, the various cost elements are assigned to the following cost functions: Base, Extra Capacity (maximum day and peak hour), and Customer (meters/services and billing and accounting) costs. Guastella Prefiled Test., Aug. 29, 2022, pp. 2-3. This methodology identifies and classifies the various cost components that comprise the revenue requirement, functionalizes those cost components according to the general design criteria and operation of a water utility, and allocates the functionalized costs to the customer classes. Id., p. 2.

The COSS included multiple schedules that supported the cost allocations for the functions described above. Id., Exhibit A-6-JFG-2 (COSS). The below table summarizes the revenue requirements data from Schedule 1 of the COSS and includes a PURA-calculated percentage of revenue contribution for each rate class.

[78] The 2020 usage data reflected higher residential usage across its divisions and lower commercial usage across its divisions compared to the four-year average for years 2017-2019 and 2021. Aquarion Interrog. Resp. RRU-253, Att. 1; Tr., Dec. 1, 2022, 893:1-18.

Table 33: Revenue Requirements ($) and Rate Class % Contribution

Customer Class	Revenue Requirement	Percentage of Revenue Requirement
Residential (single)	$123,480,146	57.9%
Multi-Family	22,155,898	10.4%
Commercial	33,474,143	15.7%
Industrial	3,991,930	1.9%
Public Authority	5,891,047	2.8%
Fire Services (capacity & hydrants)	24,238,369	11.4%
Total	**$213,231,533**	**100%**

COSS, Schedule 1.

Generally, OCC found the Company's COSS to be reasonable and agreed with Aquarion's use of the Base-Extra Capacity cost methodology. Mierzwa Prefiled Test., Oct. 26, 2022, p. 6. One notable exception, however, is that OCC faulted the Company for understating the base consumption volumes for fire protection and recommended that the volumes be updated from 620,000 gallons to 2,539,750 gallons based on 2021 actual data to reflect Aquarion's actual recent experience. Id., p. 7; Aquarion Interrog. Resp. OCC-82. Aquarion's COSS witness testified that he disagreed with the adjustment on the base fire protection volume based on the use of maximum flow and over a period of time, and using hydrant flushing water as part of the fire rate. Tr., Dec. 1, 2022, 900:8-12. In response, OCC's witness stated that he disagreed because the Company's response to OCC-82 indicated that the use was for firefighting, training, and testing, and not for hydrant flushing. Tr., pp. 998-99.

According to OCC's calculations, this base volume adjustment would increase fire protection costs by an additional $1,126,148, or approximately 4.6%. Mierzwa PFT, p. 8, Table 1. With this adjustment, OCC's revised total cost of service mirrored the Company's at $213,231,533. Id. No further adjustment was necessary to the fire protection revenue allocation as the Company's initially proposed rates still recover revenues slightly in excess of the indicated cost of service. Id., pp. 10-11. To summarize, despite its cost-of-service modifications, OCC recommends that the Authority accept the total revenue allocation amount proposed by the Company.

In assessing the Company's proposed COSS, the Authority is guided by the principle of cost causation and how well the study assigns costs to the customers that cause them. One way that cost causation can be approximated is by determining the functions certain costs tend to support and allocating those costs to the customer classes that utilize those functions. This principle is adhered to within the Base-Extra Capacity method.

The Authority reviewed the Company's COSS and compared the cost allocation and revenue contributions by rate class between current rates, the COSS, and proposed rates. Absent a major known change to a particular rate class, the Authority would expect

relative consistency between the cost allocations. Indeed, a comparison of the COSS schedules by rate class for total Company level reflects consistency between revenue contributions from current rates, design rates, COSS proposed rates, and application proposed rates as shown in the table below.

Table 34: COSS Schedules Revenue Contribution Percentages Compare

	Current Rates %	Designed Rates %	COSS Proposed Rates%	Application Proposed Rates
Residential	64.0	65.8	65.2	65.2
Commercial	15.1	15.0	14.8	14.8
Industrial	1.8	1.8	1.8	1.8
Public Authority	2.8	2.6	2.6	2.6
Fire Protection	13.0	11.2	12.0	12.1
Sales for Resale	2.0	2.4	2.4	2.4
Miscellaneous	1.5	1.3	1.3	1.3
Credits & Adjustments	(0.1)	(0.2)	(0.2)	(0.1)

Late Filed Ex. 51, Att. 1.

While the Authority finds the Company's use and implementation of the Base Extra Capacity method appropriate as it allocates costs based on cost causation, the Authority agrees with OCC's updated fire protection volumes based on the previously noted testimony. Accordingly, the Authority directs the use of the modified fire protection base consumption volumes recommended by OCC. For its next rate case, the Company is directed to review its inputs related to fire protection to ensure that the most accurate values are being utilized in the COSS. Despite its cost-of-service modifications, OCC accepted the revenue allocation proposed by the Company; therefore, the Authority determines there is no need for the Company to file an updated COSS in the instant proceeding. Instead, the Company shall proportionately reduce its proposed allocated revenue to each rate schedule to match the overall revenue requirement ordered in this case.

C. RATE DESIGN

1. Overview

Rate design objectives include: the approval of cost-based, just and reasonable rates that promote further equalization of rates across the Company's divisions; revenue stability; affordability of water service for low-income households at subsistence consumption levels; and water conservation incentives. The Company's proposed rate design seeks to further these goals by equalizing rates across divisions, increasing meter charges, introducing a 4-tiered inclining block rate design for single family residential customers, increasing fire protection service charges, and introducing a low-income discount rate. Szabo & Unger PFT, pp. 45-49. The Company seeks to limit customer bill increases to no more than 2 to 2.5 times the overall revenue increase. Id., p. 46. The

notable exception is the Company's Valley Water Division (Valley), where rates will remain unchanged as Valley was acquired by Aquarion in September 2021, and its customers experienced a rate increase that became effective on January 1, 2022. Id., p. 22.[79]

The Authority recognizes an inter-relationship or interdependency in achieving these goals in that the pursuit of one goal may be counterproductive in the pursuit of another goal, and therefore, some degree of balancing must be applied in deciding a just and reasonable rate design.

2. Single Year Rate Design

As described in Section III.B. Multi-Year Rate Plan, the Authority approves a revenue requirement for Rate Year 1 and rejects Aquarion's Multi-Year Rate Plan. The Company will be directed to file a revised single year rate design plan consistent with the Authority's findings contained herein that will include revised tariffs and revenue proof.

3. Inclining Block Rate Design

The Company is proposing a four-tiered inclining block rate design for its residential single-family customers with the following four tiers of monthly consumption measured by hundreds of cubic feet (CCF): Tier 1 - Up to 5 CCF; Tier 2 - Over 5 CCF, up to 9 CCF; Tier 3 - Over 9 CCF, up to 20 CCF; and Tier 4 Over 20 CCF. Szabo & Unger PFT, p. 49.

The Company's proposed inclining block rate structure for the single-family residential customer class would apply to all but three of its divisions with the exceptions being Eastern–Tyler Indian Spring & Clearview, Northern, and Valley Divisions. Id. An inclining block tiered rate design establishes water usage thresholds with different price points. The rates increase as usage exceeds a tier's monthly threshold limit. Under Aquarion's proposed design, Tier 2 imposes a 10% premium over Tier 1, Tier 3 imposes a 10% premium over Tier 2, and Tier 4 imposes a premium of 20% over Tier 3. Id., pp. 48-49.

The table below shows Aquarion's proposed four-tier inclining block rate design for single-family residential customers that would apply to all of its divisions, except Eastern – (Tyler Indian Spring & Clearview), Northern and Valley, with the rate per CCF:

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[79] See Decision, Sept. 22, 2021, Docket No. 20-11-14, Application for Valley Water Systems, Inc. for Amendment of Rate Schedule (Valley Decision).

Table 35: Aquarion's Proposed Inclining Block Rate Design

Tier:	Monthly Consumption Hundred Cubic feet (CCF) = 748 gallons	Rate per CCF*:
Tier 1	First 5 CCF	$ 4.999
Tier 2	Over 5 CCF, up to 9 CCF	$ 5.499
Tier 3	Over 9 CCF, up to 20 CCF	$ 6.049
Tier 4	Over 20 CCF	$ 7.247

*assumes a 10% meter service charge increase

Szabo & Unger PFT, p. 49.

OCC recommends that the Authority adopt Aquarion's proposed inclining block rate design and surmised that it would likely result in lower bills for low-income customers and also send pricing signals to higher-volume residential customers who will face increased costs due to higher water usage. Mierzwa PFT, p. 12.

DEEP recommends a three-tiered rate design that aggressively targets discretionary residential uses, such as lawn irrigation, while encouraging efficiency for non-discretionary uses. DEEP Brief, p. 3. To accomplish its recommended three-tiered rate design, DEEP suggests combining Aquarion's proposed tiers two and three. Id. Specifically, the tiers would be designed as follows: "a baseline tier rate up to 5 CCF of consumption per month, a second tier of over 5 CCF per month up to 15 CCF per month at a rate that is 10% higher than the baseline tier, and third tier that is 20% higher than the second tier." DEEP Brief, p. 6; see also Aquarion Interrog. Resp. BETP-2. Further, DEEP highlighted that Aquarion is not aware of any other companies utilizing a four-tier block rate design. Tr., Dec. 1, 2022, 908-09.

Implementing an inclining block rate structure for residential single-family customers is a significant change from the Company's current rate design. An inclining block rate structure is designed to encourage water conservation by sending price signals for excessive water use for discretionary uses such as lawn irrigation. High water usage customers may consider limiting discretionary water use because it is more costly. In contrast, Aquarion's current residential single-family volumetric rate design consists of either a two-tiered, declining block rate structure for its Eastern, Western, and Southern divisions with a reduced rate for monthly usage in excess of 140 CCFs, or a single water usage rate for its Northern and Topstone, Rural, Brookfield, and Ron Black A-C smaller Eastern divisions. Application, Sch. E-5.0A; Tr., Dec. 1, 2022, 912:3-5. The current rate design does not encourage water conservation.

The Authority is generally in favor of the inclining rate design for the reasons set forth by the Company, including affordability of subsistence level water usage and incentives to encourage water conservation and discourage wasteful water use.

However, the implementation of tiered inclining rates would be the first time these customers have been billed in this fashion, which is very different from the current rate design. Because this is a very new rate design, the Authority finds that DEEP's recommendation for a three-tiered design, rather than the Company's proposed four-tiered design, would be a less drastic change for customers and is more likely to yield the desired adherence.

The Company provided another inclining rate block rate design that combines the Company's proposed Tiers 1 and 2, thereby making the first-tier threshold 9 CCF, which is near the average monthly household consumption level of 9.4 CCF. Aquarion Interrog. Resp. RRU-396 and RRU-397. This design would benefit households that maintain monthly consumption at or below the average usage, add a premium to all consumption above average, while adding an additional premium onto excessive consumption above 20 CCF. This proposal introduces the inclining tier rates in a more gradual fashion than Aquarion's original four-tiered design and can be revisited during the next rate case once customers and the Company gain more experience with the design.

With these considerations, the Authority directs the Company to design a three-tiered volumetric rate structure for single-family residential customers, with the first tier up to 9 CCF, the second tier above 9 to 20 CCF, and the third tier over 20 CCF. Since the Tier 1 has been expanded from the proposed 5 CCF to 9 CCF, thereby combining Tiers 1 and 2, the rate differential between Tier 2 and Tier 1 shall be 20%, and the rate differential between Tier 3 and Tier 2 shall be 20% as depicted in the table below.

Table 36: Approved Three-Tiered Volumetric Rate Structure

Tier:	Monthly Consumption Hundred Cubic feet (CCF) = 748 gallons	Rate
Tier 1	First 9 CCF	Initial Consumption Rate
Tier 2	Over 9 CCF, up to 20 CCF	20% higher than Tier 1 Rate
Tier 3	Over 20 CCF	20% higher than Tier 2 Rate

Aquarion Interrog. Resp. RRU-397.

4. Rate Consolidation (Single-Tariff Pricing)

A principal rate design consideration in the instant case is to consolidate Aquarion rates by maintaining consistent meter charges across divisions, and where possible, to consolidate and standardize volumetric water rates across Divisions, including a uniform application of inclining block rates for the residential customer class. The Authority

generally accepts the Company's proposal to achieve these equalization goals, with the exception provided below on the design of certain rate elements.

The Company provides water service to thirteen different divisions across the State of Connecticut. Szabo & Unger PFT, p. 16. While meter charges across Aquarion's divisions are already equalized (i.e., all divisions are charged the same rate by customer class), current volumetric water usage rates are not equalized. Since Aquarion's last rate case, the Company has acquired and integrated 19 water systems. Morrissey PFT, p. 8. To consolidate rate schedules of both the legacy Divisions and the newly acquired Divisions, Aquarion looks to the COSS for guidance on cost-causation to move toward single tariff pricing and rate equalization amongst all Aquarion Divisions. Szabo & Unger PFT, pp. 44-46. In this proceeding, the Company's analysis showed that it is not practical to accomplish equalization in a single rate case, as there is also the required balancing of longstanding rate design principles of cost-causation with rate gradualism. Therefore, equalization will take place over multiple rate cases. As a guideline, the Company is limiting customer bill increases to no more than 2 to 2.5 times the overall revenue increase. Id., p. 46. The Company testified that when looking at rate equalization, some divisions were paying less than its Eastern Division, where the majority of its customers reside. Tr., Dec. 1, 2022, 906:2-7.

Accordingly, the Company's proposed rate design reflects rate equalization across all but three of its thirteen divisions: Eastern Division – Tyler Indian Spring & Clearview, Northern Division, and Valley. Szabo & Unger PFT, p. 45. The Company's Valley customers recently experienced a 20% rate increase effective January 1, 2022. Id. The current residential usage rates for Eastern Division Tyler Indian Spring & Clearview and Northern Division are priced lower than other Aquarion divisions. Application, Sch.E-5.0A, pp. 7, 10. The Company's proposed usage rates for these divisions increased rates and introduced four-tier inclining block rate, but at different price points than other divisions. Id. Notably, no party opposed the Company's equalization proposals.

5. Customer Service Charge

The Company proposes a 10% increase in meter charges across all Divisions and all customer classes. Szabo & Unger PFT, p. 48. Citing the zeroing out of the 10% WICA surcharge in the instant rate case, the Company argues that this 10% increase maintains current total levels on meter charges (inclusive of the WICA surcharge). Id. The Company's COSS suggests a decrease in meter charges from the current meter rate levels without consideration of the WICA 10% surcharge. Guastella PFT, Sch. 17. Specifically, on a percentage basis, the differential ranges from 4.5% for a 5/8" meter to 40.3% for an 8" meter. Id.

OCC opposes the Company's proposal to increase the meter charges. Mierzwa PFT, p. 11; OCC Brief, p. 59. At the hearing, the Company conceded that increases in the meter charges will cause bills of low usage households to increase. Tr., Dec. 1, 2022, 878.

This effect of increasing meter charges is counterproductive to the affordability objectives pursued through the inclining rate design for the volumetric rates. When combined with the fact that the Company's cost of service analysis suggests that meter charges should be decreased, the Authority does not find an increase in meter charges just and reasonable. Furthermore, the Authority is unpersuaded by the Company's argument that the reset of the current 10% WICA surcharge to 0% offsets Aquarion's proposed 10% increase to meter charges when their own cost of service suggests otherwise. See Guastella PFT, Sch. 17; Szabo & Unger PFT, p. 48. The WICA surcharge merely applies the same percentage increase to meter and consumption charges as a temporary measure until base rates are set in a subsequent rate proceeding. Therefore, because the COSS results show that meter costs are below current meter rates, the Company's proposal to increase the meter charges is denied and the Company is ordered to maintain the current levels of the meter charges.

6. Fire Protection

The Authority finds the public and private fire protection rate design to be acceptable, subject to the modifications described in Section VIII.B, Cost Allocation, and the approved revenue requirement revisions determined by the Authority in the instant decision.

7. Miscellaneous Fees

The Company proposed changes to its miscellaneous service charges in the instant proceeding, including the elimination of the Valley Division's current miscellaneous service charge, thereby incorporating all customers under one set of miscellaneous charges. Szabo & Unger PFT, p. 67. The Company also recommends the elimination of tapping fees, which will eliminate the potential costs being borne by other ratepayers should the tapping fees fall short of the actual costs incurred by the Company. Id.; Aquarion Interrog. Resp. RRU-84. Additionally, the Company proposes a universal fee for all backflow prevention device tests and elimination of meter vault charges. Szabo & Unger PFT, p. 67. Lastly, the Company is requesting a change to lien filing fees to have these fees set "at cost" to remove the potential of costs being borne by other ratepayers, as well as the elimination of the economic development rate because it is not applicable to any current customers and is contrary to the Company's conservation initiative. Id., p. 68.

The Authority reviewed the Company's proposed changes to miscellaneous charges and the changes discussed during the evidentiary hearing. Tr., Dec. 1, 2022, 913-919. Notably, no party expressed opposition to these changes. The Authority is satisfied that the Company has demonstrated these changes are reasonable and, thus, approves them as proposed.

D. Veolia Wholesale Allocation

The Company seeks a rate increase of $1.6 million, or 41.63% for Veolia, a company that purchases water from Aquarion pursuant to a water supply agreement. Szabo & Unger PFT, p. 47. The rate increase to Veolia is derived from the ACAM approved by the Authority in Docket No. 19-12-27. The ACAM governs the allocation of

the total cost of production between Aquarion and Veolia for the water Aquarion sells to Veolia. Id., p. 53.

Veolia, as an intervenor in this case, states that they have reviewed the application of the ACAM by the Company and have no objection to its proposal. Veolia Brief, p. 3. Veolia does, however, request that any Authority orders that impact inputs to the ACAM be flowed through the ACAM to adjust the costs allocated to Veolia. Id., pp. 3-4.

Additionally, the New York Municipalities moved to intervene in this proceeding because Veolia is their public water supplier. Motion No. 2, p. 1. The New York Municipalities raised concerns that the adjustments to the inputs in the ACAM have not been updated in the cost of service and proposed adjustments to the calculation of the resale rate in which Aquarion sells water to the New York Municipalities. New York Municipalities Brief, pp. 2-3. Aquarion is making improvements to the SWRP to increase water supply, but the allocation of capital costs puts a significant burden on Aquarion's Greenwich Division. Id., p. 3. As such, the NYM request the Authority reduce the allocation of capital costs for the SWRP to the Greenwich Division and assigned to Veolia and flow through adjustments in the rate of return and costs of operations to the methodology used to set the resale rate. Id., p. 9.

The Authority determines that the record does not support the NYM's position and finds the calculations presented in the NYM's brief unclear. Conversely, in weighing the evidence, the Authority finds Veolia's request reasonable and consistent with sound ratemaking principles. Accordingly, the Authority will direct the Company to comply with updated ACAM results, where appropriate, to reflect adjustments the Authority has made in the instant decision.

E. RATE/REVENUE ADJUSTMENT MECHANISMS

1. WICA

WICA is an interim rate adjustment mechanism unique to Connecticut that allows water companies to recover the costs of replacing existing water system infrastructure in between general rate case proceedings, thereby enabling the acceleration of the rate of replacement and/or rehabilitation of existing water system infrastructure to mitigate the effect of decay of aging water systems and to promote conservation measures. See Conn. Gen. Stat. § 16-262w. The amount of a water company's WICA charged to customers cannot exceed 10% (10% WICA Cap) of the water company's annual retail water revenues approved in its most recent rate case and also cannot exceed 5% of such revenues for any 12-month period between general rate case proceedings. Conn. Gen. Stat. § 16-262w(i). Once a water company reaches the 10% WICA Cap, it cannot propose an incremental WICA surcharge unless the company appears before the Authority for a rate proceeding. See id. Upon Authority approval of new base rates, however, a water company's WICA shall be reset to zero. Id. At that time, the plant associated with the current WICA charge will become part of base rates, subject to a finding of usefulness and prudency.

Effective April 1, 2021, Aquarion was authorized to implement a 9.78% WICA surcharge, thereby (practically speaking) reaching the 10% WICA Cap. Szabo & Unger PFT, p. 21. As of the date of this Decision, the Company's WICA surcharge will be reset to zero, and the Company may submit future WICA filings to the Authority in accordance with Conn. Gen. Stat. § 16-262w and the April 30, 2008 Decision in Docket No. 07-09-09, DPUC Review and Investigation of the Requirements for Implementation of a Water Infrastructure and Conservation Adjustment.

2. Revenue Adjustment Mechanism

A water company is authorized to utilize an annual RAM. Conn. Gen. Stat. § 16-262y. The RAM filing reconciles the Company's actual revenues to its allowed revenues (commonly referred to as decoupling) and the variance results in either a RAM surcharge (when allowed revenues exceed actual revenues) or a RAM surcredit (when actual revenues exceed allowed revenues), which is applied as a percentage adjustment to customer bills.

Since the 2013 Decision, Aquarion has annually filed a RAM for Authority approval. 2013 Decision, Order No. 7, p. 133. Most recently, the Authority approved Aquarion's 2021 RAM of 0.48%, effective April 1, 2022, through March 31, 2023. 2013 Decision, Motion No. 21 Ruling, March 23, 2022. According to the Company, "[a]ctual revenues in 2021 include decoupling adjustments totaling $1,470,816 to reconcile collected revenue with authorized revenue for both the base revenue adjustment mechanism (the "RAM"), totaling $1,119,774, and the WICA reconciliation mechanism, totaling $351,040." Szabo & Unger PFT, p. 21.

The RAM surcharge currently applies to water rates, sales for resale, and non-fixed contractual miscellaneous charges. 2013 Decision, Motion No. 21 Ruling, p. 2. Cost allocation of the RAM is applied to all customers; however, the Company excludes revenues from Valley customers in calculating the RAM because a separate RAM calculation is applied to Valley customers.

Beginning with the 2023 RAM filing, and annually thereafter, the Company is allowed to submit information in its annual RAM filing regarding Aquarion's actual bad debt expense, as detailed in Section VIII.F.2, Incremental Bad Debt Write-Off Regulatory Asset.

Additionally, beginning with the 2024 RAM filing, and annually thereafter, the Company is directed to submit as part of its annual RAM filing the amount of the Aquarion officer compensation and the Management Fee customers are paying through the RAM, as well as how much is being returned to customers through the RAM.

In addition, beginning with the 2024 RAM filing, and annually thereafter, the Company is directed to submit as part of its annual RAM filing the revenue shortfall in a given calendar year resulting from the provision of the LIRAP that the Company believes to be prudently incurred.

Finally, the Company submitted miscellaneous service revenues for late payment fees of $4,676 for the Test Year and $546,925 pro forma and proposed revenues, respectively. Application, Sch. 5.2A, p. 94. The Authority determines that the revenues obtained from late payment fees are additional revenues that extend beyond the Company's allowed revenue requirement and should be removed from rate base. In terms of proposed revenues, the Authority directs Aquarion to remove the proposed miscellaneous revenues of $546,925 for late payment fees. The reduction of the late payment fee reduces the pro forma revenues as follows: $198,078,132 - $546,925 = $197,531,207. Application, Sch. C-1.0.

Furthermore, the Authority directs the Company to include the revenues collected from late payment fees in its annual RAM filing as a "surplus" for RAM purposes that will serve to offset potential revenue shortfalls.

3. Earnings Sharing Mechanism

An earnings sharing mechanism (ESM) requires a water company's earnings above its allowed ROE in any calendar year to be split equally between the water company's ratepayers and shareholders. Conn. Gen. Stat. § 16-262y(f).

Concurrently with the implementation of Aquarion's RAM, the Authority established the Company's ESM, which is measured on a cost of capital basis. 2013 Decision, p. 110. Annually, the Company is required to submit compliance filings providing the amount of earnings in excess of the allowed ROE over the previous calendar year. Id., pp. 110, 136. The Company then shares the earnings in excess of the allowed ROE equally between its customers and shareholders. Id., p. 110.

Since the Company's ESM implementation, Aquarion has only calculated an ROE in excess of the authorized amount for a single year (2014), in which the calculated ROE was 10.28%. Tr., Dec. 5, 2022, 1329:12-18. Specific to that filing, the excess ROE was applied to the carried capital position, which included a lower equity position of 50.44% versus the authorized 51.63%. Tr., 1332:6-16. Using an actual lower carried equity position benefited ratepayers for that respective year. EOE Brief, p. 27.

In the instant proceeding, EOE recommends that the Authority provide guidance to the Company whereby the ESM's ROE is calculated using the lesser of the (a) authorized or (b) carried equity position. Id. Accordingly, the Authority directs the Company to calculate any future determination of the ESM ROE using the lesser of the Company's authorized equity position or the lesser of the actual equity carried position at the time of the calculation. This practice will allow the Company to still achieve its allowed ROE based on the authorized capital structure, while also ensuring that ratepayers are provided with a more appropriate sharing of excess earnings when the ESM is triggered as the effect of a higher than authorized equity position is mitigated with the use of the lesser of either the authorized or actual equity position at the time of the ESM calculation.

F. RATE-RELATED PROPOSALS

1. Low-Income Rate Assistance Program

a. Summary

In the Merger Decision, the Authority directed Aquarion to "develop and propose in its next rate case a low-income program that could best benefit its customers in need." Merger Decision, p. 26. In response, Aquarion proposed a LIRAP.

The LIRAP would provide a 15% credit to residential customers who meet the income eligibility requirements and would be applied to the entirety of the customer's bill. Teixeira PFT, pp. 17-18; Aquarion Interrog. Resp. RRU-379. Both tenants and owners are eligible for LIRAP. Teixeira PFT, p. 18. However, the water bill must be in the tenant's name for the tenant to be eligible.[80,81] Teixeira PFT, p. 18; Tr. Dec. 1, 2022, 1018:7-18.

Since this is a new customer offering, Aquarion asserts that the cost of the LIRAP is unknown and has not yet been factored into the rate design in this proceeding. Morrissey PFT, p. 31; Tr., Dec. 1, 2022, 1041:19-1042:22. The Company therefore requests that the impact of the program on the Company's revenue collections be deferred and accounted for through future RAM proceedings. Morrissey PFT, p. 31. Once implemented, the Company proposes to track the participation and impact of the LIRAP to determine whether it is advantageous to factor the program into rate design at the time of its next rate case. Id.; Tr., Dec. 1, 2022, 1043:2-8. At the time of its next rate case, the Company also proposes to submit its recommendations and adjustments to the LIRAP. Aquarion Interrog. Resp. RRU-325; Tr., Dec. 1, 2022, 1074:1-4.

Based on the record in this proceeding, the Authority approves the LIRAP in the interim, subject to the direction provided herein, unless and until modified by the Authority in a future proceeding. The Authority directs the Company to submit by January 1, 2026, a detailed proposal containing modifications to the LIRAP, such as a tiered discount, including the number of tiers and amount of the discount, changes to the eligibility requirement, and cost control measures. The proposal shall include the costs and an implementation timeline to make such modifications. The Company shall share its proposal with EOE and OCC, as well as any other interested stakeholders, at least 60 days prior to its filing and incorporate feedback prior to submission to the Authority. The Authority will consider the proposal in a future proceeding.

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[80] Aquarion testified that 67% of the people that live below the poverty level in Bridgeport live in a multi-family housing. Tr., Dec. 5, 2022, 1212:7-17. 6,427 of the Company's customers in Bridgeport are multi-family houses. Late Filed Ex. 63, Att. 1. In addition, 12,541 of Aquarion's customers are multi-family houses. Id.

[81] The Company testified that it is willing to work with Operation Fuel to help tenants receive the LIRAP if there is some sort of cooperation between the landlord and tenant. Tr., Dec. 5, 2022, 1178:4-1179:2. The Company also testified, however, that Aquarion is not sure it is possible to qualify a tenant for LIRAP. Tr., 1211:6-10.

b. Objectives

i. Water Affordability

A meaningful low-income program should be grounded in meeting two objectives: (1) achieving water affordability, which is defined as allocation of no more than 2% of household income to water bills, Colton PFT, p. 24; and (2) reducing uncollectible expenses paid by all ratepayers, in part, by reducing the number of service disconnections, service reconnections, and terminations. Id., pp. 51-55. While there is insufficient evidence by which to measure the ability of the LIRAP to achieve water affordability for all the Company's low-income customers or to measure the impact on the uncollectible expenses paid by all ratepayers, there is evidence that the LIRAP will provide some rate relief to Aquarion's low-income residential customers and is likely reduce uncollectibles.

Although Aquarion asserts the LIRAP would assist customers in affording their water bills, the Company did not specifically design the LIRAP with water affordability in mind. See Tr., Dec. 5, 2022, 1159:19-23. Rather, the Company selected the 15% credit because the Authority approved a 15% credit for CWC in the 2021 CWC Rate Case Decision. Aquarion Interrog. Resp. RRU-325 ("The Company determined it was a reasonable proxy for the [proposed LIRAP] since it had been reviewed and approved by the Authority"); Tr., Dec. 5, 2022, 1160:3-5; 1255:12-18. In addition, the Company asserted that the LIRAP should be simple for customers to understand since it would be a new program for the Company. Aquarion Interrog. Resp. RRU-325; Tr., Dec. 1, 2022, 1073:16-25; 1074:12-15; Tr., Dec. 5, 2022, 1140:3-15, 1141:7-12. Aquarion also asserted that implementation of the LIRAP as proposed would be quick and would not result in significant administration costs. Tr., Dec. 5, 2022, 1169:22-1170:3, 1170:17-21.

Aquarion did not develop any metrics or other methodologies by which to measure whether its rates and the resulting bills are affordable at the individual customer level. Specifically, Aquarion did not conduct a bill frequency analysis to determine the average monthly bill for residential customers in each of the Company's divisions, nor did it conduct a price sensitivity analysis that would calculate the difference between the water bills at Aquarion's proposed rates and a rate that would achieve water affordability when designing its LIRAP proposal. See Aquarion Interrog. Resp. RRU-336 and EOE-54. In addition, the Company asserted that it does not have a metric by which to measure water affordability and therefore Aquarion could not rely on a metric to arrive at a discount. Aquarion Interrog. Resp. 326; Tr., Dec. 1, 2022, 1071:25-1072:3. Aquarion also does not have and did not rely on any studies or reports that discuss the relationship between low-income status or the impact of low-income burdens on, for example, nonpayment disconnections, level of arears, or payment patterns when designing its LIRAP proposal. Aquarion Interrog. Resp. OCC-309 and 310; Tr., Dec. 5, 2022, 1251:15-18. Lastly, Aquarion does not identify and track its low-income customers. Aquarion Interrog. Resp. 271. The Company does, however, agree that an important component of an impactful low-income program is to make the rate that a customer is required to pay affordable within the customer's budget. Tr., Dec. 5, 2022, 1159:14-20.

Without information by which to measure whether Aquarion's rates and the resulting bills are affordable at the individual customer level, it is difficult to determine the impact the LIRAP will have on low-income customers and to assess whether additional tiers are needed and if so, at what income levels. Aquarion indicated it would not, however, be opposed to collecting data to more closely study the specific needs of the Company's customers, including financial need based on income level. Aquarion Interrog. Resp. RRU-325; Tr., Dec. 1, 2022, 1074:1-4; Tr., Dec. 5, 2022, 1142:23-1143:3. Accordingly, the Authority directs the Company to track the number of customers enrolled in LIRAP and the impact of the LIRAP on low-income customers' ability to pay their bills and to submit such data in the compliance filing required in Section VIII.F.1.j, Reporting Requirements.

ii. Reduction in the Uncollectible Expenses

The Company provided no evidence indicating that a 15% LIRAP will reduce the uncollectible expenses paid by all Aquarion ratepayers.[82] The Company stated that it does not know the direct impact that LIRAP will have on uncollectibles or the general operations of the Company, but asserted that it is likely customers who qualify for the LIRAP will potentially be able to pay their bills more readily and therefore reduce the potential for disconnections and arrearages. Aquarion Interrog. Resp. RRU-323. Accordingly, the Authority directs the Company to track the impact of the LIRAP on uncollectibles and to submit such data in the compliance filing required in Section VIII.F.1.j, Reporting Requirements.[83]

c. Eligibility and Enrollment

i. Customer Eligibility

In Aquarion's proposal, household income eligibility for LIRAP is set at 60% state median income (SMI), which is outlined in the table below. Aquarion Interrog. Resp. EOE-40; Tr., Dec. 1, 2022, 1065:1-10. This means that if a customer's household income is at or below 60% SMI, the customer is eligible to receive the 15% LIRAP credit. The Authority approves of setting the maximum household income eligibility for LIRAP at 60% SMI as the eligibility level is the same as other low-income programs, such as the Low-Income Household Water Assistance Program (LIHWAP) and the Connecticut Energy Assistance Program (CEAP). See Tr., Dec. 1, 2022, 1024:19-10:25:9, 1014:11-10:15:6; see also, Tr., Dec. 5, 2022, 1125:23-1126:1.

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[82] The Company does not have information on collections directed towards low-income customers. Aquarion Interrog. Resp. OCC-279, OCC-281, and OCC-283.

[83] The Company already collects data on uncollectibles and reports it to the Authority. See Tr., Dec. 5, 2022, 1149:7-10, 1248:5-13; see also Late Filed Ex. 66, Att. 1. Using that data, as well as data collected after the LIRAP is implemented, the Company will be able to track the impact of the LIRAP on uncollectibles.

Table 37: Household Income Eligibility Requirements

Based on 60% State Median Income (for 2022 to 2023)	
Household Size	**60% SMI**
1	$39,761
2	$51,996
3	$64,230
4	$76,465
5	$88,699
6	$100,933
7	$103,227
8	$105,521

Tr., Dec. 12, 2022, 1126:6-13.

ii. Enrollment

Aquarion proposes that Operation Fuel will qualify and enroll customers in the LIRAP.[84] Teixeira PFT, p. 18. The Company asserts it cannot enroll customers as it does not collect personal information, such as income information or social security numbers, and does not have systems in place to comply with Payment Card Industry security requirements related to the collection and retention of customer personal information.[85] Aquarion Interrog. Resp. EOE-41; Tr., Dec. 15, 2022, 16-20. In addition, the Company's billing system does not have the ability to identify customers that are eligible for a financial hardship designation, i.e., code customers as financial hardship, and Aquarion has not explored a billing system modification that would allow for financial hardship coding. Aquarion Interrog. Resp. RRU-432; Tr., Dec. 5, 2022, 1216:10-15. According to Aquarion, its proposal is the most efficient way to handle the program, without incurring significant IT and privacy issues as it relates to personal data. Aquarion Interrog. Resp. EOE-41. Additionally, Aquarion states the proposal is similar to how the Company handles its customer assistance program (CAP). Aquarion Interrog. Resp. RRU-337.

The Company asserts that if a customer is already enrolled in a low-income discount program through Operation Fuel with the same or more stringent eligibility requirements as the LIRAP, i.e., 60% SMI, such as CEAP, Operation Fuel would automatically qualify the customer for the LIRAP program, making the qualification and

[84] The town social services agencies would promote the LIRAP. Teixeira PFT, p. 18. The Company would not work directly with the town social services agencies, but rather would communicate the availability of the LIRAP with them. Tr., Dec. 5, 2022, 1133:9-10, 15-19, 23-25. The town social services agencies would refer customers to Operation Fuel. Tr., 1133:112-15. Operation has a relationship with the town social services agencies. Tr., 1133:11.

[85] Notably, Operation Fuel identifies customers eligible for the CAP through an account number, name, and address. Tr., Dec. 5, 2022, 1144:10-15.

enrollment process simple. Aquarion Interrog. Resp. BETP-21; Tr., Dec. 1, 2022, 1024:19-10:25:9.

Although the eligibility requirements for LIHWAP and LIRAP are the same, i.e., 60% SMI, Aquarion asserts it did not explore automatically enrolling customers the receive LIHWAP funds into the LIRAP. See Tr., Dec. 1, 2022, 1014:11-10:15:6; see also Tr., Dec. 5, 2022, 1125:23-1126:1. According to the Company, Aquarion does not track customers who receive benefits through LIHWAP. Aquarion Interrog. Resp. OCC-290.

The Authority finds that the Company is missing opportunities to streamline and simplify the enrollment of customers in the LIRAP by not automatically enrolling all LIHWAP recipients and making billing modifications to allow for financial hardship coding. Accordingly, the Authority directs Aquarion to explore a billing system modification that would allow for financial hardship coding of the Company's residential customers and submit as a motion for review and approval by June 1, 2025, a detailed billing system modification proposal, including the costs and implementation timeline associated with the proposal.

iii. Reenrollment

Under Aquarion's proposal, a customer is required to reapply one year after the customer becomes eligible. Aquarion Interrog. Resp. RRU-330. The Company asserts that the reenrollment process is the same as the initial enrollment process. Tr., Dec. 1, 2022, 1027:13-21. Since customers will be enrolling throughout the year rather than by a specific date, reenrollment will be required on different dates. Aquarion Interrog. Resp. RRU-330. To ensure a customer is aware that his or her enrollment in the LIRAP will end unless the customer reenrolls by a certain date, Aquarion testified that it could develop communications that would be sent to the customer informing the customer that it is time for reenrollment in LIRAP. Tr., Dec. 1, 2022, 1027:8:12. Accordingly, the Authority directs Aquarion to develop a reenrollment communication and to submit it as part of the compliance filing required pursuant to Section VIII.F.1.j, Reporting Requirements.

A customer is also required to reapply if the customer changes premises but remains a customer of the Company. Teixeira PFT, p. 18. Requiring a customer to reenroll every time the customer moves to a new residence would, however, negatively impact program participation since low-income customers are likely to move more frequently than non-low-income populations. Colton PFT, p. 71. The Company asserts reenrollment in LIRAP when a customer changes premises is necessary because it does not collect social security numbers, making it difficult to verify the customer in the new address is the same person as the customer receiving the LIRAP.[86] Tr., Dec. 5, 2022, 1147:10-15. Aquarion did, however, express willingness to explore this as an option. See Tr., 1147:8-15. Accordingly, the Authority directs the Company to submit as a compliance filing no later than 90 days after issuance of the Decision a proposal to eliminate the reenrollment process for customers who change addresses within Aquarion's service

[86] When an Aquarion customer changes premises, the customer receives a new account number. Tr., Dec. 5, 2022, 1147:16-19.

territory. OCC proposed one way in which the Company may avoid the reenrollment requirement, which is to require customers who change their addresses to notify Aquarion of their new address and of their prior participation in the LIRAP to continue to receive benefits under the program. OCC Brief, p. 7.

iv. Customer Removal

The Company proposes removing a customer from the LIRAP at the discretion of the Company if: (1) the customer no longer meets the eligibility requirements; (2) it is determined the customer has filed a fraudulent claim for eligibility; or (3) the program is discontinued for all customers. Aquarion Interrog. Resp. RRU-327; Tr., Dec. 5. 2022, 1147:20-1148:3. According to the Company, it will contact the customer in writing to explain the reason for the disqualification prior to the customer's removal from the LIRAP. Aquarion Interrog. Resp. BETP-19. Also, Aquarion asserts that there will be a process for appeal to ensure that the Company has "all the facts" and Operation Fuel would assist in the appeal process. Tr., Dec. 5. 2022, 1148:3-9. The Authority approves the removal process proposed by the Company but directs the Company to add to the list of reasons that a customer may be removed when the customer stops being an Aquarion customer, including when the customer stops being a customer of the Company as a result of having the customer's service disconnected for nonpayment.

d. Additional Partnerships

In Aquarion's proposal, only Operation Fuel can enroll customers in the LIRAP. Teixeira PFT, p. 18. However, in order to capture the maximum number of eligible Aquarion customers, entities in addition to Operation Fuel need to facilitate customers enrollment into the LIRAP. Community Action Agencies (CAA) currently enroll customers in LIHWAP, as well as CEAP, and therefore have income and household size information for any customer applying for those programs. Decision (EDCs Low-Income Discount Rate Decision), Oct. 19, 2022, Docket No. 17-12-03RE11, PURA Investigation into Distribution System Planning of the Electric Distribution Companies – New Rate Designs and Rates Review, pp. 17, 31; Tr., Dec. 1, 2022, 1013:17-22. Partnering with CAAs would therefore increase the number of avenues through which low-income customers may enroll in the LIRAP.

While the Company does not currently have a relationship with CAAs, it does work with them on the implementation of LIHWAP. Aquarion Interrog. Resp. EOE-41; Tr., Dec. 5, 2022, 1158:6-18. In addition, the Company indicated its willingness to partner with CAAs to facilitate customer enrollment of the LIRAP. Aquarion Interrog. Resp. EOE-41. Tr., Dec. 1, 2022, 1014:1-5; Tr., Dec. 5, 2022, 1158:19-1159:13. Accordingly, to ensure those Aquarion customers who qualify for the LIRAP are enrolled into the program as efficiently and effectively as possible, the Authority directs the Company to explore working through CAAs to enroll eligible customers into the LIRAP and to submit as a motion for review and approval no later than 30 days after issuance of the Decision a detailed proposal to partner with the CAAs to enroll customers, including the costs associated with such arrangement and a draft memorandum of understanding to facilitate such arrangement, if approved.

e. Data sharing

The Company asserts that it does not share data with CL&P and Yankee because CL&P and Yankee have different IT systems than Aquarion, as well as different service footprints. Aquarion Interrog. Resp. RRU-337; Tr., Dec. 1, 2022, 1-28:9-12; Tr., Dec. 5, 2022, 1143:14-20. The Company stated, however, that it has spoken with its Eversource counterparts, who are well versed with various hardship programs, at a high level.[87] Aquarion Interrog. Resp. EOE-41; Tr., Dec. 1, 2022, 1028:9-10. Such discussions, however, do not appear to have resulted in any solutions. In response to a question regarding whether it could match customer information if CL&P provided a list of customers in the Company's service area that CL&P had identified as eligible for LIRAP, Aquarion stated that it would have to investigate further how difficult it would be to accomplish. Tr., Dec. 5, 2022, 1143:2-9.

The Authority is both dismayed and disappointed that Aquarion, CL&P, and Yankee do not and cannot share data. The lack of data sharing is not only a disservice to low-income customers but to all customers, who have funded IT upgrades and other improvements in the companies only to find out the companies have no data sharing capabilities. Accordingly, the Authority directs Aquarion to investigate data sharing with CL&P, Yankee, and the Department of Social Services (DSS),[88] and to submit as a motion for review and approval no later than 30 days after issuance of the Decision, the Company's proposal to data share, including costs and a timeline to implement.

f. Customer Communication and Outreach

The Company proposes communicating the availability of the LIRAP through: Operation Fuel and other community agencies that administer similar programs; bill inserts to all customers; social media posts; inclusion in the Company's monthly newsletter; in an initial press release; and on its website. Teixeira PFT, p. 18; Aquarion Interrog. Resp. EOE-40. The Company asserts that once a customer is enrolled, the LIRAP would appear on a customer's bill as a separate line item with a corresponding credit amount. Tr., Dec. 5, 2022, 1038:2024. The line-item credit on a customer's bill would be called "LIRAP." Tr., 1038:2025-1039:1. Aquarion would include an explanation of what LIRAP is on the back of the bill. Tr., 1039:1-5. The Authority directs Aquarion to file samples of each type of communication it will provide, including reenrollment communications and sample bills, as a compliance filing no later than 30 days after issuance of the Decision. Prior to filing such materials, the Company shall make the materials available to, at a minimum, OCC, EOE, and Operation Fuel for the organizations' review and feedback, with at least five business days' notice prior to the filing date.

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[87] It does not appear the Company's discussions with CL&P and Yankee included discussions regarding data sharing. See Tr., Dec. 1, 2022, 1028:25-1029:6 ("Attorney Keenan: "Understanding that you have different IT programs, did you discuss data sharing, another method of data sharing?" Ms. Teixeira: "Well, we—don't handle in any of our systems personal information for our customers. We don't collect Social Security numbers and things like that.")

[88] Eversource is currently working with DSS towards low-income customer data-sharing. EDCs Low-Income Discount Rate Decision, p. 16 (citation omitted).

g. Interactions with Other Programs

Connecticut has existing programs and offerings designed to help low-income customers pay their water bills, including the LIHWAP and Aquarion's CAP.[89] The Company does not offer an arrearage forgiveness plan, other than what is included in the CAP.[90] Aquarion Interrog. Resp. RRU-334. The Company asserts that the LIRAP would be an additional offering to customers, not in place of the existing programs and offerings. Aquarion Interrog. Resp. RRU-225. Based on its review of the record, the Authority determines that the LIRAP may be offered in conjunction with existing programs and offerings.

LIHWAP is a temporary federally funded program administered by DSS in partnership with the statewide network of CAAs. LIHWAP provides benefits for eligible water customers who have an annual household income that is below 60% of the SMI. Aquarion Interrog. Resp. RRU-331; Tr., Dec. 5. 2022, 1123:23 -1124:1. States must obligate all of their LIHWAP funds by September 2023, and expend all of their LIHWAP funds by December 2023. Tr., Dec. 1, 2022, 1082:18-24. Accordingly, unless it is reauthorized, LIWHAP ends when all funds are expended.[91] Tr., 1082:25-1083:6.

The CAP is an Aquarion shareholder-funded program established by the Company in 2007 that awards vouchers in various increments to residential customers. Aquarion Interrog. Resp. RRU-337. Initially, the CAP was administered by local agencies. Id; Tr., Dec. 5, 2022, 1132:25-1133:2. Aquarion subsequently changed the program administration to expand its reach. Teixeira PFT, p. 19. Specifically, beginning in 2020, Aquarion transitioned to a new partnership with Operation Fuel. Id.

There are two CAP vouchers: a $50 CAP voucher and an up to $250 CAP voucher. The $50 CAP voucher is designed to provide a benefit to customers who may be current with their bill but are still struggling with the cost of basic needs. Aquarion Interrog. Resp. RRU-331. There are no eligibility requirements associated with the $50 voucher. See Tr., Dec. 1, 2022, 1009:6-23; see also Tr., Dec. 5, 2022, 1162:1-5. If approved, a credit of $50 is applied to a customer's water bill. Aquarion Interrog. Resp. RRU-331. The up to $250 CAP voucher provides bill payment assistance to customers who meet the income eligibility requirement, which is 75% SMI, and have a past due balance of 30 days or more, have a shut off notice, need assistance making a required payment, or are currently without service. Id.; Tr., Dec. 5, 2022, 1161:24-1162:5.

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[89] The Company's proposed Inclining Block Rate Design, as modified in Section VIII.C.3, Inclining Block Rate Design, of the Decision, is designed to incentivize customers, including low-income customers, to restrict their water use to fall under the lowest and least costly tier. While not designed to specifically benefit low-income customers, Inclining Block Rate Design would provide some rate relief for low-income customers.

[90] The Company testified that under the CAP's arrearage forgiveness plan, a customer may receive forgiveness for past bills if the customer pays the customer's bill for a set period of time. Tr., Dec. 1, 2022, 1011:10-25:

[91] The Company testified that it has been working with the National Association of Water Companies (NAWC) to make LIWHAP permanent as Aquarion sees value in doing that. Tr., Dec. 1, 2022, 1096:1-3.

All costs associated with the CAP, except for the administrative salaries of the Company's customer service reps, which are covered by ratepayers, are paid for by Aquarion shareholders. Tr., Dec. 5, 2022, 1162:24-1164:2; Tr., Dec. 6, 2022, 1376:23-1277:2. This includes the cost of the vouchers, as well as the $10,000 administration fee the Company pays to Operation Fuel each year to administer the CAP, which includes running the program, qualifying customers, and providing information to Aquarion so it may credit customers' accounts. Aquarion Interrog. Resp. EOE-42; Tr., Dec. 5, 2022, 1127:2-5, 1130:22-1131:1.

h. Implementation and Costs

i. LIRAP Calculation

In the Aquarion proposal, the Company would provide a 15% LIRAP credit to a customer's total bill, which includes both the service and usage charges, as well as RAM and WICA charges.[92] Aquarion Interrog. Resp. RRU-379; Tr., Dec. 5, 2022, 1032:15-1033:13. If a customer also receives LIHWAP funds, a CAP voucher, or both, the Company would first apply the LIRAP to the customer's total bill. Late Filed Ex. 64; Tr., Dec. 15, 2022, 16:19-24. It would then apply the LIHWAP funds, CAP voucher, or both, to the remainder of the total bill. Late Filed Ex. 64; Tr., Dec. 15, 2022, 16:25-17:3. By applying the LIRAP in this order, the customer will receive the greatest benefit from the 15% credit.

ii. Timing of Implementation

The Company estimates that it will take 30 to 60 days from the date of the Decision to implement the LIRAP. Aquarion Interrog. Resp. RRU-339 and RRU-379; Tr., Dec. 5, 2022, 1031:8-23. This includes working with Operation Fuel on the administration of the LIRAP, configuring the Company's System Applications and Products in Data Processing (SAP) system to apply the LIRAP credit to a customer's bill, and training its customer service representatives on the LIRAP. Tr., 1031:13-24. Eligible customers who are enrolled in the LIRAP will see a credit on the first bill they receive within approximately 30 to 60 days after the date of the Decision. Tr., 1032:7:14. Accordingly, the Authority directs the Company to implement the LIRAP, subject to the direction herein, no later than 60 days after issuance of the Decision.

iii. Implementation Costs

The Company estimates that the costs associated with the implementation of the LIRAP would be approximately $11,000 to $12,000. Aquarion Interrog. Resp. EOE-40 and EOE-54; Tr., Dec. 1, 2022, 1029:21-1030:4, 1030:12-19. This includes approximately $10,000 for IT costs associated with the configuration of the Company's SAP system to add the credit to customer bills and a one-time cost of $1,000 to $2,000

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[92] Aquarion did not consider designing the LIRAP to apply only to the service charge, rather than the total bill, because the service charge is a relatively small portion of a customer's bill. Aquarion Interrog. Resp. RRU-379. If the LIRAP only applied to the service charge, the Company asserts that the benefit to the low-income program would not be sufficient to be deemed a "valuable" benefit. Id. Also, including both the service charge and the volumetric charge is appropriate because the size of a low-income family, and therefore the amount of water used by the family, may vary. Id.

for initial marketing materials. Id. Other than the IT and marketing costs, Aquarion asserts that there are not any other costs associated with implementation of the LIRAP. Tr., 1030:20-25.

If and when modifications are made to the LIRAP, it is imperative that the modifications do not require substantial and unnecessary IT costs, especially since the Company is spending $10,000 now to configure the Company's SAP system. Accordingly, the Authority directs the Company to submit as a motion for review and approval no later than 30 days after issuance of the Decision, a detailed cost proposal to configure its SAP system to allow for the addition of two or more tiers, including a timeline for implementation of such proposal.

iv. Administrative Costs

The Company asserts that the costs associated with the administration of the LIRAP are the costs paid to Operation Fuel for LIRAP administration. Tr., Dec. 1, 2022, 1039:6-17. There are no other costs associated with the administration of the LIRAP.[93] Tr., 1039:14-17. Since the Company has not finalized its discussions with Operation Fuel, Aquarion does not know yet how much the per-application fee will be, though it expects it to be in the $10 to $12 range.[94] Tr., Dec. 1. 2022, 1021:8:10, 16:18; Tr., Dec. 5, 2022, 1137:17-24, 1138:3-13. Aquarion also does not know whether the fee per application will increase or decrease depending on the number of applications. Tr., Dec. 1. 2022, 1021:19-1022:20. The Company testified, however, that the fee paid to Operation Fuel will be an incremental expense, e.g., the additional work created by LIRAP may result in the current Operation Fuel fee of $10,000 for administration of the CAP increasing to $15,000. Tr., Dec. 5, 2022, 1171:25-11:72:6. The Authority directs the Company to file the agreement between Aquarion and Operation Fuel for administration of the LIRAP as a compliance filing no later than one week after the agreement is fully executed, and no later than 60 days from the date of the Decision. The agreement shall make clear the duration of its applicability and the process for establishing and revising applicable fees, among other things.

v. Cost Controls

The Company has not identified any cost control measures, such as a budget or usage cap. Aquarion Interrog. Resp. EOE-54. According to Aquarion, since this is a new program, it is not able to identify any costs control measures. Tr., Dec. 1, 2022, 1040:20-22. In addition, based on its experience with the CAP and conversations it has had with CWC, the Company does not anticipate participation to be significant enough to warrant cost control measures. Tr., 1041:5-16. Aquarion would, however, identify cost control measures if, through implementation of the LIRAP, the Company identified areas where cost controls would be beneficial. Tr., 1040:22-25. Accordingly, once the LIRAP is implemented, the Authority directs Aquarion to identify potential cost control measures

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[93] The Company testified that a communications budget for the establishment of the LIRAP is not needed because the current communications manager, as well as some of its customer service representatives, will handle it. Tr., Dec. 5, 2022, 1215:20-1216:6.

[94] Aquarion pays Operation Fuel $10,000 annually to administer the CAP. Aquarion Interrog. Resp. EOE-42; Tr., Dec. 1, 2022, 1068:23-1069:9; Tr., Dec. 5, 2022, 1127:2-5.

and submit such costs control measures in the compliance filing required in Section VIII.F.1.j, Reporting Requirements.

i. Cost Recovery

i. Implementation and Administration Costs

The Company does not propose any pro forma adjustments, nor does it propose regulatory asset treatment or some other deferred accounting, for any of the implementation or administration costs. Aquarion Interrog. Resp. EOE-40; Tr., Dec. 1, 2022, 1070:24-1071:8. Instead, the IT costs will be capitalized and the costs of the initial communication materials and Operation Fuels' administration fee[95] will be booked as expenses and recovered in the Company's next rate case. Tr., Dec. 1, 2022, 1077:14-1078:22, 1079:14-1080:9. Aquarion stated that it would not incur any carrying costs by deferring the implementation and administration costs to the Company's next rate case. Tr., 1078:23-24.

The Authority reminds Aquarion that the burden of demonstrating prudently incurred costs to implement and administer the LIRAP, as directed herein, rests with the Company. To demonstrate prudency in its next rate case, Aquarion will need to provide sufficiently detailed cost information and evidence to support the finding that all reasonable efforts were taken to minimize costs, including, but not limited to, evidence that: (1) existing internal resources were leveraged to the extent possible; (2) investments in new resources were selected with current and future investments, programs, and public policies in mind; and (3) unnecessary costs were avoided.

ii. Impact of the LIRAP on the Revenue Requirement

The Company proposes deferring the impact of the LIRAP on its revenue requirement and to instead account for it through future RAM proceedings.[96] Szabo & Unger PFT, p. 63. Specifically, the Company proposed to recover the foregone revenue associated with the LIRAP through RAM. Tr., Dec. 1, 2022, 1070:18-23. The Company stated that it does not have a cost estimate to assess the impact that would result from the 15% credit. Aquarion Interrog. Resp. EOE-40. The Company did, however, provide two estimates of the cost of the LIRAP using the proposed Eastern Division residential rate: one estimate was based on the number of customers currently receiving a CAP voucher,[97] which is $138,526; and a second was based on the percentage of CWC

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[95] Since the fee paid to Operation Fuel will be an incremental expense, e.g., the additional work created by LIRAP may result in the current fee of $10,000 increasing to $15,000, Aquarion would therefore not request a deferral between now and the next rate case since the amount would only be, e.g., $5,000. Tr., Dec. 5, 2022, 171:25-11:72:6.

[96] Aquarion's RAM surcharge is a percentage rate that is applied to all customers, including both residential and commercial. Tr., Dec. 5, 2022, 1040:3-12. Aquarion asserts residential customers enrolled in a LIRAP cannot be excluded from cost recovery. Aquarion Interrog. Resp. RRU-328. The Company incurs a cost to provide service to all customers, including the customers enrolled in these programs. Id. As such they are a component of the overall cost of service that cannot be bifurcated. Id.

[97] Aquarion based it on 2019 CAP numbers as the Company waived the eligibility requirements during COVID. Aquarion Interrog. Resp. EOE-54.

customers enrolled in CWC's water rate assistance program, or 0.52%, which is $158,926. Aquarion Interrog. Resp. EOE-54.

The Authority directs Aquarion to submit the revenue shortfall in a given calendar year resulting from the provision of the LIRAP that the Company believes to be prudently incurred into the subsequent year's annual review of the RAM proceeding, e.g., costs incurred in 2023 shall be submitted in the 2024 RAM proceeding, etc. In addition, the Authority directs Aquarion to quantify and include a narrative explanation of any variance of the annual RAM expenses (e.g., uncollectibles, payment plans, late payments, etc.) in its RAM proceeding that may be impacted by the establishment of a LIRAP.

j. Reporting Requirements

Developing metrics and other reporting requirements to measure progress of implementation of the LIRAP toward achieving water affordability will be critical to the program's success. In this Decision, the Authority establishes an annual review of the LIRAP as part of Aquarion's RAM proceeding. Unless otherwise directed, the Authority intends to conduct its first LIRAP review in its 2024 RAM proceeding. Accordingly, the Authority directs the Company to cross-file all motions and compliance filings in this Decision that are associated with the LIRAP in this docket and in the applicable current year's RAM proceeding.

Parties, including Aquarion, supported the creation of a set of LIRAP reporting requirements information based on data from the previous calendar year, i.e., January 1 through December 31. The reporting period for the compliance filing due on February 1, 2024, will be from the date of implementation through December 31, 2023.

i. Number of customers enrolled in the LIRAP each month;
ii. Number of customer accounts with past due balances;
iii. Number of customer accounts with past due balances: %/# LIRAP recipients;
iv. Net Write-Offs;
v. Net Write-Offs: %/$/# LIRAP recipients;
vi. Total annual costs of providing the LIRAP credit;
vii. Number of service terminations in the year preceding the LIRAP implementation and monthly thereafter;
viii. Amount of bad debt in the year preceding the LIRAP implementation and annually thereafter;
ix. Amount of uncollectibles in the year preceding the LIRAP implementation and annually thereafter;
x. Number of customers applying for the LIRAP through Operation Fuel;
xi. Number of customers applying for the LIRAP through their CAAs, delineated by each CAA;
xii. Number of customers removed from the LIRAP each month;
xiii. Number of customers who were enrolled in LIRAP the preceding year but did not enroll in the current year;
xiv. Number of customers enrolled in LIRAP who also had their customer-side lead service line replaced using grant funds; and

xv. Additional recommended reporting requirements to add to the Company's annual compliance filing.

The Authority also directs Aquarion to work with EOE and OCC, as well as any other interested stakeholders, to develop additional recommended reporting requirements to track the benefits and drawbacks of the LIRAP, including a mechanism for identifying and tracking LIRAP offsets, and to submit the recommendations with its annual compliance filing.

k. Conclusion

The Authority approves the Company's proposed LIRAP, which will provide direct assistance to qualifying residential customers in the form of a 15% credit to such customers total bill, subject to the direction provided herein. As soon as possible, but no later than 60 days after the issuance of the Decision, Aquarion shall implement the LIRAP with an eligibility cap of 60% SMI. The Authority will consider modifications to the LIRAP in a future proceeding.

2. Incremental Bad Debt Write-Off Regulatory Asset

The Company proposes a continuation of the bad debt write-off deferral and reconciliation mechanism authorized in Docket No. 20-03-15, Emergency Petition of William Tong, Attorney General for the State of Connecticut for a Proceeding to Establish a State of Emergency Utility Shutoff Moratorium. Szabo & Unger PFT, p. 64. The Company states that "[d]ue to the prolonged COVID shutoff moratorium, net write-offs for the Company since March 2020 have been well below historical levels, while arrearages are substantially higher." Id. The Company further asserts that its bad-debt expense proposed in its revenue requirement is based on a five-year average of net write-offs during 2017 through 2021; although, the Company observes that "the COVID collection policies have substantially distorted that experience." Id. The Company further articulates that "[o]nce typical collection activities resume, the Company anticipates net charge-offs will exceed what is reflected in the proposed revenue requirement." Id. The Company proposes at the time of its next rate proceeding, Aquarion will submit a reconciliation of the actual level of bad debt write-offs against the amount included in base rates and a proposal for the recovery of the deferral. Szabo & Unger PFT, p. 64.

According to the Company, its five-year average net write-off for 2017-2021 was $156,545. Late Filed Ex. 21. The bad debt expense increases to $166,220 after adding $9,676 for Valley's bad debt expense.[98] Aquarion Interrog. Resp. RRU-89; and OCC-187. As noted by the Company, the net write-off of $37,443 in 2020 represents an anomaly due to the pandemic, and artificially suppresses the five-year average. Late Filed Ex. 21. If the anomalous 2020 data is removed, the average net write-off amount increases to $186,320, or $195,996, with the addition of Valley.

Accordingly, the Authority establishes the amount of $195,996 as the level of bad debt expense authorized through this rate case. Removing the 2020 experience

[98] Valley Water's net write-off value is cited from the Valley Decision.

acknowledges the unique circumstances of 2020 with respect to collections activities. Concerning the reconciliation of bad debt expense, the Authority finds that due to the unique circumstances impacting collections during the COVID period, it is reasonable to allow for a reconciliation of this expense item with actual results. However, the Authority is concerned about future obligations being accumulated for recovery in the next rate case. Therefore, the Company shall be allowed to submit information regarding actual bad debt expense in the Company's annual RAM. The actual bad debt expense will be measured against the $195,996 four-year average, where the difference between actual bad debt expense realized by the Company compared to the bad debt expense established herein will be credited or debited in calculating the overall RAM adjustment. For the 2023 RAM, the Company shall calculate the amount to be measured against as the pro rata share of bad debt expense embedded in rates from the 2013 Decision and the amount included from this rate case as of the date of this Decision.

3. Property Tax Reconciliation

As part of its Application, the Company proposes a property tax reconciliation mechanism that would apply if the Authority denies the Company's request for a Multi-Year Rate Plan. Szabo & Unger PFT, p. 64. According to the Company, the property tax reconciliation would allow for the recovery of property tax amounts in relation to incremental capital investments made from year to year that exceed the level authorized in rates. Id., pp. 64-65.

The Company acknowledges that it is possible that other expense items established in a rate case have the potential to fluctuate. Tr., Nov. 28, 2022, 382:6-15. Consequently, the Authority finds that reconciling this one expense item in the absence of good cause to do so while not considering all other items has the potential to disadvantage ratepayers as property taxes will generally increase as plant is put into service over the years between rate cases. Indeed, a failure to reconcile all other items will preclude the accumulation of offsets for expenses that have decreased from levels established in this rate case. The Authority, therefore, denies the Company's request for a property tax reconciliation mechanism.

4. Lead Service Line Replacement Program

a. Summary

Lead service line replacement is an emerging issue in the water industry, and this is the first time that Aquarion has formally presented a program to the Authority for consideration. Tr., Nov. 22, 2022, 158. As part of the Company's Capital Improvement Program, Aquarion has budgeted $11.6 million to be spent over the next five years on a lead service line replacement program (LSLR Program). Lawrence PFT, p. 45. The LSLR Program would replace lead service lines that the Company discovers during meter or main replacement as well through inspections. The Company proposes to fund Company-side lead service lines as traditional plant in-service and, to the extent possible, fund the customer-owned replacements with Drinking Water State Revolving Fund (DWSRF) grants. Szabo & Unger PFT, pp. 62-63. When DWSRF funding is not available, Aquarion proposes a mechanism to allow for the deferral and future recovery

of Company-funded replacements of customer-owned lead service lines at the Company's next rate case. Id.

Based on the record in this proceeding, the Authority approves the LSLR Program, including a deferred regulatory asset for the up to $5.8 million in program costs.

b. Lead and Copper Rule Revisions

In 1991, the United States Environmental Protection Agency (EPA) promulgated the Lead and Copper Rule (LCR) to limit the amount of lead and copper in drinking water and has subsequently amended the rule several times over the years. Lawrence PFT, p. 53. Corrosion of service lines, plumbing, and fixtures is the greatest source of lead and copper in drinking water. Id. Pursuant to the LCR, Aquarion is required to monitor the concentration of lead and copper in each of its systems by sampling water in select customers' homes. Id. Aquarion posts sampling results on its website and includes them in its annual Water Quality Reports, which are available on the Company's website. Lawrence PFT, p. 53. If lead or copper concentrations exceed the action level, the water company is required to take action to control corrosion, which can include the installation of treatment improvements, replacement of lead service lines, and public education. Id. The Company's water systems are in compliance with the regulatory lead standard. Id.

The Company submits the LSLR Program proposal in anticipation of revisions to the LCR. Szabo & Unger PFT, p. 62. In December 2021, EPA announced the finalization of the LCR Revisions (LCRR). 86 Fed. Reg. 71574. Water utilities must comply with the LCRR by October 16, 2024, including the requirement to prepare a LSLR Program for each water system. Lawrence PFT, p. 55.

Water utilities with lead service lines must prepare a LSLR Program for each water system. If system-wide lead sampling results exceed certain levels (i.e., either the new "trigger level" defined in the LCRR or the existing "Action Level"), the water utility will be required to replace a certain percentage of lead service lines for two years, with the replacement rate determined using the sum of lead service lines, "lead status 1 unknown" lines, and galvanized lines requiring replacement. Id. Only full lead service line replacements (i.e., both company-owned and customer-owned portions) count towards the replacement goals. If a customer is unable or unwilling to have their portion of a service line replaced, a utility is required to notify the customer and follow risk mitigation procedures in their LSLR plan. When a utility replaces a lead service line, the water utility will be required to notify the affected customers, provide educational materials, provide pitcher or faucet filters, and perform follow-up sampling.

The LCRR includes numerous new requirements for public communications and education. Aquarion is proposing a proactive approach to the identification and replacement of company-owned and customer-owned lead service line material through the review of existing records, utilizing outreach communication, obtaining customer information through periodic meter replacements, and though pothole excavations at the curb stop to identify the Company-owned service line material and customer-owned service line material. Lawrence PFT, pp. 55-56.

c. Aquarion's LSLR Program Proposal

Service lines consist of two parts: (1) from the main to the curb box, and (2) from the curb box to the customer's house. Part one is maintained by the Company, while part two is maintained by the customer. It is a common practice that when the Company replaces a main, it also replaces the service line from the main to the curb box. Maintenance of the service line from the curb box is at the customer's expense, not the water utility. Conn. Agencies Regs. § 16-11-62(4).

At this time, the Company can replace the Company-owned side of the lead service line, but it cannot replace the customer-owned side of the water service line, as it is owned by the customer. Lawrence PFT, p. 57. As stipulated by the LCRR, any disturbance of a lead service line or galvanized service line that is/was connected to a lead line, can result in an increase in lead in a residence. Id. Because of this, the Company has committed to only replacing lead service lines when the Company-owned *and* customer-owned portion can be replaced at the same time. Id. The Company testified that it will also replace the Company-owned portion of a service line when the customer-owned side is non-lead (copper or plastic). Id. The Company states that this decision is consistent with LCRR and is protective of the health of the customer. Id. After the customer side lead service line is replaced, it will continue to be owned and will remain the responsibility of the customer. Tr., Nov. 22, 2022, 162.

As part of the LSLR Program, the Company has been developing an inventory of the material of service lines, on both the Company-owned and customer-owned portion of service lines. Lawrence PFT, p. 53. Services with unknown materials that may be lead will be classified as "lead status unknown" service lines and will count towards the total number of lead service lines in the system, which will impact any lead service line replacement requirements; conversely, unknown materials that are unknown but known not to be lead can be classified as "non-lead" service lines. Id., p. 54. Approximately 73% of the service lines in Aquarion's system are made of unknown material. Id.

d. Costs of the LSLR Program

While water utilities do not need to start complying with the LCRR until October 2024, Aquarion is proactively developing its LSLR Program and expending other funds in anticipation of the LCRR's implementation. The Company estimates that the cost of the LSLR Program for the next five years will be approximately $11.6 million. Late Filed Ex. 9, Att. 1.

The Company plans to proactively identify and replace lead service lines, both the company-owned and customer-owned portions. Lawrence PFT, p. 58. The cost to replace the lead service lines will be significant. Id. Based on the Company's current records and investigations, Aquarion estimates the cost to replace lead service lines will be between $5,000 and $12,500 each, or approximately $67 million system wide. Id.

Aquarion anticipates that the process of identifying the material of the "lead status unknown" service lines, which includes the cost of field investigations, will constitute a significant cost. Lawrence PFT, p. 58. As noted above, the Company has approximately

73% of service lines in its systems categorized as "lead status unknown." Identifying the material comprising these service lines is prudent because if Aquarion were to exceed a regulatory limit that triggered the requirement to replace lead service lines, the required lead service line replacement rate is based on the sum of all lead service lines, "lead status unknown" lines, and galvanized lines requiring replacement. Id. As the Company identifies the number of "lead status unknowns," the number of required number of lead service line replacements would be reduced, so long as those service lines are not lead or galvanized. Id. The costs to complete the needed investigations is estimated to be between $900 and $1,100 each, or approximately $43 million system wide. Lawrence PFT, p. 58. This estimate is based on the Company's projected number of "lead status unknown" service lines that can be determined by records review, periodic meter replacements, and field investigations. Id.

Aquarion also estimates other costs associated with complying with the LCRR, including upgrades to IT systems and work processes for the requirements related to schools and childcare facilities program, lead service line replacements, lead service line disturbances, and the development of public education materials. Id. Additionally, there will be annual costs to remain in compliance with the LCRR, including for additional lead sample collection, lead sample lab testing, public education/communications, management of the school/childcare facility program, and pitcher or faucet filters. Lawrence PFT, pp. 58-59.

e. Funding the LSLR Program

To offset costs of the LSLR Program, the Company has applied to the Department of Public Health (DPH) for grant and loan funding through the DWSRF Program.[99] Lawrence PFT, p. 59. Funding under the DWSRF can be used to replace either the customer-owned or Company-owned portion of the service line. Id. Thus, the Company is proposing that the Company-owned lead service lines be treated in the same manner as any other required service line replacement and be recovered at the next rate case. Id. The replacement of customer-owned lead service lines will be accomplished using the grant funds from the DWSRF, where funds are available.

The Company is also eligible to apply for subsidy funding under the Bipartisan Infrastructure Law (BIL), so long is it complies with the DWSRF requirements. Aquarion Interrog. Resp. RRU-431. As part of the DWSRF, DPH administers the Disadvantaged Community Assistance Program (DCAP) where DPH is required to provide between 6% and 35% of their capitalization grant provided under the BIL as an additional subsidy to disadvantaged communities. Id. One of the requirements of DCAP is that 49% of the project must be in a vulnerable community. Tr., Nov. 22, 2022, 217:2-6. If that criterion is met, the individual project can receive up to 49% loan principle forgiveness. Tr., id. By applying the 49% funding, the Company believes that the LSLR Program would not require general ratepayer funding. Tr., 185. As of the date of the hearing, Aquarion was awaiting DPH approval of DPH's Intended Use Plan, which would include the amount of

[99] The Company provided a list of other potential funding sources that are available for customers to apply for. Aquarion Interrog. Resp. RRU-238.

loan principal forgiveness the Company would receive. Tr., 187. When grant funding is not available, costs related to the replacement of the customer-owned portion will be treated as an amortized expense that will be addressed within the next rate case.

The Company referred to the LSLR Program as a work in progress and stated that it could adjust as it learns from experience implementing the Program. Tr., 196. For instance, the Company has no contract or other document that details the Company's and customer's responsibilities or addresses items such as warranties, unusual site conditions, or indemnification. Tr., 162, 175, 178. Customer contracts were part of many of the other states' LSLR programs that Aquarion referenced in its testimony. See Lawrence PFT, p. 59; Aquarion Interrog. Resp. RRU-225. The Company estimated it would have a document that addresses these issues prepared by the end of the year. Tr., Nov. 22, 2022, 163:22-24. As of the close of the evidentiary record, the Authority has not been made aware of any such document. The Company is also considering a customer self-identification pilot program where customers would take a picture of their service line and send it to the Company to be assessed using a QR code. Tr., 198. Such a self-identification program has been utilized in other states and could be significantly less expensive than having to do investigative work. Id.

f. Authority Analysis

The Company originally requested an allowance for up to a $11.6 million deferral over the next five years for costs associated with the LSLR Program. The Company estimates that it could replace 500-1,000 service lines in this five- year period. Tr., Nov. 22, 2022, 188. During the hearings, the Company testified that the budgeted estimate of 4,000 investigations per year is a number that the Company is probably not going to accomplish. Tr., 182:6-9. The Authority is concerned with allowing a significant deferral for a program that is still a work in progress. When asked to reassess the original $11.6 million, the Company suggested that the amount could be reduced by 50% as the $11.6 million did not anticipate DWSRF funding. Tr., Dec. 14, 2022, 34. This would equate to a $5.8 million funding cap over the five years of the LSLR Program.

The Authority recognizes the need to begin a replacement program in light of the LCRR. Therefore, the Authority will allow a deferred regulatory asset of up to $5.8 million over the five-year period commencing with the first rate year (i.e., March 15, 2023 – March 14, 2024). The Company is directed to file its customer contract and related materials associated with the LSLR Program prior to beginning its LSLR Program. Projects to be completed by the Company are those that have received funding through DWSRF and fund the customer-side lead service line 100%. After beginning the LSLR Program, the Company is directed to submit annually, on or before January 15, a compliance filing regarding the LSLR Program, including at a minimum the number of Company service lines replaced in the previous calendar year, the number of customer service lines replaced in the previous calendar year, and information regarding the cost of such replacements and the associated funding source, such as the amount of DWSRF money applied.

IX. CUSTOMER SERVICE & WATER SUPPLY

A. CUSTOMER SERVICE REVIEW

1. Standard Bill Form and Notices

Aquarion provided a Standard Bill Form with its application materials at Schedule H-2.1. The Standard Bill Form was reviewed and found to comply with the requirements of Conn. Agencies Regs. § 16-11-69. Aquarion also provided a Termination Notice at Schedule H-2.1.01-02. The Company confirmed that it does not include unregulated charges on its termination notices. Tr., Dec. 5, 2022, 1194.

Customers must be provided an annual notice explaining the rights provided by Conn. Agencies Regs. § 16-3-100(c)(1)(B) regarding termination of service. Aquarion provided a Customer Rights Notice, which the Authority finds is in compliance with the regulation.

2. Estimated Bills

The Company asserts that its estimated bill notices and forms are in compliance with applicable regulations. Aquarion Interrog. Resp. EOE-22. An estimated bill is issued if the Company is unable to obtain a meter reading. Conn. Agencies Regs. § 16-3-102. After bill estimates are issued in two consecutive billing periods, the Company must send a notice letter informing the customer that the Company needs to obtain an actual meter reading. Id.

Aquarion submitted its policies and procedures for generating an estimated bill, sample estimated bills, and sample notice letters. Application, Sch. H-2.3.01, H-2.3.02, and H-2.3.03. Aquarion's billing system calculates the estimated reading by using data such as last year's meter reading for the same period or a per diem based upon the total annual consumption divided by the number of days in the year. Id. Additionally, the Company will adjust estimated readings on certain variables, for example, if the previous year's reading was during a time that the customer had a leak or stopped meter. Aquarion Interrog. Resp. EOE-19. If there are two or more consecutive estimated readings, the reading will be placed onto an implausible reading list. Application, Sch. H-2.3.01. Further work is then performed by the Company's Billing Department to review and determine the appropriate next steps, such as calling the customer, sending a notice, or sending a service person or meter reader to the location. Id.

The Company's estimated billing procedures and notice letters comply with Authority regulations. Further, based on a review of information presented by the Company in this proceeding, the Company's use of estimated bills remains an infrequent occurrence over the last three years. EOE Brief, p. 3.

3. Security Deposit Policies

The Authority concludes that Aquarion's current security deposit policies and associated materials are not in compliance with applicable regulations. Utilities may require customers to supply a security deposit not to exceed an amount equivalent to an

estimated maximum bill for 90 days. Conn. Agencies Regs. § 16-11-68(a). Aquarion provided its security deposit policy and procedure at Schedule H-2.4. During the COVID-19 pandemic, the Company suspended its practice of requiring a security deposit for both residential and commercial customers and had not resumed as of the date of filing the Application. Application, Sch. H-2.4.

The first area of concern involves Conn. Agencies Regs. § 16-11-68(i), which states, in part, that security deposits, along with accrued interest shall be returned where satisfactory credit has been established. According to Aquarion, satisfactory credit is established when the customer is in good payment status, meaning that the customer has not defaulted on their bill or received late notices or fees for a year. Application, Sch. H-2.4; Tr., Dec. 5, 2022, 1183. It has been the current and past practice of the Company to return the security deposit, with interest, in connection with a customer's final bill during the move-out process or at a customer's request. Tr., Dec. 15, 2022, 20. However, Aquarion does not undertake periodic or proactive reviews of customers' credit to determine if any security deposit should be returned. Aquarion Interrog. Resp. EOE-1.

Conn. Agencies Regs. § 16-11-68(h) states, in part, that security deposits may be retained by the Company so long as is required to ensure payment of the bills. Aquarion stated that should a customer call to request the return of their security deposit, and if the customer has met the definition of satisfactory credit, the security deposit would be returned. Tr., Dec. 5, 2022, 1184-85; Aquarion Interrog. Resp. EOE-1. However, there is no automated process within the Company's system that will return a customer's security deposit, plus interest, once said customer has met the definition of satisfactory credit. Aquarion stated that it is working to implement an automated system that would accomplish this task. Tr., Dec. 15, 2022, 19-20. In the instances in which a customer is required to provide a security deposit, the customer must submit an online application form to initiate new service. At the end of that form the customer will be made aware of the Company's definition of satisfactory credit. Aquarion Interrog. Resp. EOE-23, Att. 1; Tr., Dec. 15, 2022, 19. However, there is no other customer-facing written notice or bill insert that provides the customer this information. Tr., 18-19.

At this time, Aquarion does not track information regarding the number of customers that have achieved satisfactory credit but have not contacted the Company to request the return of the security deposit. Late Filed Ex. 68. In addition, Aquarion stated that currently there may be active customers that have achieved satisfactory credit but have not had the security deposit returned to them. Tr., Dec. 15, 2022, 21. Therefore, the Authority directs Aquarion to revise its customer notices (e.g., Welcome Letter, online application form, receipt upon collecting security deposit) to educate customers about the process of requesting a return of their security deposit.

The second area of concern is the lack of information provided in the application form to discuss whether a customer may be exempt from providing the security deposit. This online form is required by certain customers in order to start a new service. According to the Company, it is aware that the Company may not refuse to provide service to a residential customer where said customer lacks the financial ability to pay the security

deposit. Tr., Dec. 5, 2022, 1182. This exemption for certain residential customers is fully defined in Conn. Agencies Regs. § 16-11-68(b). If there was a customer that did not have access to the internet, the questions on the online form can be asked by a Company representative over the telephone or the application form could be mailed to that customer. Tr., 1182. However, the online form lacks the exemptions to the security deposit requirement, as defined in Conn. Agencies Regs. § 16-11-68(b). Aquarion Interrog. Resp. EOE-23, Att. 1. The Company stated that there are no specific reasons for the exclusion of this information but that it plans on updating the form. Similarly, if a customer was completing the security deposit application form via a telephone conversation with the Company, the customer would not be told of these exemptions. Tr., Dec. 5, 2022, 1182-83. Consequently, the Authority will direct Aquarion to revise its application form to include the provisions of Conn. Agencies Regs. § 16-11-68(b) and to revise its internal procedures so that in the event the form is being completed over the telephone, a prospective customer is made aware of the security deposit exemptions. A failure to comply with this directive and applicable regulations moving forward will subject the Company to civil penalties levied in accordance with Conn. Gen. Stat. § 16-41.

4. Late Payment Charges

The Company collects a late payment charge (LPC) or interest fee of 1.50% per month on outstanding balances. Application, Sch. H-3.0, p. 64; see also, Application, Sch. H-2.6.02, Rules and Regulations, p. 7. After a bill is outstanding for 34 days, the LPC is assessed. Application, Sch. H-2.6.02, Rules and Regulations, p. 7. The fee is assessed each month on the payment amount that is outstanding. Id. In accordance with the Authority's decision herein, the LPCs do not count as revenue for purposes of RAM, as discussed above in Section VIII.E.2, Revenue Adjustment Mechanism.

Aquarion's LPC of 1.50% is in line with the fees charged by other investor-owned utilities in Connecticut. See Decision, Dec. 7, 2022, Docket No. 22-03-16, Petition of the Office of Consumer Counsel for an Investigation into The United Illuminating Company and Eversource Energy Regarding Collections Practices During the COVID-19 Moratorium, Appendix B, pp. 10-11. Aquarion's LPC has not changed since its 2004 rate case and is the same rate applied to all customer classes. Id., Appendix B, p. 10.

The Company suspended all LPCs during the COVID-19 moratorium. Aquarion Interrog. Resp. OCC-50. The Company resumed late payment fees in October 2022. Aquarion Interrog. Resp. OCC-213.[100] As of October 14, 2022, 8,880 customers were billed an LPC, totaling $11,753 in fees. Aquarion Interrog. Resp. OCC-273, Att. 1. Given the suspension of LPCs as a result of the COVID-19 pandemic, the most recent data on the Company's use of the LPC is limited. Furthermore, it is unclear from the record whether the LPCs are adequately serving their purpose. Additional information is necessary to evaluate the practice of utilizing late payment charges. In the Company's next rate proceeding application, Aquarion is directed to provide an analysis of the type of customers who incur late payment charges; the average, maximum, and minimum late

[100] On July 14, 2022, in Docket No. 20-03-15, the Authority granted the Company's motion filed on June 28, 2022, to restart LPCs.

payment charges incurred by customers, by class, in a given year; and the impact LPCs have on uncollectibles.

OCC proposes that Aquarion direct the fees collected by the LPCs as "crisis grants" to be awarded to income-qualified customers who are most at risk for disconnection, which results in the assessment of additional fees. OCC Brief, pp. 18-19. At this time, the Authority is not considering this proposal, but directs the Company to provide an analysis of such a program in its next rate case filing. The Authority appreciates OCC's recommendation to further support low-income customers and, therefore, directs Aquarion to allow its customer service representatives to waive LPCs when establishing reasonable payment plans.

5. Rules and Regulations

The Company submits its Rules and Regulations as part of its Application, and is proposing updates such as: changing from quarterly to monthly billing; requiring municipalities to maintain the hydrants they own; clarifying that new water meters will be installed in a meter pit or vault; and affirming that customers must maintain and install part of the service line owned by the customer. Application, Sch. H-2.6.01. The Authority accepts the updated Rules and Regulations.

6. Customer Complaints

Aquarion provided a summary of the major types of customer complaints, including water quality and quantity issues, that the Company has recorded and monitored since the 2013 Decision. Application, Sch. H-4.0. The Company listed the major types of service quality complaints (e.g., taste, odor, appearance/discoloration, chemical, illness/biological) that are reported to the Authority on a quarterly basis. Aquarion Interrog. Resp. RRU-107. Historically, customer complaints filed with the Authority are low. Teixeira PFT, pp. 8-9. From 2013 through 2021, 3.3 complaints were filed on average each year. Id., p. 8.

Notwithstanding the foregoing, the Authority finds that the magnitude and content of the customer comments filed in the instant proceeding highlight a growing phenomenon across all regulated utilities in the state, i.e., general customer dissatisfaction with the pricing and availability of essential public utility services. See Section I.F, Public Comment. As such, historic trends regarding complaints filed with the Authority may not necessarily be indicative of future trends in this instance; nor is it prudent to wait to implement best practices that may mitigate or help identify problematic trends as they arise. Therefore, the Authority will direct the Company to meet with EOE on a regular basis, but no less than once per month, to discuss outstanding customer complaints and noticeable trends, covering both those complaints and inquiries submitted to the Authority as well as those routed directly to the Company. During the meetings, the Company shall discuss performance metrics tied to customer complaints, including any improvements thereto, and how such metrics regarding customer complaints about water quality and quantity issues tie to infrastructure improvements. Not later than 60 days after the issuance of the Decision, the Company shall submit a compliance filing detailing at minimum: the metrics to be discussed at said meetings; a proposed standing agenda; the

proposed frequency of the meetings; and the proposed Company attendees (by job title). Prior to submission, the Company shall provide EOE no less than 15 business days to review and provide feedback on such proposal. To the extent that EOE's feedback is not incorporated, the Company's submission to the Authority shall include a detailed narrative as to why.

Additionally, the Authority observes that customer inquiries and complaints often stem from miscommunications, or missed opportunities for communication, by regulated entities. Indeed, as discussed in Section VI.B.11, Communication Expense, the Company only recently began tracking KPIs with respect to its communication campaigns and could not articulate how the KPIs are utilized to shape future engagement strategies. As such, the Authority will direct the Company as part of its above-established regular meetings with EOE to also report on Aquarion's planned and executed communications with customers, including through the provision of KPI data that is provided on an, at minimum, quarterly basis. To enhance the value of this exercise, the Company must first define written processes and procedures governing how KPI data is used to improve the efficacy of its communications, which EOE asserts is a low-cost way to ensure a consistent approach to review and improvement. EOE Brief, pp. 9-10. These written policies and procedures shall be appended to the Company's submission due to the Authority no later than 60 days following issuance of the Decision.

B. WATER SUPPLY

1. Water Quality

As an owner and operator of public water systems, Aquarion closely monitors changes in state and federal water quality regulations and guidance. For example, the Company has observed the following regulatory changes: the use of the manganese maximum contaminant level (MCL) in lieu of a secondary standard; the arsenic MCL lowering from 10 parts per billion (ppb) to 5 ppb; and the perfluoroalkyl and polyfluoroalkyl substances (PFAS) Action Levels (AL). Lawrence PFT, pp. 22-23. The final MCLs established for PFAS will result in significant capital investment in water treatment at groundwater sources and possibly surface water sources. Id., p. 23. Currently, the Company has five systems (i.e., Biggs Wellfield, Ball Pond System, Renda Wellfield, Ball Pond System, Cedar Heights System, Shirley Court Well No. RA1, New Milford regional System and Woodbury Well Nos 2 and 3, Woodbury System) that exceed the perfluorooctane sulfonate (PFOS) AL (part of PFAS substances). Aquarion Interrog. Resp. RRU-109.

The Company indicated that its water systems are in compliance with state and federal drinking water regulations. However, Oscaleta Caisson Well No. 4 is subject to an E. coli correction. Aquarion Interrog. Resp. RRU-103. There are also other systems subject to raw water E. coli contamination as well as other Notices of Violation (NOV) related to monitoring and reporting that were issued between 2013-2022. Aquarion Interrog. Resp. RRU-106, Att. 2.

As discussed in Section VIII.F.4, Lead Service Line Replacement Program, Aquarion is taking action to ensure compliance with the LCRR, which will become effective in October 2024. This includes identification of service lines materials; development of a lead service line replacement program plan; preparation of and updates to systems and process related to lead service line replacement, lead service line disturbances, compliance sampling, school sampling; performing corrosion control evaluations; and development of communication and public materials. Aquarion Interrog. Resp. RRU-103.

According to the Company, Aquarion is in compliance with all permitted and registered diversions, with the exception of Newtown Well No. 2 and Morehouse Brook Diversion. Aquarion Interrog. Resp. BETP-28. Aquarion stated that it will work with DEEP to resolve these issues. Tr., Nov. 30, 2022, 708:22-709:6. DEEP requests that Aquarion produce a detailed plan to bring its diversion permits and registrations into full compliance with DEEP's protocols. DEEP Brief, p. 9. The Authority approves the Department's request. Accordingly, the Company is directed to produce a detailed plan by May 1, 2023, that includes a detailed timeline with specific deadlines for completing each step outlined in the plan, which shall be filed as compliance in the instant Docket.

Additionally, DEEP raised concerns about Aquarion's groundwater withdrawals in the vicinity of Bissell Brook and Cobble Brook and questioned whether the withdrawals negatively impact the environment. Tr., Nov. 30, 2022, 715:2-18. DEEP requests that the Authority order Aquarion to hire a DEEP-approved third party to conduct an impact study (Withdrawal Impact Study) at Bissell Brook and Cobble Brook. DEEP Brief, p. 11. The Authority also concurs with DEEP's request regarding this matter. Accordingly, the Authority directs Aquarion to hire a DEEP-approved third party to conduct a Withdrawal Impact Study and to submit the results of such study to DEEP and the Authority no later than September 29, 2023, as a compliance filing.

2. Adequacy of Water Supply & Storage

The Company provides the present and projected water demands and safe yields in each of Aquarion's water systems. Application, Sch. G-6.1. Most of its water systems have adequate supply to meet current and projected demands over the 50-year planning period. See id. The Chimney Heights, Clearview, and the Falls Village water systems, however, have a margin of safety (MOS) less than 1.15. Aquarion Interrog. Resp. RRU-123, Att. 1. The MOS for maximum daily water (MDD) demand determines the adequacy of the water supply. If MOS for MDD is 1.15 or more, then the water system has appropriate water supply. Aquarion's current MOS for MDD is 1.15 or more for all of its water systems, except for Chimney Heights (1.13), Clearwell (1.0), and the Falls Village (0.8) water systems. Aquarion Interrog. Resp. RRU-123, Att. 1.

According to Aquarion, the Company took the following actions to improve and correct MOS for MDD: (1) consolidated the Chimney Heights water system into the Newton water system, which resolved Chimney Height's MOS issue; and (2) purchases water for its Clearview waters system from the Countryside Apartments water system. Aquarion Interrog. Resp. RRU-363. Aquarion stated that the Falls Village System was

acquired in April 2021, and, based on actual operations after acquisition, it has no issues meeting MDD. Id. Aquarion does, however, plan to confirm the available water based on the Company's actual operational data. Id.

The Company evaluates the adequacy of storage in each of its pressure zones through a regular program of master planning. Aquarion Interrog. Resp. RRU-143. Storage is evaluated based on the ability to meet diurnal fluctuations in system demand and provide service during an emergency. Id. The analyses are combined with the Company's tank inspection program. Id. Based on condition and capacity, the Company develops a list of storage improvement needs. Id.

3. Interconnections and Purchased Water

Aquarion has 26 interconnections with neighboring water public water systems through which it receives and supplies water. Aquarion Interrog. Resp. RRU-114, Att. 1. The interconnections are with Veolia Water Westchester, Frederic Gunn School, Inc., South Norwalk Electric & Water, Classee Water – Latimer Point, The Connecticut Water Company, Ethel Walker School, Danbury Water Department, Groton Utilities, New Britain Water Department, Norwalk First Taxing District, Regional Water Authority, South Norwalk Electric & Water, and Torrington Water Company. Id. Of the 26 interconnections, 9 are emergency interconnections. The emergency interconnections are: AWC Greenwich to W. Putnam and Anderson Hill (Veolia); AWC Judea Main (Green) to Frederick Gunn School, Inc.; AWC Main System to South Norwalk Electric & Water; AWC Simsbury to Ethel Walker School; Danbury Water Department to AWC chimney Heights; Norwalk First Taxing District to AWC Main System; Danbury Water Department to AWC Indian Spring; South Norwalk Electric & Water to AWC Main system; and South Norwalk Electric & Water to AWC Norton (Darien). Id.

In 2021, Aquarion supplied 5.05 million gallons per day (mgd) through interconnections and received 1.64 mgd water through interconnections. Aquarion Interrog. Resp. RRU-114, Att. 1.

4. Water Conservation Plan

Aquarion provided a WCP in its Application. Application, Sch. H-3.0. The Company's WCP provides many options for the Company to implement directly or educate customers on, such as using high efficiency toilets, commercial and industrial equipment upgrades, two-day per week irrigation restrictions, water use audits, water conservation rebate pilot program, public education and outreach, meter management, water system evaluation, tracking of water main flushing program water usage, hydrant maintenance and repair, pressure reduction, water main infrastructure restoration, notifications to customers when there is an increase over historic water usage, offer to conduct high bill investigations at a customer's premises, and make conservation kits available for customers with high bills or areas with supply problems. Id.

5. Periodic Meter Testing

In order to maintain meter effectiveness, a water company must periodically test its meters for accuracy. Meter tests are necessary to determine their accuracy in order

to: (1) ensure that billings to customers are accurate; (2) assist a company in controlling its levels of NRW; and (3) assist customers in reducing their consumption. A water company is required to test all 5/8-inch, 3/4-inch, and 1-inch meters at intervals of 8 years and all other size meters at more frequent intervals. Conn. Agencies Regs. § 16-11-88. If a water company meets certain requirements, the Authority may grant it an extension. Conn. Agencies Regs. § 16-11-88(1). The water company may also be required to conduct meter testing more frequently as a result of a customer request or an order by the Authority. Conn. Agencies Regs. § 16-11-89.

The Company submits its periodic meter testing reports on an annual basis to the Authority. Conn. Agencies Regs. § 16-11-86. Prior to January 21, 2022, Aquarion was on 12-year cycle for periodic meter testing. The Company requested an extension from 12 to 14 years for its periodic meter testing interval for Aquarion's ⅝-inch, ¾-inch and 1-inch meters on November 18, 2021. Aquarion Interrog. Resp. OCC-261, Att. 1. Aquarion provided data depicting that over the past three years, 90% to 102% of all meters tested registered between 96% to 102% accuracy. Id. Upon a review of the Company's periodic meter test reports for the past three years, the Authority granted the requested extension to implement the 14-year meter testing interval on January 21, 2022. Id.

The Company stated that due to the COVID-19 pandemic, it did not complete the required number of meter testing for 2020 because customers did not allow the Company to access meters located in homes, which resulted in a cumulative backlog of approximately 10,000 meters to be tested. Aquarion Interrog. Resp. RRU-120; Aquarion Interrog. Resp. OCC-261, Att. 1, p. 2. The additional two-year extension provided the Company needed time to address the 2020 and 2021 backlog of meter testing and will level out future meter replacements. Aquarion Interrog. Resp. OCC-261, Att. 1, p. 2.

The Authority will review the Company's next annual periodic meter test report to ensure that the Aquarion meter testing backlog is addressed.

X. CONCLUSION AND ORDERS

A. CONCLUSION

Based on the foregoing, the Company's requested rate increase in annual revenues and the proposed rate schedule is approved accounting for the Authority's adjustments. The approved decrease in revenues is $379,365 or approximately 0.192% below revenue at current rates.

B. ORDERS

For the following Orders, the Company shall 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. Compliance with orders shall commence and continue as indicated in each specific Order or until the Company requests and the Authority approves that the Company's compliance is no longer required after a certain date.

1. (ACAM) On or after the issuance date of the Decision, the Company shall comply with updated ACAM results, where appropriate, to reflect adjustments the Authority has made in the Decision.

2. (EADIT) No later than 10 days after issuance of the Decision, the Company shall reverse the proposed annual amortization adjustment of $2,804,852 and return this amount to the unamortized EADIT liability (which totaled $51,406,843 as of the end of the Test Year) to be used as a reduction to rate base, in accordance with Section VI.E.4., Excess Accumulated Deferred Income Taxes.

3. (Rate Design) No later than 10 days after issuance of the Decision, the Company shall file as a compliance filing a revised single year rate design plan consistent with the Authority's findings contained in the Decision that will include revised tariffs and revenue proof.

4. (Rate Design) No later than 10 days after issuance of the Decision, the Company shall design a three-tiered volumetric rate structure for single-family residential customers, with the first tier up to 9 CCF, the second tier above 9 to 20 CCF, and the third tier over 20 CCF.

5. (LIRAP) No later than 30 days after issuance of the Decision, the Company shall submit samples of each type of communication it will provide, including reenrollment communications and sample bills. Prior to filing such materials, the Company shall make the materials available to, at a minimum, OCC, EOE, and Operation Fuel for the organizations' review and feedback, with at least five business days' notice prior to the filing date.

6. (LIRAP) No later than 30 days after issuance of the Decision, the Company shall submit as a motion for review and approval a detailed proposal to partner with the CAAs to enroll customers into the LIRAP, including the costs associated with the partnership and a draft memorandum of understanding to facilitate such arrangement, if approved.

7. (LIRAP) No later than 30 days after issuance of the Decision, the Company shall submit as a motion for review and approval a detailed data-sharing proposal to share data with CL&P, Yankee, and DSS, including costs and a timeline to implement.

8. (LIRAP) No later than 30 days after issuance of the Decision, the Company shall submit as a motion for review and approval a detailed cost proposal to configure its SAP system to allow for the addition of two or more LIRAP tiers, including a timeline for implementation of such proposal.

9. (Fee Free) No later than 30 days after issuance of the Decision, the Company shall implement the Fee Free program.

10. (Performance Metrics) No later than May 1, 2023, the Company shall submit as a motion for review and approval the data for each year from 2017 through 2022 required to calculate each of the performance metrics in Section VI.B.4., Performance Metrics.

11. (Diversions) No later than May 1, 2023, Aquarion shall submit as a compliance filing a detailed plan regarding how it will bring the Company's diversion permits and registrations into compliance.

12. (LIRAP) No later than one week after the Company's agreement with Operation Fuel regarding the administration of LIRAP is fully executed, and no later than 60 days after issuance of the Decision, Aquarion shall submit the agreement as a compliance filing. The agreement shall make clear the duration of its applicability and the process for establishing and revising applicable fees, among other things.

13. (LIRAP) No later than 60 days after issuance of the Decision, the Company shall implement LIRAP, as modified in Section VIII.F.1., Low-Income Rate Assistance Program, with an eligibility cap of 60% SMI.

14. (Annual Conservation Expense) No later than 60 days after issuance of the Decision, the Company shall provide as a compliance filing projections associated with conservation expenditures to be made in the first rate year (i.e., March 15, 2023 – March 14, 2024), as well as for the subsequent two rate years. Such projections shall include, at a minimum, budgeted values on a per measure (or per sub-program) basis for administrative and

customer incentive costs, as well as for the projected water and electricity (if applicable) savings associated with each measure or program.

15. (Customer Complaints) No later than 60 days after issuance of the Decision, the Company shall submit a compliance filing detailing at minimum:
    a. metrics to be discussed at its meetings with EOE;
    b. written processes and procedures governing how KPI data is used to improve the efficacy of Aquarion's communications with customers;
    b. proposed standing agenda;
    c. proposed frequency of the meetings, which shall not be less than quarterly; and
    d. proposed Company attendees (by job title).

    Prior to submission of the compliance filing, the Company shall provide EOE no less than 15 business days to review and provide feedback on such proposal. To the extent that EOE's feedback is not incorporated, the Company's submission to the Authority shall include a detailed narrative as to why.

16. (Customer Service) No later than 60 days after issuance of the Decision, the Company shall revise its customer notices (e.g., Welcome Letter, online application form, receipt upon collecting security deposit) to educate customers about the process of requesting a return of their security deposit and submit them as a compliance filing.

17. (Customer Service) No later than 60 days after issuance of the Decision, the Company shall revise its application form to include the provisions of Conn. Agencies Regs. § 16-11-68(b) and its internal procedures so that in the event the form is being completed over the telephone, a prospective customer is made aware of the security deposit exemptions, and the Company submit such revised application form and internal procedures as a compliance filing.

18. (LIRAP) No later than 90 days after issuance of the Decision, the Company shall submit as a compliance filing a proposal to eliminate the reenrollment process for LIRAP customers who change addresses within Aquarion service territory.

19. (Conservation) No later than September 29, 2023, Aquarion shall hire a third party, approved by DEEP, to conduct a Withdrawal Impact Study at Bissell Brook and Cobble Brook and submit the results of the study to DEEP and the Authority as a compliance filing.

20. (Performance Metrics) No later than January 15, 2024, and annually thereafter, the Company shall submit as a compliance filing detailed information regarding whether Aquarion met or exceeded each of the metrics in Section VI.B.4., Performance Metrics during the previous

calendar year. The compliance filing shall include an unlocked workable Excel spreadsheet providing the data on which the Company relied in making its determination.

21. (LSLR Program) No later than January 15, 2024, and annually thereafter, the Company shall submit as a compliance filing information regarding the LSLR Program, including at a minimum the number of Company service lines replaced in the previous calendar year, the number of customer service lines replaced in the previous calendar year, and information regarding the cost of such replacements and the associated funding source, such as the amount of DWSRF money applied.

22. (LIRAP) No later than February 1, 2024, and annually thereafter, the Company shall submit as a compliance filing the information on the enumerated list in Section VIII.F.1.j., Reporting Requirements, based on the data from the previous calendar year, i.e., January 1 through December 31. Aquarion shall work with EOE and OCC, as well as any other interested stakeholders, to develop additional recommended reporting requirements to track the benefits and drawbacks of LIRAP, including a mechanism for identifying and tracking LIRAP offsets, and to submit the recommendations with its annual compliance filing.

23. (RAM) No later than February 1, 2024, and annually thereafter, the Company shall submit its annual RAM filing. Such filing shall include, among other things:
    a. The amount of the Aquarion officer compensation and the Management Fee that customers are paying through base rates and through the RAM, or conversely how much is being returned to customers through the RAM, in accordance with Section VI.B.2.;
    b. The revenue shortfall in a given calendar year resulting from the provision of LIRAP that the Company believes to be prudently incurred. The Company shall quantify and include a narrative explanation in its compliance filing of any variance of the annual RAM expenses (e.g., uncollectibles, payment plans, late payments, etc.) that may be impacted by the establishment of LIRAP;
    c. The amount of revenues collected from late payment fees, which shall be used as a “surplus” for RAM purposes that will serve to offset potential revenue shortfalls; and
    d. Information regarding the Company’s actual bad debt expense.

24. (RAM) No later than February 1, 2024, the Company shall submit in its 2023 RAM filing, the amount of bad debt expense to be measured against as the pro rata share of bad debt expense embedded in rates from the 2013 Decision and the amount included from this rate case as of the date of the Decision.

25. (Fee Free) No later than March 1, 2024, and annually thereafter, the Company shall file the following data for the immediately preceding calendar year:
    a. The number of credit/debit card payments;
    b. All costs associated with the following payment methods:
        i. credit/debit card payments;
        ii. checks;
        iii. payments in person at payment locations; and
        iv. payments online or by phone – One Time Payments;
    c. How quickly payments are being received from the date a bill issued;
    d. The number of credit card payments made by financial hardship customers, if the Company has implemented a customer code for such designation;
    e. The annual amount of uncollectibles;
    f. The qualitative improvements in customer satisfaction with the option; and
    g. The annual amount of write-offs.

26. (EADIT) No later than March 15, 2024, the Company shall hire an independent third-party accounting firm, (i.e., not its current financial statement auditor) to perform a review to vet both the quantification and categorization of Aquarion's claimed EADIT in accordance with Section VI.E.4., Excess Accumulated Deferred Income Taxes, and submit the results of the review as a motion for review and approval. The cost of this review shall not be recoverable in rates.

27. (Annual Conservation Expense) No later than June 1, 2024, and annually thereafter, the Company shall provide an annual compliance filing indicating its performance associated with conservation expenditures during the previous rate year against the previously submitted targets.

28. (LIRAP) No later than June 1, 2025, the Company shall explore a billing system modification that would allow for financial hardship coding of Aquarion's residential customers and submit as a motion for review and approval a detailed billing system modification proposal, including the costs and implementation timeline associated with the proposal.

29. (LIRAP) No later than January 1, 2026, the Company shall submit a detailed proposal containing modifications to the LIRAP, such as a tiered discount, including the number of tiers and amount of the discount, changes to the eligibility requirement, and cost control measures. The proposal shall include the costs and an implementation timeline to make such modifications. The Company shall share its proposal with EOE and OCC, as well as any other interested stakeholders, at least 60 days prior to its filing and incorporate feedback prior to submission to the Authority.

30. (Annual Conservation Expenses) No later than January 15, 2026, provided Aquarion has not filed an intervening rate proceeding, the Company shall submit as a compliance filing annual projections associated with conservation projections for the three years commencing March 15, 2026. Such projections shall include, at a minimum, budgeted values on a per measure (or per sub-program) basis for administrative and customer incentive costs, as well as for the projected water and electricity (if applicable) savings associated with each measure or program.

31. (Annual Conservation Expenses) No later than September 15, 2026, and every three years thereafter, the Company shall submit as a compliance filing the EM&V consultant's report regarding the consultant's review and assessment of Aquarion's conservation program results after every three years of implementation, including for the expenditures authorized in the Decision.

32. (Communication) The Company shall meet with EOE on a regular basis, but no less than once per month, to discuss:
    a. Aquarion's planned and executed communications with customers, including through the provision of KPI data that is provided on an, at minimum, quarterly basis;
    b. outstanding customer complaints, covering both those complaints and inquiries submitted to the Authority as well as those routed directly to the Company; and
    c. performance metrics tied to customer complaints, including any improvements thereto, and how such metrics regarding customer complaints about water quality and quantity issues tied to infrastructure improvements.

33. (Employee Time) The Company shall track the amount of time Aquarion employees spend volunteering during paid working hours. In its next rate case application, the Company shall provide an unlocked, workable Excel spreadsheet that details the requested information for each year between 2023 and the test year proposed in the next rate proceeding.

34. (ESM) The Company shall calculate any future determination of the ESM ROE using the lesser of Aquarion's authorized equity position or the lesser of the actual equity carried position at the time of the calculation.

35. (LSLR Program) No later than 30 days prior to commencing its LSLR Program, the Company shall file as compliance a copy of its customer contract and any related materials associated with the LSLR Program.

36. (Acquisitions) The Company shall track all employee time spent on the future acquisitions, including mergers. As an addendum to the Company's next rate case filing, the Company shall append an unlocked, workable

Excel spreadsheet that details the requested information for each year between 2023 and the test year proposed in the next rate proceeding.

37. (LIRAP) The Company shall cross-file all motions and compliance filings required by this Decision that are associated with LIRAP in this docket and in the applicable current year's RAM proceeding.

38. (LPCs) The Company shall allow its customer service representatives to waive LPCs when establishing reasonable payment plans.

39. (Rate Case) In its next rate case application, the Company shall provide:
    a. A breakdown of costs included in the planned annual conservation expense, as well as a cost-benefit calculation of the total conservation expense; and
    b. invoices provided by third parties for each year of conservation expenditures incurred in the intervening years between rate cases, along with a narrative and data that compares and contrasts the authorized annual conservation expenses with actual expenditures, as well as the savings targets compared to actual realized savings.

40. (Rate Case) In its next rate case application, the Company shall provide a separate schedule for each O&M expense item included in the Test Year and for pro forma ratemaking purposes in the Rate Year.

41. (Rate Case) In its next rate case application, the Company shall provide a separate schedule for SERP expense that includes a detailed breakdown of the actual amount of SERP expense proposed, both direct and allocated.

42. (Rate Case) As a prerequisite to cost recovery associated with prospective logger investments, the Company shall conduct a cost/benefit analysis of the installation of loggers compared to other leak detection tools or mitigation measures, and submit the results of such analysis coincident with any rate amendment application through which associated cost recovery is sought.

43. (Rate Case) In its next rate case application, the Company shall provide an analysis of a program that uses the fees collected by the LPCs as "crisis grants" to be awarded to income-qualified customers who are most at risk for disconnection.

44. (Rate Case) In its next rate case application, the Company shall provide an analysis of the type of customers who incur late payment charges; the average, maximum, and minimum late payment charges incurred by customers, by class, in a given year; and the impact LPCs have on uncollectibles.

APPENDIX

INTERVENOR	REPRESENTATIVE
City of Bridgeport	Joseph Ganim Mayor City of Bridgeport 999 Broad Street Bridgeport, CT 06604
City of Danbury	Dean Esposito Mayor City of Danbury City Hall 155 Deer Hill Avenue Danbury, CT 06810-7726
City of Derby	Richard Dziekan Mayor City of Derby Office of the Mayor 1 Elizabeth Street Derby, CT 06418
City of Norwalk	Harry W. Rilling Mayor City of Norwalk Norwalk City Hall 125 East Avenue Norwalk, CT 06856-5125
City of Norwich	Peter A. Nystrom Mayor City of Norwich 100 Broadway Room 330 Norwich, CT 06360
City of Shelton	Mark A. Lauretti Mayor City of Shelton 54 Hill Street P.O. Box 364 Shelton, CT 06484

City of Stamford	Caroline Simmons Mayor City of Stamford Stamford Government Center 888 Washington Blvd., 10th Floor Stamford, CT 06902
Town of Beacon Falls	Gerald F. Smith First Selectman Town of Beacon Falls 10 Maple Avenue Beacon Falls, CT 06403
Town of Bethel	Matthew Knickerbocker First Selectman Town of Bethel Clifford J. Hurgin Municipal Center 1 School Street Bethel, CT 06801
Town of Brookfield	Tara Carr First Selectman Town of Brookfield 100 Pocono Road Brookfield, CT 06804-5106
Town of Canaan	Henry W. Todd First Selectman Town of Canaan 108 Main Street Canaan, CT 06031
Town of Cornwall	Gordon M. Ridgway First Selectman Town of Cornwall 16 Pine Street Cornwall, CT 06753
Town of Darien	Monica M. McNally First Selectman Darien Town Hall 2 Renshaw Road Darien, CT 06820
Town of East Granby	Eden Wimpfheimer First Selectwoman Town of East Granby 9 Center Street East Granby, CT 06026

Town of East Hampton	David Cox Town Manager Town of East Hampton 1 Community Drive East Hampton, CT 06424
Town of East Hampton	Mark Philhower Town Council Chairman Town of East Hampton 1 Community Drive East Hampton, CT 06424
Town of Easton	David Bindelglass First Selectman Town of Easton 225 Center Road Easton, CT 06612
Town of Fairfield	Brenda L. Kupchick First Selectman Town of Fairfield Sullivan Independence Hall, Second Floor 725 Old Post Road Fairfield, CT 06824
Town of Farmington	C.J. Thomas Town Council Chairman Town of Farmington 1 Monteith Drive Farmington, CT 06432
Town of Farmington	Kathleen A. Blonski Town Manager Town of Farmington 1 Monteith Drive Farmington, CT 06032-1053
Town of Goshen	Todd M. Carusillo Town of Goshen 42A North Street Goshen, CT 06756
Town of Granby	Erica P. Robertson Town Manager Town of Granby 15 North Granby Road Granby, CT 06035

Town of Granby	Mark H. Florentino First Selectman Town of Granby 15 North Granby Road Granby, CT 06035-2101
Town of Greenwich	Heather R. Spaide, Esq, Marino, Zabel & Schellenberg, PLLC 657 Orange Center Road Orange, CT 06477
Town of Greenwich	Fred Camillo First Selectman Town of Greenwich Greenwich Town Hall 101 Field Point Road P.O. Box 2540 Greenwich, CT 06836-2540
Town of Groton	John Burt Town Manager Town of Groton 45 Fort Hill Road Groton, CT 06340
Town of Groton	Juan Melendez, Jr. Mayor Town of Groton 45 Fort Hill Road Groton, CT 06340
Town of Kent	Jean C. Speck First Selectman Town of Kent 41 Kent Green Boulevard P.O. Box 678 Kent, CT 06757-0678
Town of Lebanon	Kevin T. Cwikla First Selectman Town of Lebanon 579 Exeter Road Lebanon, CT 06249
Town of Litchfield	Denise Raap First Selectman Town of Litchfield 74 West Street P.O. Box 488 Litchfield, CT 06759-0488

Town of Mansfield	Antonia Moran Mayor Town of Mansfield Audrey P. Beck Municipal Building 2 S Eagleville Road Mansfield, CT 06268
Town of Mansfield	Ryan Aylesworth Town Manager Town of Mansfield Audry P. Beck Municipal Building 4 South Eagleville Road Mansfield, CT 06268
Town of Marlborough	Amy Traversa Interim Town Manager Town of Marlborough 26 North Main Street P.O. Box 29 Marlborough, CT 06477
Town of Middlebury	Edward B. St. John First Selectman Town of Middlebury 1212 Whittemore Road Middlebury, CT 06762
Town of Monroe	Ken Kellogg First Selectman Town of Monroe 7 Fan Hill Road Monroe, CT 06468
Town of New Canaan	Kevin Moynihan, III First Selectman Town of New Canaan New Canaan Town Hall 77 Main Street New Canaan, CT 06840-0447
Town of New Fairfield	Patricia Del Monaco First Selectman Town of New Fairfield 4 Brush Hill Road New Fairfield, CT 06812
Town of New Milford	Pete Bass Mayor Town of New Milford 10 Main Street New Milford, CT 06776

Town of Newtown	Daniel C. Rosenthal First Selectman Town of Newtown Newtown Municipal Center 3 Primrose Street Newtown CT 06470
Town of Norfolk	Matthew T. Riiska First Selectman Town of Norfolk 19 Maple Avenue P.O. Box 592 Norfolk, CT 06058
Town of North Canaan	Charles P. Perotti, Jr. First Selectman Town of North Canaan 100 Pease Street, #1 North Canaan, CT 06018
Town of Oxford	George R. Temple First Selectman Town of Oxford 486 Oxford Road Oxford, CT 06478-1298
Town of Plainville	Katherine Pugliese Town Council Chair Town of Plainville 50 Broad Street Plainville, CT 06062
Town of Plainville	Michael T. Paulhus Town Manager Town of Plainville Municipal Center 1 Central Square Plainville, CT 06062
Town of Redding	Julia Pemberton First Selectman Town of Redding 100 Hill Road Redding, CT 06875
Town of Ridgefield	Rudolph Marconi First Selectman Town of Ridgefield 400 Main Street Ridgefield, CT 06877

Town of Seymour	Annmarie Drugonis First Selectman Town of Seymour 1 First Street Seymour, CT 06483
Town of Sherman	Don Lowe First Selectman Town of Sherman 9 Rt. 39 North P.O. Box 39 Sherman, CT 06784
Town of Simsbury	Maria Capriola Town Manager Town of Simsbury 933 Hopmeadow Street Simsbury, CT 06070
Town of Simsbury	Wendy Mackstutis First Selectman Town of Simsbury 933 Hopmeadow Street Simsbury, CT 06070
Town of Southbury	Jeff Manville First Selectman Town of Southbury 501 Main Street South Southbury, CT 06488
Town of Southington	Mark J. Sciota Town Manager Town of Southington 75 Main Street Southington, CT 06489
Town of Southington	Victoria Triano Town Council Chair Town of Southington 33 Bellevue Avenue Southington, CT 06489
Town of Stonington	Danielle Chesebrough First Selectman Town of Stonington 152 Elm Street Stonington, CT 06378

Town of Stratford	Laura R. Hoydick Mayor Town of Stratford 2725 Main Street Stratford, CT 06615
Town of Suffield	Colin Moll First Selectman Town of Suffield 83 Mountain Road Suffield, CT 06078
City of Torrington	Elinor Carbone Mayor City of Torrington 140 Main Street Torrington, CT 06790
Town of Trumbull	Vicki Tesoro First Selectman Town of Trumbull 5866 Main Street Trumbull, CT 06611
Town of Washington	James L. Brinton First Selectman Town of Washington 2 Bryan Plaza Washington, CT 06794
Town of Weston	Samantha Nestor First Selectman Town of Weston 56 Norfield Road Weston, CT 06883
Town of Westport	Jennifer Tooker First Selectman Town of Westport 110 Myrtle Avenue Westport, CT 06880
Town of Wilton	Lynne Vanderslice First Selectman Town of Wilton 238 Danbury Road Wilton, CT 06897-4008

Town of Wolcott	Thomas G. Dunn Mayor Town of Wolcott Town Hall 10 Kenea Avenue Wolcott, CT 06716-2114
Town of Woodbury	Barbara Perkinson First Selectman Town of Woodbury 281 Main Street South Woodbury, CT 06798

Exhibit D

CERTIFIED
COPY

In The Matter Of:

Application of Aquarion Water Company of Connecticut to Amend Its Rate Schedule

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Regular Meeting

March 15, 2023

BCT Reporting LLC
55 Whiting Street, Suite 1A
Plainville, CT 06062
860.302.1876

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STATE OF CONNECTICUT

PUBLIC UTILITIES REGULATORY AUTHORITY

PURA REGULAR MEETING

VIA ZOOM AND TELECONFERENCE

Regular Meeting held on Wednesday, March 15, 2023, beginning at 10:02 a.m., via remote access, transcribed from audio file.

H e l d B e f o r e:

MARISSA P. GILLETT, Chairman

JOHN W. BETKOSKI, III, Vice Chairman

MICHAEL A. CARON, Commissioner

Reporter: Lisa Warner, CSR #061

A p p e a r a n c e s:

PURA Staff:

JAMES VOCOLINA

USSAWIN R. BUMPEN

THE CHAIRMAN: Good morning. Welcome to a regular meeting of the panel of utility commissioners and staff of the Public Utilities Regulatory Authority, or PURA, today, Wednesday, March 15th at 10 a.m. by remote teleconference. My name is Chairman Marissa Gillett, and I'm joined virtually today by my colleagues, the Vice Chairman Jack Betkoski and Commissioner Michael Caron.

We have a three-part regular meeting agenda today. We will begin with our regular calendar before turning to our consent calendar. We also have scheduled for the end of today's agenda an executive session regarding a FERC settlement which I will explain when we get to that portion of the agenda. But for now we will turn to the regular calendar.

The first item on today's regular calendar is Docket No. 22-07-01, the Application of Aquarion Water Company of Connecticut to Amend its Rate Schedule. I will turn to Mr. Jim Vocolina on behalf of Authority staff to present the decision that he is recommending and that the panel of utility commissioners adopt this morning.

So Mr. Vocolina, please. Sorry, Jim, I

muted you.

MR. VOCOLINA: There we go. Good morning, Chair Gillett, Vice Chair Betkoski and Commissioner Caron. On August 26, 2022, the Aquarion Water Company of Connecticut filed a rate application with PURA in accordance with Connecticut General Statutes, Section 16-19 in Docket 22-07-01.

Aquarion currently provides water service to approximately 207,000 customers in 56 Connecticut municipalities. Aquarion initially requested a return on equity of 10.35 percent and an annual revenue requirement of $226 million but later increased its request to $236 million. If approved, the requested revenue requirement would have increased residential customer annual bills by about 9 percent, on average, over current rates for approximately $61 per year.

The Authority conducted an extensive investigatory process in Docket 22-07-01 involving four public comment hearings, several days of field audits and inspections, seven in-person days of evidentiary hearings, two days of Late-File exhibit hearings, oral arguments, and the issuance of several hundred discovery requests.

Through today's decision, the Authority approves a return on equity of 8.7 percent and an annual revenue requirement of $196 million for the rate year commencing on March 15, 2023. The authorized revenue requirement is an approximate $40 million reduction from Aquarion's request as they failed to meet their burden of justifying the requested revenue requirement and return on equity. The Authority's determination will decrease customers' bills beginning on March 15, 2023 by about 11 percent, on average, compared to current rates or approximately $67 per year inclusive of the reduction of the water infrastructure conservation, WICA, adjustment to zero.

Specifically, the Authority declined to include in the approved revenue requirement several buckets of expenses that Aquarion failed to adequately demonstrate are prudent, reasonable and in the best interest of ratepayers. These buckets include but are not limited to operation and maintenance, O&M costs, including continued annual costs based on prior periods, and adjustments to O&M expenses and capital expenditures. Examples include $4.9 million

associated with Aquarion's share of costs linked to its 2017 merger with Eversource, $390,000 in outside legal costs related to this rate case, $300,712 in industry and non-industry membership dues, and $37,812 in entertainment expenses, among others.

Importantly, this decision does not bar the company from participating in industry advocacy efforts, nor does it penalize or preclude Aquarion from investing in the local communities it serves. Rather, the decision finds that such expenses that do not contribute to the safe, reliable and efficient provision of water service or otherwise provide discernable value to a utility's customers should not be the burden of ratepayers, particularly when Aquarion is achieving public goodwill for such endeavors made in its name. Denying these expenses from recovery through rates does not prohibit the company from engaging in such activities. Aquarion may instead fund such activities with shareholder funds.

The Authority also did not allow going-forward adjustment for chemical expense that would have quadrupled the cost of these chemicals to ratepayers. PURA found that this request was

based on projections that Aquarion's own suppliers advised were not reliable and that ultimately the public interest is not served by allowing Aquarion to receive increased revenues to cover speculative costs.

Lastly, the Authority limited its approval of infrastructure eligible for recovery through rates at this time to facilities in use as of the application date of August 29, 2022. Aquarion sought authorization for further infrastructure expenses for facilities that were not in service at the time the application was submitted which would have raised the annual revenue requirement significantly.

The traditional utility regulatory principle of used and useful is applied when reviewing the incorporation of prior capital expenditures into customers' rates. This simple standard means that investments must be both in service and provide value to ratepayers in the drinking water distribution system. The company did not meet its burden to prove that the facilities associated with any infrastructure investments made after the application was filed were used and useful.

Despite failing to meet the burden of proving the proposed rate is just and reasonable, Aquarion continues to carry a statutory obligation to provide safe, adequate and reliable service. Aquarion also is obligated to operate efficiently and to prudently plan and invest in drinking water infrastructure. To meet these obligations Aquarion can avail itself of a unique interim rate adjustment mechanism, WICA, in addition to the annual revenue requirement authorized in this decision. By law, WICA allows water companies to invest up to 10 percent of their approved revenue requirement between rate cases and up to 5 percent in a given year. Each rate case resets this cap, meaning Aquarion may seek recovery for additional eligible water infrastructure investments made between the date of this decision and the next rate case up to $19.6 million.

The Authority authorized a new 3-tier pricing structure for Aquarion residential single-family customers designed to encourage conservation by sending appropriate pricing signals to higher volume users and tied recovery of executive compensation to the achievement of key affordability metrics.

Ultimately, today's decision protects the public interests by preventing customers from having to pay for costs that Aquarion did not sufficiently justify. As such, staff recommends approval.

THE CHAIRMAN: Thank you, Mr. Vocolina.

Is there a motion?

COMM. CARON: Madam Chairman, I move adoption of Item Number 1.

THE CHAIRMAN: Thank you. And I will second. And we will take any comments at this time before calling for a roll call vote.

And Commissioner Caron.

COMM. CARON: Thank you, Madam Chairman. Madam Chairman, I want to thank our Authority staff for all their hard work on this rate case and the other rate case they're working on concurrently. Also, thanks to all the parties for their focus and participation during this docket.

I also want to point out that our Chair is one of the most hard-working people I've ever witnessed. She's lead on every docket at PURA, including both this water rate case and the electric one we have before us as well. She runs

the entire operation here at PURA, including managing all of the staff. I note she has directed this docket from the beginning and through to the end. That is no small feat to manage an entire rate case, let alone two, and all the other responsibilities she's taken on here at PURA. Madam Chairman, congratulations on seeing this docket through.

Having said that, this isn't a decision I would have come to had I been the lead on it, but it is the decision we have. Some of the accounting errors or lack of justifications by the company in this case have really set the stage for what is before us today and a lack of testimony for proving necessity. Errors on the pro forma which double count as significant plant in service is hard to ignore. It then flows through the rest of the calculations and reduces recovered investments, impossible to not address other than the way it is. The excess accumulated deferred income taxes that the company insisted -- or the treatments that the company insisted on in terms of providing to the ratepayers has also had the effect of reducing the rate base and the revenue requirement.

I recognize that some of the cutoff dates the company highlighted for acceptance into the record seem arbitrary and capricious. It does feel as if a number of the traditional expected rules of process have changed here in the docket. I can certainly see that the company is taken by surprise and could very well feel that the decision in places and determinations were arbitrary and capricious.

When I first began at the Authority, Connecticut had some of the lowest ROEs in the nation. Knowing that many companies that are located in Connecticut or who may consider locating in Connecticut would see that as an economic indicator, I worked with my colleagues over the years to try and provide stable and appropriate ROEs that have been consistently steady between about 9.16 and 9.63, which is what Aquarion's current ROE is, which is also the highest in Connecticut. Those ROEs, while not being exceptionally high, were also not exceptionally low. I have felt for many years now that it indicated Connecticut was a good place to do business. They also were indicators -- indications to investment analysts that follow

Connecticut companies that these were good companies to invest in. I don't think that will be true going forward after adoption of this decision.

The ROE in this decision was appalling to me personally with a 93 percent basis point reduction. Even the OCC provided for a higher ROE. I was impressed by OCC's brief. There was much in it that I found I could support, including their analysis and proposal for an ROE in the 9 percent range.

This decision's ROE seems to be sending a message. I'm not sure what that message is, but it comes across as something like a punishment. ROEs are as much an art as well as a science. Connecticut has enough trouble rising from the bottom ranks of economic indicators that other companies use to assess for an economic environment to run a successful company in this state, and I don't think this will help, especially in a rising cost-of-capital environment.

This decision I am convinced will discourage further ongoing investment by the company in the future. On one hand, in other

dockets, not water, we have been encouraging the utility sector to be more aggressive in hurtling toward a net-zero environment. One needs investment to do that. On the other hand, this decision will have far-reaching effects into the future for utilities, not just in the water sector. In my humble opinion, it will encourage more risk-averse planning and very cautious execution in other areas of management.

And while utilities can't up and move out of the state, in a multijurisdictional company they can pick and choose where and what state to invest their limited capital. I suspect investment will fall significantly in Connecticut for the foreseeable future and increase in other state jurisdictions, and not just from Aquarion.

I have little doubt that they will work to provide professional and prudent efforts going forward to fulfill their statutory obligations for a safe and reliable water system.

This decision, I feel, may have an effect on other water systems, the gas system and the electric utilities as well.

I don't think it's a stretch to imagine that Aquarion will be back before us with another

application for adjustment to its rates within two years, if not sooner. I hope when that time comes, they will sharpen their pencils and justifications for their capital investments.

Water customers pay some of the lowest rates for the most important commodity, the one we ingest and cannot live without. Water utilities are also the most capital intensive of the utility sector. Connecticut has the highest-rated water in the country. In a word, it's a bargain.

However, today is the day that belongs to the ratepayer. This decision will provide a significant reduction in rates for Aquarion customers. While rate decreases do happen, it is certainly infrequently. For those reasons, this is a decision that is very hard to vote against, and I cannot in good conscience, despite my reservations, allow this decision to fail today that would have the effect of implementing the company's application, as presented, and force a $27 million rate increase on the Aquarion system this year and around 20 million over the next two years.

I am certain that a near $40 million rate increase would not be in the best interest of

ratepayers, which is what would likely happen if this decision does not pass today. So I do plan to vote for this decision and hope that we see a better application by the company in the future. And that concludes my comments.

THE CHAIRMAN: Thank you. Mr. Vice Chairman.

THE VICE CHAIRMAN: Thank you, Madam Chairman. Madam Chairman, I've been in the water sector, working in the water sector for quite some time. I've never in my career seen a decision that excluded more items than this. Water is a basic necessity, essential to the needs of our citizens in their everyday life, health and existence for food, hygiene and sanitation, for our precious environment and wildlife, for safety of our citizens, protections against disasters, including fire, as well as economic development.

Aquarion stated in their exceptions that if you wanted to put a chill on investment, this is how to do it. I don't think it was a stretch for the company during orals to say that this decision in places was arbitrary and capricious. The disallowance of items requested by the Authority in Late-Files and presented in

the agreed-upon time I think illustrates this perfectly. Recognizing that there certainly were issues with excess ADIT in some of the plant-in-service items for the company which carried through to other calculations; however, this will tell investors to spend their money elsewhere, not in Connecticut.

As I respond to the proposed decision -- I've gone through many over the years -- even the tone of the writing seemed to me to be contemptuous and perhaps even condescending. I have no doubt that this will be appealed to the superior court. I think the company has legitimately pointed out that there are items in this decision that are trying to make an example of this company.

The ROE is another solid example. The ROE calculations are not an exact science, and we all know that, as we hear in our rate cases at PURA over many years, but an over 80 basis point reduction, which is substantially lower than the OCC's, and I think it should be higher as interest rates are projected to continue their increase. And by reducing the ROE below usual standards is a massive signal to discourage vital investment in

water infrastructure and protection for public health, environment and safety. As recently as yesterday, the Federal EPA came out with more standards to protect our water supply, which is going to cost the water companies more to implement.

Courts, of course, often defer to agencies' expertise, but some of the exceptions pointed out that there were new rules being applied to Aquarion in this docket that were not applied to the others, specifically the recent Connecticut Water case.

While I'm happy for the relief ratepayers will receive from reduced rates, I worry that the chill on future investment may occur. I also think that a risk-averse company will be unwilling to invest in any public water systems down the road, and that means any Connecticut utility who looks through this decision.

And I have to say that over the years Aquarion has done an outstanding job. When we actually went to them, us and the Department of Public Health, to take a system in southwest Connecticut that could no longer get potable water

to the people that they serve, and they stepped up to the plate.

At a time when Connecticut has very successfully encouraged business growth and job creation in our state, this decision represents a punitive and anti-business practice message from the state. So I find that unfortunately I cannot support this decision. I do want to thank all the parties and intervenors who put much effort into this docket. And I also continue to have the utmost respect for our hard-working, wonderful and dedicated staff at PURA, but today I will be voting no. Thank you.

THE CHAIRMAN: Thank you, Mr. Vice Chairman. So I will offer some brief remarks myself and then we will call for a vote.

So I want to begin with expressing my sincere gratitude for the contributions of the parties and intervenors in this proceeding, I think OCC, EOE, Smart Water Westport, others who put forward an intense level of effort and scrutiny through the course of this docket. And I think the broader perspectives that come into decisions and dockets ultimately result in more balanced decisions.

And I also want to applaud the technical staff of the Authority and our lawyers who collectively, I think, have exceeded certainly my expectations for the ability to manage this job as well as the other rate case that is ongoing.

And I think we've heard a little bit about potential messages and message sending this morning. I wouldn't couch it that way. But to the extent that we want to suggest today's decision does send messages, I'd say that the first message is that broader perspectives result in more balanced decisions. I think at its core what this decision does is illustrate that the Authority is prepared to do its job based on the facts that are put before us in a specific rate case.

Frankly, I think the references, especially by the company during written exceptions and oral arguments, that there's a suggestion that there will be a chill on future investment is entirely misleading, given that the company has received authorization to fold into its rates over $600 million of investments. No where in this decision does the Authority find any of its investments imprudent. Rather, we have

said that they failed to substantiate their evidentiary burden for investments that they sought after a certain date. So the prospect of putting a chill on future investment I think is entirely misleading.

If we want to talk about messages, what I think this decision should say is that it should be abundantly clear to the regulated entities in the state that the agency is, you know, prepared to exercise what I think our responsibility is which is to provide adequate oversight and to rule on the facts that are put in front of us in a specific docket. And given what we saw in this proceeding, I think that message bears repeating.

And from my perspective, and I've been saying this during my whole tenure here, including in my dissent on the Connecticut Water rate case, I want to be abundantly clear this is not my opinion. This is the statute. The burden of demonstrating that a proposed rate is just and reasonable is squarely on the shoulders of the utility. It's not PURA's job. It's not our stakeholders' job. And it's most importantly not the ratepayers' job to carry that burden. The executives of these utilities are well compensated

to provide safe and reliable service.

And instead what I saw through written exceptions and oral arguments in this docket was, instead of acknowledging the failure to meet those evidentiary burdens, which are defined by law, the company instead put forward several disjointed and frankly outlandish claims ranging from equating this decision to a precursor of what happened in Flint, Michigan despite that being an entirely apples-to-oranges situation of a municipality rather than a regulated utility.

There were claims that this decision is politically motivated. There were claims that PURA has ignored the evidence in the record. And we've already discussed the claims that I think are frivolous regarding the investment and the chill on that. But if you put aside the rhetoric, ultimately what I hear is a continued attempt to shift the burden, and that is a burden that the legislature has put squarely on those utilities. There's a reason that no other party or intervenor in this proceeding suggested that Aquarion met their burden. Ultimately, I want to stress that it is the company's obligation, one that they accepted as a condition of their franchise from

the state, to provide safe and reliable service.

So in conclusion, I'm disheartened by the company's position in this case, but I'm not discouraged. I think PURA and our stakeholders did the job based on the facts that were put before us. So if there is a message coming out of today, I think it's simply that PURA is prepared to hold our regulated utilities accountable, and I think that's what this decision does. So with that, I will be supporting today's decision. And I would ask Mr. Bumpen to call the vote, please.

MR. BUMPEN: Chairman Gillett.

THE CHAIRMAN: Yes.

MR. BUMPEN: Vice Chairman Betkoski.

THE VICE CHAIRMAN: No.

MR. BUMPEN: Commissioner Caron.

COMM. CARON: Yes.

THE CHAIRMAN: Thank you. The decision passes. The decision is adopted.

We will move to Section B of the agenda which is our consent calendar. I'll be seeking a motion to adopt the consent calendar, please.

COMM. CARON: Chairman, I move today's consent calendar, Items 1 through 8.

THE VICE CHAIRMAN: Second.

THE CHAIRMAN: Thank you. The consent calendar has been moved and seconded.

Mr. Bumpen, please take the roll.

MR. BUMPEN: Chairman Gillett.

THE CHAIRMAN: Yes.

MR. BUMPEN: Vice Chairman Betkoski.

THE VICE CHAIRMAN: Yes.

MR. BUMPEN: Commissioner Caron.

COMM. CARON: Yes.

THE CHAIRMAN: Thank you. The consent calendar has been adopted in full.

Next, we are going to turn to the consideration of the following proposed settlement in executive session. There is a resolution and decision of the Public Utilities Regulatory Authority accepting the stipulation agreement terms and authorizing its Chairman or attorney to sign the stipulation agreement on behalf of members of the Authority. This settlement is intended to resolve all matters set for a hearing in the Federal Energy Regulatory Commission Docket ER18-1639-015, which relates to Mystic's September 15, 2021 informational filing.

At this time, I will seek a motion for the Authority to go into executive session.

THE VICE CHAIRMAN: So moved, Madam Chairman.

COMM. CARON: Second.

THE CHAIRMAN: Thank you. Mr. Bumpen, please take the roll.

MR. BUMPEN: Chairman Gillett.

THE CHAIRMAN: Yes.

MR. BUMPEN: Vice Chairman Betkoski.

THE VICE CHAIRMAN: Yes.

MR. BUMPEN: Commissioner Caron.

COMM. CARON: Yes.

THE CHAIRMAN: Thank you. At this time, we will be moving all attendees of the regular meeting to the waiting room where you are free to go about your day. The commissioners are going to move into executive session, which is closed for deliberation of the proposed settlement. The vote with respect to the settlement will be taken on the public record. So if you would like to hear the outcome of that vote, then you can wait in the waiting room and we will let you back in when the deliberations have concluded. Otherwise, we wish you a good rest of the day and we'll see you next time. So please bear with us as we go through the administrative

step of putting folks into the waiting room now.

(Whereupon, an executive session was held.)

THE CHAIRMAN: Okay. Thank you for bearing with us. We are back on the record. The recording has resumed with respect to our regular meeting held today, Wednesday, March 15, 2023. We have returned from executive session. And now I will call for a motion with respect to the item on the executive session portion of the agenda, please.

THE VICE CHAIRMAN: I move adoption, Madam Chairman.

COMM. CARON: And second.

THE CHAIRMAN: Thank you, gentlemen. The resolution, the decision of the Authority has been moved and seconded.

Mr. Bumpen, please take the roll.

MR. BUMPEN: Chairman Gillett.

THE CHAIRMAN: Yes.

MR. BUMPEN: Vice Chairman Betkoski.

THE VICE CHAIRMAN: Yes.

MR. BUMPEN: Commissioner Caron.

COMM. CARON: Yes.

THE CHAIRMAN: Thank you. The item has

been adopted.

With that, we have reached the end of today's regular meeting agenda. We will adjourn. Our next regular meeting is scheduled for next Wednesday, March 22nd, at 10 a.m. by remote teleconference, and we will see you then. Thank you and have a great rest of the day.

(Meeting concluded 10:18 a.m.)

CERTIFICATE FOR REMOTE HEARING

I hereby certify that the foregoing 26 pages are a complete and accurate computer-aided transcription of the audio file of the remote regular meeting before the Public Utilities Regulatory Authority, which was held before MARISSA P. GILLETT, CHAIRMAN; JOHN W. BETKOSKI, III, VICE CHAIRMAN; and MICHAEL A. CARON, COMMISSIONER, on March 15, 2023.

Lisa L. Warner, CSR 061
Court Reporter