STATE OF CONNECTICUT
PUBLIC UTILITIES REGULATORY AUTHORITY

APPLICATION OF THE UNITED	:	DOCKET NO. 13-01-19
ILLUMINATING COMPANY	:	
TO INCREASE ITS	:	
RATES AND CHARGES	:	JUNE 4, 2013

BRIEF OF GEORGE JEPSEN, ATTORNEY GENERAL FOR THE STATE OF CONNECTICUT

George Jepsen, Attorney General for the State of Connecticut ("Attorney General"), respectfully requests that the Public Utilities Regulatory Authority ("PURA" or "Authority") reject the Application to Increase its Rates and Charges ("Application") filed by the United Illuminating Company ("UI" or "Company") on February 15, 2013. The evidence presented in this proceeding clearly demonstrates that UI's distribution rates should go down, not up, as a result of this proceeding.

I. EXECUTIVE SUMMARY

In its Application, UI proposed a two year plan to increase its electric distribution service rates by a total of $95 million; $69 million in Rate Year One ("RY-1"), which UI proposed should run from July 1, 2013 to June 30, 2014, and an additional $26 million in Rate Year Two ("RY-2"), which UI proposed should run from July 1, 2014 to June 30, 2015. Schedule A-1.0; Nicholas Pre-Filed Testimony ("PFT"), 10. The Company's proposed increase represents a 26 percent distribution rate hike in RY-1 and an additional 9 percent rate increase in RY-2. Transcript ("Tr."), 22. In terms of overall impact on the Company's total bills, UI's proposed rate increase would create an 8.7 percent increase in RY-1 and an additional 3 percent increase in RY-2, or a cumulative total bill increase of 11.7 percent.

PURA should reject UI's Application. The evidence presented in this case demonstrates that the rates charged by UI should drop considerably, not increase. Specifically, UI's distribution service rates in RY-1 should increase by no more than $11.5 million, not by $69 million as proposed by UI. However, because PURA should also require UI to return immediately to its customers $14.4 million, which represents customers' share of the Company's over-earnings from 2010 and 2012, UI's customers should receive an aggregate rate reduction of at least $2.9 million in RY-1. In addition, RY-1 rates should go into effect at the time of the PURA's final decision in this case, now scheduled for August 14, 2013, not on July 1, 2013 as the Company proposed.

Moreover, on January 1, 2014, or little more than four months after UI's RY-1 rates go into effect, UI's Competitive Transition Assessment ("CTA") expires. The CTA, which has been in rates to recover costs of purchase power contracts, regulatory tax assets, other regulatory assets, nuclear plant investment and deferred expense amortization, cost UI ratepayers $81.5 million in 2013. See AC-75; CIEC-14. The expiration of the CTA, in addition to the rates proposed herein, would result in UI's distribution rates falling by at least $84.4 million as of January 1, 2014. This represents roughly an 11 percent reduction from current overall rates, rather than the 8.7 percent increase in overall rates proposed by UI. Such a rate reduction means that the average UI residential customer would save roughly $7.20 per month.

In RY-2, the evidence presented in this case supports an increase in UI's distribution rates of not more than $12 million from RY-1 levels, or a $24.5 million increase from UI's current distribution rates. Again, however, any RY-2 increase should be offset by the Company's $ 20.3 million surplus CTA collections in 2013.[1] As a result, in RY-2, UI's

[1] According to AC-75, in 2013 UI billed customers $81.5 million for the CTA but its CTA revenue requirements were $61.3 million, leaving the Company with surplus collections of $20.3 million.

distribution rates would increase by at most $4.2 million, or 0.6 percent, from end-of-year RY-1 levels, which include the expiration of the CTA charge. Finally, these lower rates can and should be achieved without impacting or impairing the Company's plan to improve the reliability of its distribution service and major storm readiness.

II. INTRODUCTION

A. UI Rate Proposal

In its Application, UI proposed a two year rate plan to increase its electric distribution service rates by a total of $95 million; $69 million in RY-1, which UI proposed should run from July 1, 2013 to June 30, 2014, and by an additional $26 million in RY-2, which the Company proposed should run from July 1, 2014 to June 30, 2015. Schedule A-1.0; Nicholas Pre-Filed Testimony ("PFT"), 10. The Company's proposed increase represents a 26 percent distribution rate hike in RY-1 and an additional 9 percent distribution rate increase in RY-2, or a total 35 percent distribution rate increase. Tr. 22. In terms of the impact on overall electric bills, UI's proposed rate increase would create an 8.7 percent increase in RY-1 and an additional 3 percent increase in RY-2.

UI proposed a return on equity ("ROE") of 10.25 percent, which represents a 150 basis point increase from its currently authorized ROE of 8.75%. Since one percent of UI's ROE is worth $7.6 million in revenue requirements, UI's proposed ROE alone accounts for $11.4 million of the proposed rate hike in both RY-1 and RI-2. CIEC-3. In addition, the Company requested over $120 million to fund its Central Facility ("CF"), a project that the Department of Public Utility Control ("DPUC," PURA's predecessor agency) initially approved in 2006 at a cost of $58 million and again approved in 2009 at a cost of $83 million. UI further requested approval of $225 million over four years to fund its "TDOEI" project, an ill-defined plan to

improve storm readiness and response. The Company also sought approval to collect from its ratepayers $52 million in storm cost recovery over a period of six years for what it calls "major" storm costs incurred since 2008. This request accounts for $8.7 million in each of RY-1 and RY-2. Nicholas PFT, 12.

UI proposed to continue its earnings sharing mechanism ("ESM") in which earnings above the Company's authorized ROE are shared 50-50 between ratepayers and the Company, but also proposed that customers' share be applied to pay down its storm cost amortization. The Company also sought continuation of its full revenue decoupling mechanism. Nicholas PFT, 12.

In addition, UI proposed to hold its distribution rates at current levels from the time that its new rates go into effect through December 31, 2013 by:

> -retaining customer's share of its 2010 ESM liability, $4 million;
> -retaining customers' share of its 2012 ESM liability, $10.4 million;
> -retaining customer's share of 2013 excess Competitive Transition Assessment ("CTA") revenue, $20.3 million; and
> -retaining customer's share of 2013 ESM liability, an amount which has yet to be determined.

The Company believes that the elimination of the CTA on January 1, 2014, which cost ratepayers $81.5 million in 2013, should offset any increase in rates at that time. Favuzza PFT, 3; AC-75.

B. PURA Should Reject UI's Application

Conn. Gen. Stat. § 16-19 requires that PURA approve rates that are no more than just and reasonable. Section 16-19e(a)(4) provides, "that the level and structure of rates be sufficient, but no more than sufficient, to allow public service companies to cover their operating costs . . . ." Section 16-19e(a)(5) further states "that the level and structure of rates charged customers shall reflect prudent and efficient management of the franchise operation."

PURA should flatly reject UI's Application. The rates the Company proposed are far above levels that are just and reasonable. According to the United States Energy Information Agency's most recent data, Connecticut currently has the second highest electric rates in the continental United States, and UI has the highest electric rates in Connecticut. UI's electric distribution rates are roughly two cents/kWh higher than those now charged by the Connecticut Light and Power Company ("CL&P"). In this proceeding, UI failed to show that it requires even higher rates to cover its reasonable operating costs and maintain its financial integrity.

UI has thrived financially since its last rate case. The Company has consistently met or exceeded its authorized ROE while enjoying the benefits of full revenue decoupling, which has required its customers to make the Company whole for any failure to achieve its projected revenue levels, protecting it from most risks of the electric distribution business. The Company also financed, constructed and moved into its brand new Central Facility ("CF"). Moreover, since the last rate case UI's parent company, UIL Holdings, has acquired three natural gas companies (Connecticut Natural Gas, Southern Connecticut Gas and Berkshire Gas) and its stock price has soared, outperforming both the S&P 500 and the Dow Jones Industrials Utilities average.

The evidence presented does not support UI's proposal to increase its distribution rates by 35 percent in the next two years. Rather, the evidence supports distribution rates in RY-1 that are no more than $11.5 million higher than current levels. However, this rate increase should be more than offset by the return to ratepayers of $14.4 million in overearnings from 2010 and 2012 plus interest. As a result, UI customers deserve a distribution rate reduction of at least $2.9 million in RY-1. This rate reduction should take effect at the time of the final decision in this

case, August 14, 2013, and not on July 1, 2013 as proposed by UI. See Conn. Gen. Stat. § 16-19 ("No public service company may charge rates in excess of those previously approved . . . .").

Moreover, on January 1, 2014, UI's CTA expires. The expiration of the CTA will effectively reduce UI's distribution rates by an additional $81.5 million per year. See AC-75. As a result, UI's distribution rates should fall by at least $84.4 million as of January 1, 2014, a reduction of approximately 11 percent from current distribution rates. This reduction would mean the average UI residential customer would save about $7.20 per month.

In RY-2, the evidence presented in this case supports not more than a $12.5 million increase from RY-1 levels, or a $24.5 million from UI's current distribution rates. Again, however, this RY-2 rate increase should be offset by the Company's $ 20.3 million surplus CTA collections in 2013. AC-75. As a result, in RY-2, UI's distribution rates would increase by no more than $4.2 million from end-of-year RY-1 levels (which account for the expiration of the CTA charge), constituting roughly a 0.6 percent increase from those levels.

With respect to the Company's proposed rate plan, PURA should reject the Company's request to retain customers' share of past overearnings and excess CTA revenues. PURA should also reject UI's proposal to defer any proposed rate increases.

In this brief, the Attorney General addresses the major issues presented in the Company's Application. It is not intended to be an exhaustive discussion of each and every proposal by UI or each and every adjustment that PURA should impose. The failure to address any particular issue in this brief does not indicate the Attorney General's agreement with the Company's position. Moreover, the Attorney General concurs with and supports the additional downward adjustments recommended by the Office of Consumer Counsel ("OCC") in its brief in this proceeding.

III. ISSUES

A. Central Facility

1. Regulatory Background

The Central Facility has a long regulatory history spanning UI's last two rate cases. In Docket No. 05-06-04, Application of the United Illuminating Company to Increase its Rates and Charges ("Docket No. 05-06-04"), UI proposed to spend $29.6 million for phase I of its CF project in 2008 and to complete phase II of placing the CF in service in 2012 for an additional $28.7 million. Docket No. 05-06-04, Schedule F-7.0. The CF was intended to allow the Company to centralize its operations at a single location.

At the time UI's plan for the CF was not a mere "concept," as the Company now seeks to describe it. See e.g., Tr.2142-2144. UI sought approval to charge its customers $58 million for this project and presented detailed plans in that case for centralizing its six separate work facilities in a single location. See Final Decision, Docket No. 05-06-04, 11-12. Moreover, in its Final Decision, the DPUC clearly recognized it as a firm proposal, not merely a concept. See Id., 11-12 ("A major component of UI's rate increase request is its proposal to consolidate its operations into a central facility,"; UI plans to construct a new facility in Orange, Connecticut that will serve as its centralized worksite . . .;" "UI proposes to implement its Central Facility strategy in two phases;" (emphasis added)).

In Docket No. 05-06-04, the DPUC approved $58 million in ratepayer funding of the CF under certain conditions. The DPUC allowed UI to create a regulatory asset or liability "for the variance in actual prudent Phase I costs compared with the amounts allowed herein." Final Decision, Docket No. 05-06-04, 19. The Department made clear in that decision, however, that "the disposition of the regulatory asset or liability will be determined in UI's next rate case." Id.

At the time of the Company's next rate case, Docket No. 08-07-04, Application of the United Illuminating Company to Increase its Rates and Charges ("Docket No. 08-07-04"), UI's customers had paid at least $12.5 million toward CF. Docket No. 08-07-04, 79. There was, however, no CF. At the time UI filed that rate case, UI had not located a site, purchased land or begun construction on this project. UI spent that $12.5 million on two broad categories of projects. The Company has spent roughly $1.8 million on efforts generally related to the CF project, such as design plans and expenses related to potential sites. See, Docket No. 08-07-04, EL-26. The Company spent the rest of the $12.5 million that it collected from its customers for the CF on what it described as "bridge" projects; work done by the Company on the various UI facilities that were then in use. The Company claimed such work was necessary until it moved into its CF. See, Docket No. 08-07-04, EL-25. These so-called bridge projects included such capital related projects and routine operating and maintenance expenses such as pavement work, building repair projects and snow and trash removal costs. In its application to increase its rates in Docket No. 08-07-04, however, UI proposed to return only $2.158 million of the $12.5 million that it collected for this project back to its customers. See, Docket No. 08-07-04, WP C-3.1A, page 2 of 2 line 38; Favuzza PFT, 32-33; EL-132.

As noted in the DPUC's Final Decision in Docket No. 08-07-04, 75, at the time of that rate case UI continued to "believe[] the Central Facility is still very real and imminent . . . ." In that case, UI initially sought DPUC approval of $83.5 million for its CF. Final Decision, Docket No. 08-07-04, 79. UI claimed that the projected price increased to roughly $100 million during the hearings in Docket No. 08-07-04 when UI signed a purchase and sale agreement ("PSA") for what become known as sites 11 and 12. The PSA was presented toward the end of that proceeding in Late File Exhibit 35. Sites 11 and 12 ultimately became the location for the CF.

In its Final Decision in 08-07-04, the DPUC made very clear that it had approved a solid proposal for a CF in the Company's prior rate case, not merely a concept. The Department specifically stated that in Docket No. 05-06-04:

> the Department approved UI's efforts to build and move into its specifically identified proposed new facility at a specific site in Orange, Connecticut. UI had provided a signed Purchase and Sale Agreement for the Orange site which provided assurance to the Department that UI would pursue the Central Facility plan. The Department did not grant preapproval or prefunding for UI to pursue any option other than the construction of the new facility on the Orange site. 05-06-04 Decision, pp. 12-19.

Final Decision, Docket No. 08-07-04, 77.

In Docket No. 08-07-04, the DPUC further stated that in Docket No. 05-06-04, "UI pleaded with the Department to approve the Central Facility including the initial funding because it was confident it would follow through on its plan in the projected timeline." Final Decision, Docket No. 08-07-04, 78. The DPUC then noted that in Docket No. 08-07-04 UI was, "once again before the Department claiming that it will build a new facility" and that it submitted another signed PSA as proof. Id. The DPUC ultimately approved the CF as requested by the Company but held that, "[t]he Department will review in a future rate proceeding the prudence and cost effectiveness of the incurred costs of the new facility if and when all of the costs are known and measurable and the facility is deemed used and useful." Final Decision, Docket No. 08-07-04, 79. The DPUC also required UI to return to its customers $4.8 of the $12.5 million that it had collected for the CF at that time, meaning that customers have already put $7.7 million toward the CF at this time.

In sum, with regard to the CF, the DPUC's prior two rate decisions provide that:

1. UI ratepayers have already contributed $7.7 million toward the CF;

2. The DPUC approved specific plans to construct the CF on specific sites; and

3. In a the present case, the DPUC will review "the prudence and cost effectiveness of the incurred costs of the CF.

2. UI's Current CF Proposal

UI has completed the CF on sites 11 and 12 at a cost of $120.6 million and in this case has asked that UI ratepayers pay that entire amount, which is $20 million more than previously authorized by the DPUC. The Company argued that the reasonable starting point for PURA's review is after it acquired the land on which the CF was constructed. From that starting point, UI asserts, the PURA should examine the project to determine whether all of the costs that the Company incurred were prudent. Tr. 2146-2147. In terms of revenue requirements for the rate years at issue in this case, UI seeks to recover $18.3 million from customers in RY-1 and $17.9 million RY-2. Marone PFT, 3. UI also requests regulatory approval to recover any financial loss incurred if and when it sells its Shelton facility because CF was a lower cost option to the status quo alternative. Marone PFT, 12.

PURA should reject UI's proposed recovery of $120.6 million for the CF and approve no more than $100.5 million for this project. Moreover, PURA should credit customers for the $7.7 million they already contributed towards the CF as noted in Docket No. 05-06-04 in order to avoid customers from being charged twice for those amounts. Thus, the Authority should in this case approve customer funding of the revenue requirements associated with no more than a $92.8 million CF, which comes to approximately $14 million in RY-1 and again in RY-2. This amount results in a downward adjustment to UI's request in its Application of $4.1 million in RY-1 and $3.8 million in RY-2.

The DPUC made clear in UI's last two rate cases that it approved funding for specific plans to construct a CF on specific sites and that the Company bore the burden of showing that the amounts spent on the CF were prudent and reasonable. The Company's CF plans initially

called for a $58 million project in Orange, Connecticut as described in Docket No. 05-06-04, then called for an $83 million facility and finally contemplated a $100.5 million facility on sites 11 and 12 in Docket No. 08-07-04. The Company cannot now ignore those prior decisions.

UI has failed to demonstrate in this case, as it must, that it was prudent to spend $120 million to complete an $80 million to $100 million project. As noted by PURA staff during the hearings in this case, the fact that UI believes that it was a good idea to build a $120 million CF does not alone render those costs prudently incurred. Tr. 2142. The CF that UI chose to build is simply not the CF that the PURA approved. It is more costly and extravagant. UI's shareholders, not its ratepayers, should be held responsible for the Company's decision to spend more on the project than the DPUC approved.

Moreover, UI did not notify the DPUC or PURA that the cost of the CF would exceed the cost the Company initially projected and that the DPUC ultimately approved. It is clear, however, that UI sought and received approval from its Board of Directors to spend $120 million on the CF. In June of 2010, UI's Board approved $93.7 million for the project which, in addition to the land acquisition costs, totaled the $120 million that the Company now seeks to recover from its ratepayers. Tr. 2153-2154. The decisions of the Company's Board of Directors may bind its shareholders, but they do not bind the PURA. PURA should not now require ratepayers to fund every cent that the Company chose to spend above the amounts previously approved by the DPUC.

Finally with respect to the CF, PURA should reject the Company's request for approval in this proceeding of any future loss incurred on the sale of its Shelton facility. Instead, the Authority should direct UI to raise the issue of costs related to the Shelton facility at the first full rate proceeding following any sale of the Shelton facility.

B. TDOEI

UI proposed a $225 million initiative in this case to improve its major storm readiness and response that it calls the "TDOEI," or Transmission and Distribution Operational Excellence Initiative. Reed PFT, 27; LF-90. Roughly half of the cost of this program is associated with improving the timeliness and accuracy of its estimated restoration times and improving the Company's ability to plan, execute and communicate restoration activities in the short term and harden its infrastructure in the long term. Reed PFT, 26-27. The other half of the costs associated with this proposal relates to its plans to greatly expand its vegetation management and tree trimming programs.

1. Restoration Activities and Infrastructure Hardening

UI's "Short-Term Tactical Enhancement Program," which is designed to improve its outage mapping abilities and its service restoration initiatives following major storm events, accounts for $1.6 million of the cost of the overall TDOEI program. LF-83. These short-term measures include such things as "AVL" replacement, or automated vehicle location tracking, and the improvement of its outage maps. LF-83. The intent is to provide faster and more customer specific outage and restoration information.

In addition, the Company proposed to spend $98.3 million on a "Long Term Process and Technology Enhancement Program." During the hearings in this case, UI asserted that these programs and enhancements are intended to respond to its customers' desire for better and faster information during major storms concerning restoration times. Tr. 1856-1857; LF-83. These improvements do relatively little to accelerate the restoration of power outages following major storm events.

The PURA should approve the costs of UI's short-term enhancement plan as a reasonable effort to improve the Company's ability to assess and respond to major service outages. PURA should not, however, approve the cost of the Company's Long Term Process and Technology Enhancement Program. That program is vague and ill-defined and does not merit regulatory approval at this time. Instead, the Authority should complete its investigation into the Company's response to Storm Sandy in Docket No. 12-11-07, PURA Investigation Into the Performance of Connecticut's Electric Distribution Companies and Gas Companies in Restoring Service Following Storm Sandy, and then allow UI to provide a more detailed long term plan. PURA should further require that any long term plan include a detailed analysis of the costs and benefits of that plan in terms of dollars spent and impacts on restoration time for consideration in the Company's next rate proceeding, information that is not part of the record in this case. The rejection of the Company's long term plan at this point would reduce the Company's revenue requirement by roughly $8 million in each of RY-1 and RY-2.

2. Enhanced Tree Trimming

UI proposed to spend $125.8 million over the next four years on what it calls "System Hardening." LF-83. According to the Company, the vast majority of these costs, over $100 million, will be spent on line clearance, primarily enhanced tree trimming ("ETT") on every mile of distribution lines throughout the Company's entire service area. Another $10.6 million would be spent on a utility pole strengthening program, $6 million on the "hardening" of other critical facilities and the remainder on step down bank removal and circuit patrols. LF-83. These expenditures are designed to preemptively remove threats to the reliability of the electric distribution system, primarily trees. LF-83.

At present, UI trims its trees on a four year cycle for its three-phase lines and on an eight year cycle for its single phase lines. OCC-118. The Company trims these trees to the following specifications: 12-15 feet above, 6 feet to side and 8 feet under. OCC-116. The costs of this program, roughly $4 million per year, are expensed, or paid in the year in which they are incurred.

In this case, UI proposed a one-time, four year ETT initiative for every mile of the Company's distribution lines, both three phase and single phase, throughout its entire service territory. Reed PFT, 40. Tr. 780. ETT, as proposed by UI, calls for the removal of all trees/branches within a "utility protection zone," which is a rectangular area extending 8 feet to the side of the outermost conductor (wire) and extending vertically from ground to sky. OCC-116. In other words, the Company proposes "blue sky" clearance on roughly 300,000 trees in its service territory, which will have a serious impact on aesthetics. Tr. 700-701. Upon the completion of this four year program, UI proposes to return to a four year routine tree trimming cycle. OCC-116.

UI projects that the cost of its ETT program will be approximately $100 million over the next four years, and UI seeks to capitalize these costs, or spread them out over time. Reed PFT, 40. Put another way, UI proposes to spend $25 million per year on enhanced tree trimming for the next four years but, because these costs will be spread out over time, this program would cost UI ratepayers $8 million per year, or double what it now spends on its tree trimming expense. Schedule F-7; LF-90. The Attorney General does not oppose UI's plan. Rather, the Attorney General seeks greater specificity to ensure that this plan is well considered and that the costs of this plan are prudently incurred.

The Company's ETT proposal, however, lacks essential details and any reasonable evaluation of cost effectiveness. CL&P has in the past performed enhanced tree trimming, and it proved to be quite successful in improving system reliability. Prior to CL&P's commencement of its enhanced tree trimming program, however, CL&P presented the DPUC with a specific plan for where and how it would do enhanced tree trimming. CL&P focused its enhanced tree trimming on its major three phase lines and worst-performing circuits. See Docket No. 12-07-06, Application of the Connecticut Light and Power Company for Approval of its System Resiliency Plan.

In contrast, however, UI has presented no plan or focus for its enhanced tree trimming proposal. It has not proposed to limit ETT to major three phase lines or worst performing circuits or even proposed to begin its ETT on such circuits. Rather, the Company's only plan is to do every last mile of its entire distribution system, regardless of whether a line serves thousands of customers or a few houses on a cul-de-sac. Tr. 780. Indeed, UI has yet to develop or present to PURA a plan of priority detailing which circuits it would trim to enhanced specifications in the first year of its program versus in later years.

Moreover, UI has not yet attempted to evaluate the costs and benefits of performing enhanced tree trimming on a total system-wide basis versus a more targeted approach that focuses enhanced tree trimming on major lines and poor performing circuits and applies routine tree trimming specifications on all other circuits. Tr. 781-782. Finally, while UI has recognized that its enhanced tree trimming proposal will run into difficulty with regard to customer permissions, it presented no coherent plan to deal with this impediment. Reed PFT, 40-41.

The Attorney General does not oppose UI's plan to significantly increase its tree trimming program and conduct ETT. PURA, however, should require the Company to develop

and submit to it for review a more carefully considered plan for ETT and more aggressive tree trimming before it allows the Company to begin. The Authority should further require that any such plan explain the Company's strategy for implementing ETT, including the priority of circuits to receive ETT, and evaluate the relative cost-effectiveness and impact on reliability of performing ETT on priority circuits only (three phase lines, worst performing circuits and circuits that serve large numbers of customers) versus conducting ETT on all circuits system-wide.

In addition, PURA should impose a requirement in its final decision for the Company to periodically report on the dollars spent on its tree trimming (whether enhanced or routine) program, miles trimmed and impacts on reliability. Such reporting is critical to hold the Company accountable for its expenditures and to allow PURA and others to evaluate the ongoing cost-effectiveness of enhanced versus routine tree trimming.

C. Storm Cost Recovery

In its Application, UI proposed to recover $52 million from its customers for costs that the Company claims it incurred restoring service from five "storms" since its last rate case. Schedule B-6.3A. In addition to tropical storm Irene in 2011, the October Nor'easter in 2011 and storm Sandy in 2012, UI also includes less memorable weather events that it now calls major storms in July and September of 2012. AC-46. UI further proposed to amortize these storm costs over a period of six years, or at ratepayer expense of $8.7 million per year for the next six years. Tr. 741; Favuzza PFT, 24; OCC-108. UI claimed that this regulatory asset was established in accordance with page 68 of Final Decision in 08-07-04. Schedule B-6.3A, Note (1).

PURA should reject a portion of UI's storm cost recovery request for two reasons. First, UI improperly included roughly $9 million in storm costs related to weather events that should not qualify as "major" storms. Second, the Company improperly included normal operating costs that it would have incurred without the storms, such as certain labor and overhead. PURA should disallow the recovery of costs associated with non-major storm events and disallow recovery of normal costs of operations that are already accounted for in rates. In prior UI rate cases, the DPUC determined that the deferral of major storm costs for future recovery applies only to major storm-related expenses, that is costs that would not have been incurred but for the occurrence of the major storm. The Authority should not allow the Company to defer for future recovery normal, day-to-day operating expenses – costs that are already covered in rates – just because they happen to have been incurred during a major storm event. Allowing UI to recover such normal operating costs as part of its storm expense would result in customers being forced to pay for such costs twice.

With respect to UI's inclusion of non-major storm events in its storm cost recovery request, the Company claims that past DPUC practice defined each of the weather events included in its Application as "major" storms. Tr. 753-754. The Company relied on a definition of major storm that appeared in a DPUC decision in Docket No. 86-12-03, Long Range Investigation to Examine the Adequacy of the Transmission and Distribution Systems of the Connecticut Light and Power Company and the United Illuminating Company, which states that, "[w]henever the frequency of restoration work locations exceeds the 98.5 percentile, by company and/or region, the major storm criteria will be met and all interruptions for that day(s) would be excluded from reliability reports, including those extending into subsequent days." OCC-82.

This definition, however, is not dispositive on what should be considered a major storm for storm cost recovery purposes. This definition, on its face, applies to storms that should be excluded from reliability reports, not included in future requests for storm cost recovery. In this case, the Company seeks to stretch the definition of major storms that applies to reliability statistics to also apply to storm cost recovery. The storm costs associated with these minor weather events would not qualify as "major" storm costs by any reasonable definition of the term. PURA should apply a definition of major storms similar to that applied in CL&P's last rate case, which is storms with an incremental cost that exceeds $5 million. Final Decision, Docket No. 09-12-05, Application of the Connecticut Light and Power Company to Amend its Rate schedules, 40. PURA should not allow the unwarranted expansion of a storm cost regulatory asset in the manner that UI proposes and should therefore disallow the future recovery of all costs related to these minor weather events, roughly $9 million.

Also troubling is UI's inclusion in its storm cost recovery request of routine expenses that it would have incurred with or without a major storm. See Tr. 2243-2245. According to OCC-12 Supp. Att. 1, these routine costs amount to at least $12.3 million of the Company's storm cost recovery request: $1.6 million for labor – regular; $5.3 million for labor – overtime for salaried employees not normally paid overtime; $2.2 million for labor – overhead; and $3.2 million for allocated overhead. See also AC-46. As UI stated in LCG-28, the Company included all costs that it incurred during storms that it considered "major" storm events, including regular payroll costs and regular meal reimbursement costs.

UI claimed that the regulatory asset that had been approved by the DPUC in Docket No. 08-07-04 allowed the inclusion of such costs. The Company cited to page 68 of the DPUC's Final Decision in that case as well as Schedule B-6.3A, Note (1), from that proceeding. The

DPUC's decision in that proceeding, however, does not support the Company's claim. First, page 68 of that decision relates to "Regulatory Assessment Expense" and discusses issues unrelated to storm cost recovery, such as the Company's generation service charge and its transmission allocations. That language does not support the Company's proposal to include routine expenses in its storm cost recovery request. Other parts of the Final Decision in 08-07-04 also do not support UI's arguments. In that case, the DPUC stated that, "[w]ith regards to future storm related expenses above the $600 thousand provided for each of the rate years, the Company is allowed to create a regulatory asset upon payment of such storm-related expense, to be recovered in rates as determined by the Department in a subsequent rate proceeding. Final Decision, Docket No. 08-07-04, 66. (Emphasis added).

Similarly, in the Company's previous rate proceeding, the DPUC stated that if a major storm were to occur that exceeded the cost of its storm reserve fund, it "allows the Company to create a regulatory asset immediately upon the occurrence of the event and payment of the storm-related expense to be recovered, along with an amount to begin to restore the depleted reserve, in rates to be determined by the Department in a subsequent proceeding." Final Decision, Docket No. 05-06-04, 41. (Emphasis added). Clearly, prior DPUC decisions only authorized UI to defer for future recovery storm related expenses, not costs that the Company would have incurred anyway.

UI ratepayers already paid for the Company's regular labor, labor overtime, labor overhead and allocated overhead in rates. The inclusion of these routine expenses in UI's storm cost recovery request would effectively require its customers to pay such costs twice, once in rates and a second time in a regulatory asset created for the recovery of extra-ordinary major storm costs. PURA should reject UI's proposal and only allow the Company to recover as major

storms costs those costs that would not have been incurred "but for" the occurrence of the major storm. The Authority should disallow any regulatory asset treatment of costs that are already covered in the Company's base revenue requirements.

Moreover, PURA must consider the fact that its review of UI's response to Storm Sandy is ongoing in Docket No. 12-11-07. Thus, it would be premature to approve any costs that the Company incurred in that storm for inclusion in a regulatory asset in this proceeding.

The exclusion of costs related to minor weather events as well as the exclusion of regular labor, labor overtime, labor overhead and allocated overhead costs from UI's proposed major storm cost regulatory asset would result in a downward adjustment to the Company's storm cost request of roughly $21 million. Since the Company seeks to recover these costs over a period of six years, this results in a downward adjustment of roughly $5.5 million in RY-1 and $5 million in RY-2.

D. ROE

UI's current authorized ROE is 8.75 percent. In its Application, the Company proposed a ROE of 10.25 percent, and proposed no adjustment for the continued approval and application of its full revenue decoupling mechanism. Avera PFT, 11-12. UI claimed that its currently authorized ROE is too low and is inadequate to allow it to carry out its public service obligations and maintain its financial integrity.

PURA should reject UI's proposal to increase its authorized ROE and, instead, should maintain its ROE at its currently authorized level of 8.75 percent, as recommended by the OCC in this case. Woolridge PFT, 2. The evidence presented simply does not support UI's claims that its current ROE is in any way inadequate. Moreover, a ROE of 8.75 percent is eminently

reasonable in light of the Company's proposal to make permanent its full revenue decoupling mechanism. See Tr. 2278.

Since UI's last rate case in 2008, UI has performed well financially with a ROE of 8.75 percent. Indeed, the Company presently meets all of the criteria set forth by its Vice President and Chief Financial Officer Nicholas in his testimony for achieving a solid investment grade rating; a strong balance sheet, predictable cash flows/revenue with decoupling, constructive regulatory environment and quality management. Nicholas PFT, 4-5. UI has solid credit ratings of Baa2 (Moody's) and BBB (S&P). Nicholas PFT, 8, 23. Further, as of March 21, 2013, Moody's lists UIL's credit rating as Baa3. FI-01.

In addition, UIL's stock price has out-performed both the S&P 500 and the Dow Jones Industrials Utilities. Woolridge PFT, 3, 12. UIL's stock price has steadily increased from February 2009 to the present. OCC-283. JRW-3, page 2. In fact, after an initial sharp decline in the stock price on February 4, 2009 (after the decision in Docket No. 08-07-04 was released UIL's stock price fell from $27 to $17), the value of UIL stock has grown steadily to roughly $40 on February 4, 2013. OCC-283.

Moreover, this increase in stock value has come at a time of low and declining interest rates, which makes UIL stock a more attractive investment. Interest rates today are at their lowest point since the 1960's. They have fallen from roughly six percent at the time of the Company's last rate case, Docket No. 08-07-04, to roughly four percent today. Tr. 2280-2281. Moreover, the yields on long-term Treasury and utility bonds are about 200 basis points below the yields at the time that the DPUC set UI's ROE at 8.75 percent in Docket No. 08-07-04. Woolridge PFT, 3. In addition, recent statements and monetary policy actions of the Federal Reserve and current economic conditions of slow economic growth, unemployment levels and

low inflation should keep interest rates and capital costs in the United States low for several years. Woolridge PFT, 10-11. In addition, as world-wide interest rates have fallen, interest rates in the United States have become more attractive. Tr. 2283-2284.

Since the Company's last rate case, UIL has acquired three natural gas distribution companies; Connecticut Natural Gas, Southern Connecticut Gas and Berkshire Gas. UI has also financed, constructed and moved into a brand new Central Facility. Further, UI has enjoyed full revenue decoupling, which has assured that UI will recover the revenue levels set by the DPUC in Docket No. 08-07-04 regardless of its actual sales levels. Decoupling has provided UI with revenue stability by removing the risk of sales fluctuations due to weather or the economy and is viewed positively by the credit rating agencies.

All of these factors demonstrate UI's financial strength with a ROE of 8.75 percent since its last rate case in Docket No. 08-07-04. But perhaps the most important indication of the reasonableness of UI's current ROE of 8.75 percent is that the Company has regularly earned above its authorized ROE levels. Specifically, it has over-earned in five out of the last ten years.

	Authorized	earned
-2003	10.45%	9.5%
-2004	10.45%	**11.19%**
-2005	10.45%	10.36%
-2006	9.77%	**9.88%**
-2007	9.75%	8.93%
-2008	9.75%	7.84%
-2009	8.84%	**8.89%**
-2010	8.75%	**9.34%**
-2011	8.75%	8.74%
-2012	8.75%	**10.34%.**

OCC-192 (bold denotes overearnings). See also Woolridge PFT, 12.

One percent of UI's ROE equates to $7.6 million in revenue requirements. CIEC-3. Thus, approving a ROE of 8.75 percent would reduce UI's revenue requirement by $11.4 million in both RY-1 and RY-2.

E. Revenue/Sales Projections

In its Application, UI asserted that its projected sales levels are insufficient to cover its operating expenses. The Company further claimed that its actual sales for the test year, the twelve months ending June 30, 2012, were 3.6 percent below its 2010 approved sales levels. Nicholas PFT, 13. See RA-7. The Company submitted its own projected sales levels for RY-1 and RY-2 that were far below the sales levels set by the DPUC in Docket No. 08-07-04.

PURA should reject UI's residential and commercial sales forecasts and its projected revenue levels as unreasonably low and approve the sales forecasts presented by Scott Rubin on behalf of the Office of Consumer Counsel in this case. Unlike the Company's projections, Mr. Rubin's sales forecast is reasonable and consistent with UI's actual historical sales figures. Over the last five years, UI's actual residential sales levels have declined by about 6 million kWh, or about 0.3%. This equates to an average annual decline of about 0.1%. Rubin PFT, 6. Despite this modest decline, UI projected that residential sales will decrease by more than 45 million kWh, or by more than 2 percent per year, with significant declines in the months of May (11 percent below average actual consumption for that month), June (10 percent below average actual consumption for that month) and July (more than 20 percent below actual average consumption for that month). UI provided no credible explanation of why customer consumption would fall so precipitously compared to actual usage over the last five years. Rubin PFT, 6-7.

Similarly, PURA should reject UI's commercial sales forecast as unreasonable and unsupported. Again, over the last five years UI's commercial customer usage has declined by about 3.7 percent, or by about 0.8 percent per year. Rubin PFT, 9. UI, however, has forecasted that commercial usage will decline by 1.2 percent per year, again with precipitous drops in the months of May (11 percent below average consumption in that month over the last five years), June (14 percent below average consumption in that month over the last five years) and July (15 percent below average consumption in that month over the last five years). Rubin PFT, 10-11.

PURA should reject UI's proposed residential and commercial sales forecasts as not supported by the evidence.[2] While UI's sales have declined moderately over the past few years, this decline coincided with a period of economic decline – a business cycle not likely to continue. Instead, PURA should use the more reasonable sales forecasts for 2013 that are based on actual historical, weather-corrected sales for 2012 as recommended by the OCC. Rubin, 8, 11. Such forecasts would call for a decline in residential consumption of roughly 0.1 percent and in commercial consumption of about 0.8 percent. The application of these reasonable and historically accurate forecasts would result in sales revenues being significantly higher than the amounts projected by UI in its rate application. In turn, these sales forecasts would result in downward adjustments to UI's proposed revenue requirement of $19.8 million in RY-1 and $33.6 million in RY-2. Rubin PFT, 16.

[2] During the hearings in this case, even UI's own witnesses acknowledged that the Company's sales projections appeared to be low. Tr. 1672.

F. Other Revenue Requirement Adjustments

1. Payroll/Employee Compensation Issues

a. Incentive Compensation

In UI's last rate case, Docket No. 08-07-04, the Company proposed that its ratepayers pay $7.7 million per year for incentive compensation. See Final Decision, Docket No. 08-07-04, 39. In that case, the DPUC rejected the Company's request and instead capped UI's incentive compensation expense at $3.99 million, in part because UI had spent greater amounts than had been previously authorized on incentive compensation in the years leading into that case. Final Decision, Docket No. 08-07-04, 39-40.

Since that time, UI's actual incentive compensation expense has continued to exceed authorized amounts. Specifically, it has been:

-2008 $7.4 million
-2009 $8.1 million
-2010 $7 million
-2011 $8.4 million
-2012 $6.7 million.

OCC-7. However, as required by the DPUC's order in Docket No. 08-07-04, UI has charged the amounts over the authorized $3.99 million below-the-line, or to its shareholders and not its ratepayers. Tr. 358.

In the present case, UI proposes to increase its authorized incentive compensation expense to $4.8 million in RY-1 and $4.68 million in RY-2. AC-124. The Company claimed that its incentive compensation is at risk, or not guaranteed, and that the approved levels must be increased in order to keep UI's pay at levels that are competitive in the industry, which is necessary to attract and retain talent. Tr. 358.

PURA should reject UI's request and should maintain its authorized incentive compensation expense at levels closer to $3.9 million per year. First, the Company' incentive compensation is not effectively at risk. From 2008 to 2012, every executive and management employee who was eligible for incentive compensation received incentive compensation. OCC-44. Second, the goals that must be met to achieve incentive compensation are heavily weighted toward shareholder rather than customer benefits, such as the profitability of the Company. See OCC-41. Third, the Company failed to produce in this proceeding any studies comparing its proposed incentive compensation to that allowed in other jurisdictions. OCC-43. UI simply did not establish that it must pay higher incentive compensation in order to attract and maintain qualified employees.

The Authority should approve a 3 percent increase to the $3.99 million incentive compensation expense allowed in the Company's last rate case, Docket No. 08-07-04, which would result in an authorized incentive compensation expense of $4.1 million in RY-1 and RY-2. This would result in a downward adjustment to UI's proposed revenue requirement of $0.7 million in RY-1 and $0.5 million in RY-2.

b. Vacancy Rates

In Docket No. 08-07-04, UI proposed a personnel vacancy rate of 5.1 percent, but the DPUC approved a vacancy rate of 6.34 percent. Final Decision, Docket No. 08-07-04, 33-34. In the present proceeding, the Company proposed a vacancy rate of 3.7 percent. Schedule 3.27; Tr. 360. See also OCC-24 Revised.

PURA should reject UI's proposed vacancy rate as unreasonably low and should instead maintain the vacancy rate approved in Docket No. 08-07-04 of 6.34 percent. UI failed to demonstrate that it needs to adjust its proposed vacancy rate in order to maintain an adequate

work force. Moreover, UI customers should not be required to fund positions that the Company does not need and is unlikely to fill. Since one percent of the Company's vacancy rates translates into roughly $530,000, tr. 364, this would result in a downward adjustment to UI's revenue requirement of about $1.4 million in both RY-1 and RY-2.

2. Directors and Officers Liability Insurance

UI seeks PURA approval to require its ratepayers to pay 100 percent of the Company's allocated share (45 percent) of UIL's directors' and officers' ("D&O") liability insurance. That amounts to $266,000 in RY-1 and $274,000 in RY-2. Schedule WP C-3.31 A. UI claims that D&O liability insurance is a prudent and necessary expense to operate a publicly held company and that it will not be able to attract qualified individuals to serve on its boards without it. OCC-86. The Company considers this expense a normal cost of doing business that should be fully funded by its ratepayers. It disagrees with PURA's decision in Docket No. 08-07-04 that required ratepayers to fund only 25 percent of the Company's D&O liability insurance. OCC-86.

PURA should reject UI's request for ratepayer funding of D&O liability insurance in total and allow UI the same 25 percent recovery of D/O liability insurance recovery allowed in the Company's last two rate cases. See Final Decision, Docket No. 08-07-04, 43; Final Decision, Docket No. 05-06-04, 47 (in which the DPUC stated that D&O liability insurance "protects only shareholders from the actions of management that they selected"). D&O liability insurance primarily benefits the Company in that it protects UIL shareholders from the decisions made by those that they hired to run the Company, UI and UIL directors and officers. UIL's directors are nominated by the Company's directors, are approved by its shareholders and work for its shareholders. Tr. 658-659. This adjustment would result in a downward adjustment to UI's rates of roughly $0.2 million in RY-1 and $0.2 million in RY-2.

3. Board of Directors

UI proposes that PURA require its ratepayers to pay roughly $1 million per year to cover certain payments made to the Company's Board of Directors ("BOD"), including expenses, stock and pension. Tr. 370-371. This request represents UI's allocated 45 percent share of UIL's total BOD cost of $1.92 million. Id. Schedule C-3.31. The Company claims that such costs are a reasonable cost of doing business that should be paid by its ratepayers.

It is important to note that the meeting minutes from UIL's May 15, 2012 BOD meeting minutes reflect an increase in BOD fees from $1,000 per meeting to $1250 per meeting for the non-management UIL directors and an increase in the annual chair fee for the chair of the Audit Committee from $10,000 to $12,000. AC-105. Moreover, minutes from the February 14, 2012 BOD meeting minutes indicate that UIL Directors' compensation was determined to be 3 percent to 5 percent above the comparative group. AC-105.

PURA should reject this request that its ratepayers fund all of UI's allocated share of BOD costs. Instead, PURA should allow UI to recover 25 percent of these costs from ratepayers, the same percentage that DPUC approved for D&O liability insurance in 08-07-04. UIL's BOD is selected by UIL shareholders and works primarily on behalf of UIL shareholders. The rejection of this request would result in a downward adjustment to UI's rate request of $0.75 million in RY-1 and $0.75 million in RY-2.

4. Depreciation

UI proposed to increase its depreciation expense by $4.6 million per year in both RY-1 and RY-2. UI based its request on a depreciation study that the Company completed in 2009 based on data through December 31, 2008. Favuzza PFT, 25. See Tr. 2116-2117.

PURA should reject the Company's proposed depreciation expense and reduce UI's proposed rates by $4.6 million annually in RY-1 and RY-2. As noted in the testimony submitted by the OCC in this matter, UI's depreciation study was not in compliance with the Uniform System of Accounts. Teumim/Radigan PFT, 2, 15. Moreover, certain recommendations in the Company's depreciation study are simply not supported by the body of the study itself. For example, UI recommended the use of an average life of 33 years for Account number 368, line transformers. UI's own study, however, indicates that the average service life for this account is actually 44 years. Id. In addition, UI failed to provide the workpapers and analysis to support the recommended changes in the net salvage rates proposed in its study. UI's study is not reliable and the Authority should reject the adjustments that the Company based thereon.

5. Advertising Expense

UI proposed to increase its advertising expense from $305,000 to $672,000 in RY-1 and $728,000 in RY-2. Schedule C-3.2 A-B. The Company claimed that its proposed increases are necessary because UI now offers new products and services, such as surge protectors for generators and water heater leases, that it should advertise to its customers. Tr. 132-133.

Pursuant to Conn. Gen. Stat. § 16-19d, certain types of advertising are not considered an operating expense of a regulated utility company, including political advertising, institutional advertising to create or enhance a company's public image and promotional advertising unless authorized by PURA. In the Company's last rate case, DPUC approved an advertising expense

of $305,000. Docket No. 08-07-04, 66. Over the last five years, however, UI's actual advertising expense has been far below its authorized amounts. Specifically, UI has spent:

-2008	$224,000
-2009	$173,000
-2010	$241,000
-2011	$222,000
-2012	$143,000.

PURA should reject UI's request to double its authorized advertising expense and triple its actual spending on advertising. The Company simply failed to justify this proposed increase. For example, with regard to surge protectors for generators, UI proposes to increase its advertising expenses from $16,000 per year to $78,000 per year, an increase of $62,000. Tr. 635. According to Schedule W.P.C 3.1 A-B, however, the Company projects revenues of $49,000 related to its generator surge protection program. Tr. 636-637. It is simply not cost effective for UI to spend $62,000 of ratepayer money to generate $49,000 in revenue. See LF-37. If UI seeks to advertise new products or services, or to emphasize certain products and services more than it has done in the past, then the Company should re-evaluate and revise its advertising of its other products and services.

PURA should maintain UI's allowed expense at the levels set in 08-07-04 of $305,000. This results in a downward adjustment to UI's revenue requirement of $367,000 in RY-1 and $$423, 000 in RY-2.

6. Travel, Education and Training

UI proposes a distribution travel, education and training expense of $2.1 million in RY-1 and $1.8 million in RY-2. Schedule C-3.26A-B. This request represents a huge increase over the levels approved in its last rate case and over its actual spending levels over the last five years. In Docket No. 08-07-04, DPUC approved $1.1 million for UI distribution's travel, education and

training expense. Final Decision, Docket No. 08-07-04, 66. Over the last five years, UI has averaged $1.1 million for these expenses. Specifically:

-2008 $1.4 million
-2009 $0.9 million
-2010 $1.4 million
-2011 $1.2 million
-2012 $0.7 million.

OCC-148 Revised.

An increase in UI's distribution travel, education and training expense amount may be justified, but not to the extent proposed by the Company. UI failed to demonstrate that its currently allowed expense level has prevented it from attending appropriate and necessary education and training programs. PURA should approve a distribution travel, education and training expense of $1.6 million, which would result in a reduction to UI's revenue requirement of $0.5 million in RY-1 and $0.2 million in RY-2.

G. Rate Plan

In order to mitigate the impact of its proposed rate hike on its customers and avoid fluctuations in its distribution rates, UI proposed to hold distribution rates at current levels from July 1, 2013 (or whenever new rates that are imposed in this proceeding go into effect) through December 31, 2013 by:

-retaining customer's share of its 2010 earnings sharing mechanism ("ESM") liability of $4 million;

-retaining customers' share of its 2012 ESM liability of $10.4 million;

-retaining customer's share of 2013 excess CTA revenue of $20.3 million, AC-75; and

-retaining any customer's share of 2013 ESM liability.

Any remaining revenue surplus or shortfall for the period July 1 to December 31, 2013 that remains after the Company retains the above dollars would be applied against RY-2. Favuzza PFT, 4. Moreover, the elimination of the CTA on January 1, 2014, which collected $81.5 million from UI customers in 2013, should offset any change in rates at that time. Favuzza PFT, 3; AC-75. Deferring the rate increase as proposed by UI would also result in additional carrying charges charged to UI ratepayers of $527,000. OCC-81.

As discussed herein, the evidence presented in this proceeding does not support the rate increase as proposed by UI. Instead, PURA should approve distribution rates in RY-1 that are no more than $11.5 million above current levels, not $69 million above as proposed by UI. Moreover, PURA should also require UI to return immediately to its customers $14.4 million in ESM liability from 2010 and 2012, which would result in an aggregate distribution rate decrease of at least $2.9 million in RY-1. RY-1 rates should go into effect at the time of the PURA's final decision in this case, now scheduled for August 14, 2013, not on July 1, 2013 as the Company proposed. Moreover, on January 1, 2014, the expiration of the CTA should further reduce rates by at least $81.5 million per year. See AC-75; CIEC-14. Thus, the expiration of the CTA, in addition to the rates proposed herein, should result in UI's distribution rates falling by a total of at least $84.4 million as of January 1, 2014.

In RY-2, PURA should allow an increase in UI's distribution rates of not more than $12 million from RY-1 levels, or no more than a $25.5 million increase from UI's current distribution rates. Again, however, that increase should be offset by the Company's $ 20.3 million surplus CTA collections in 2013.

In light of these rate adjustments, PURA should not approve the rate plan proposed by UI. PURA should ensure that UI's rates reflect the actual costs being incurred by the Company

without elaborate and ultimately costly deferrals. Ensuring that rates reflect UI's actual costs without deferrals serves a number of important goals in this case. First, it avoids carrying costs on any deferred amounts that would have to be paid by ratepayers. Second, UI's goal of maintaining rate stability is illusory. Most customers' overall rates already fluctuate as the price of their generation service rises and falls. As a result, the deferrals proposed by UI would not provide any real rate stability for UI customers. Third, as discussed herein, UI's rates should actually fall in RY-1 and fall even further with the expiration of the CTA on January 1, 2014. Simply put, there are, and should be, no rate increases to defer.

H. ESM

In its Application, UI proposed to maintain its 50-50 ESM, which provides that UI and its ratepayers split all earnings above the Company's authorized ROE 50-50, and further proposed that any customer's share be applied to accelerate the amortization of the storm cost regulatory asset. Nicholas PFT, 11; OCC-110. UI claimed that this will shorten the time that it takes customers to fund the Company's $52 million storm regulatory asset and provides the same benefit as if the money were returned directly to customers. OCC-110.

The evidence presented in this case revealed that despite having a 50-50 ESM since the PURA's decision in Docket No. 08-07-04 dated February 4, 2009, UI has retained its customers' share of its over-earnings from 2010 ($4 million) and proposes to retain customer share from 2012 ($10.4 million). Favuzza PFT, 3; AC-73, Att. 1. The total 2010 and 2012 ESM sharing credit to customers for 2010 and 2012 is $15.1 million, which includes $1.4 million in estimated carrying charges. AC-73, Att. 1. In this case, UI also proposes to retain its customers' share of excess CTA revenue in 2013. Favuzza PFT, 3.

UI has no authority to retain its customers' share of money generated by its ESM. In this case, UI claimed that it returned $336,400 in overearnings, pension true-ups and decoupling adjustment from 2009 in a line-item on customers' bills starting October 2010. OCC-4. But, with regard to the Company's 2010 overearnings in the amount of $3.3 million, UI says it proposed to refund them in a line item on bills stating October 2012 but has not yet done so because PURA has not yet ruled on the ROE and sharing calculations submitted February 23, 2011. OCC-4. The Company has also not yet returned to customers their share of its overearnings from 2012, which total $10.4 million.

PURA should, in this case, require the immediate return of all customer share of overearnings to customers in line item credit on bills. In Docket No. 08-07-04, the DPUC clearly held that:

> [t]he Department directs the Company to continue the basic mechanics of UI's existing earnings sharing mechanism, which provides for sharing of earnings in excess of its allowed ROE 50/50 between customers and shareholders. Accordingly, the Company's excess earnings over its allowed ROE of 8.75% calculated by the cost of capital method will be shared 50/50 between ratepayers/Company. <u>The ratepayers' share of such excess earnings will be returned to customers through a line item credit on their bills</u>.

Final Decision, Docket No. 08-07-04, 8 (emphasis added).

Moreover, in Docket No. 08-07-04RE02, issued on September 1, 2010, the DPUC reiterated that:

> [o]n February 22, 2010, UI filed its earnings report for the 12-month period ending December 31, 2009 which is based upon the previously allowed ROE of 9.75% for a one-month period (January 1, 2009 through February 3, 2009), and the remainder is based upon the allowed return of 8.75% for February 4, 2009 through December 31, 2009. Although UI's authorized ROE currently is 8.75%, the earnings sharing for 2009 is based upon the weighted average allowed return of 8.84%. UI's 2009 report indicated it earned an ROE of 8.89% which exceeds the weighted average allowed return of 8.84%, translating to a total of $567,710 of excess pre-tax revenues. Consistent with the Company's earnings sharing mechanism, the excess earnings over the 2009 weighted

> average allowed ROE of 8.84% will be shared 50/50 between customers and shareholders. The total revenue requirement for this amount totals $309,754. Late Filed Exhibit No. 6. Based on the foregoing, the Department approves a refund of $309,754, plus carrying costs, and will require that UI return these revenues to ratepayers.

Final Decision, Docket No. 08-07-04RE02, 12 (Emphasis added).

I. Decoupling

In its Application, UI proposed to make its full revenue decoupling mechanism permanent. Lundrigan PFT, 16, 19. According to UI, its decoupling mechanism has provided rate stability and has played a major role in allowing UI to avoid having to file a rate case until this time. Nicholas PFT, 19-20.

The Company views decoupling as revenue neutral and claims that Moody's sees decoupling as a significant credit positive. According to UI, decoupling provides "for a level of cash flow stability and predictability." FI-04. UI proposed no offset to its ROE for the permanent adoption of full revenue decoupling. Avera PFT, 11-12. The Company claimed that decoupling is embedded within the expected market returns for equity investors. FI-04.

If PURA approves decoupling in this case, the Authority should reiterate the findings regarding decoupling that the DPUC made at the time that it initially adopted UI's decoupling pilot in Docket No. 08-07-04.[3] In that case, the DPUC stated that it approved decoupling solely to provide UI with revenue and financial stability and rejected the notion that decoupling was required to support or promote conservation and load management efforts. Final Decision, Docket No. 08-07-04, 121, 123. Also in that case, the DPUC noted that it adjusted UI's ROE downward to account for decoupling and stated that it, "will continue to monitor the Company's

[3] In addition, in light of decoupling, PURA should re-assess the appropriateness of continuing the Company's ESM sharing on a 50-50 basis between ratepayers and shareholders. Specifically, the Authority should consider whether the permanent adoption of decoupling should result in customers receiving a larger share of overearnings in order to more fairly balance the financial risks and rewards.

ROE." Id., 124. Each of these findings hold true today, are important to ratepayers and should be confirmed in the final decision in this case.

J. Customer Service

Despite over-earning in 2010 and 2012, UI has failed to provide adequate levels of customer service. The PURA should re-impose the customer service goals that it set in UI's rate case in Docket No. 05-06-04 and should hold the Company accountable for any failure to meet those goals.

PURA typically measures customer service using a number of metrics, including average speed of answer ("ASA") and the abandoned call rate. In Docket No. 05-06-04, the DPUC set a goal of 90 seconds for ASA and a goal of 5 percent for the abandoned call rate. See Final Decision, Docket No. 08-07-04, 128. The DPUC did not retain these goals in Docket No. 08-07-04. UI has, however, maintained these levels as internal goals since the final decision in Docket No. 08-07-04. Tr. 55-56. The Company regularly communicates these goals to its customer service representatives internally and periodically discusses them with PURA staff. Tr. 56. Moreover, UI testified in this proceeding that it plans to keep these goals in place for RY-1 and RY-2, but reserved the right to change them. Tr. 60.

Since its last rate case, however, UI has often failed to meet these goals. UI exceeded the 90 second ASA goal in 16 out of the 26 months ending February 2013. CS-24. The Company also exceeded the 5 percent abandoned call rate in 22 out of the 26 months ending February 2013. CS-24.

The Authority should re-impose these goals in this rate proceeding and should hold UI accountable for any failures to meet these goals. PURA should subject UI to financial penalties and/or greater regulatory oversight for the failure to meet these goals.

WHEREFORE, for the foregoing reasons, the Attorney General respectfully submits that PURA should reject UI's Application and instead impose the rate decreases discussed herein.

Respectfully submitted,

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Service is hereby certified to all parties and intervenors on this agency's service list for this proceeding.

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