

OPENING STATEMENT OF DOUG HORTON

Good morning Chairman Gillett, Vice-Chairman Betkoski, Commissioner Caron and Authority Staff. Thank you for this opportunity. I am the Vice President of Distribution Rates and Regulatory Requirements for Eversource. As Ms. Conner stated, I would like to walk you through two slides that provide an overview of the rate components under review in this proceeding. I will also provide a breakdown of the drivers of the July 1st rate increase for the average residential customer bill.

This first slide provides a simplified presentation of the various rate components that customers see on their bills. I need to first acknowledge though that the actual bill presentation is not this simplistic – our bills are, by necessity, comprised of a number of different rates and charges, requiring detailed calculation and supporting documentation. The intention of our bill presentation is certainly not to confuse anyone, but I realize it can be difficult to understand. So, I wanted to take a brief minute to describe what is included in each category of costs.

The top block of this chart labeled “Energy Supply” is the cost of the commodity – the electricity – that we purchase on behalf of our customers. This is the standard service rate that is charged to customers who have not elected to receive electricity from a retail supplier. Other than certain solar facilities and offshore wind facilities that are under development, Eversource does not own or operate the facilities that generate the electricity we sell. We purchase that power from market suppliers and pass through those costs to customers without any ‘markup’ or profit for Eversource. We simply buy the power and reflect that cost in the Supply portion of a customer’s bill. As of July 1, the energy supply portion was about 7.4 cents per kWh for a residential customer, which

makes up 30% of the bill. This amount is reviewed twice a year and the rate adjusted every January 1st and July 1st, with the fluctuating cost of electricity, so the rate and proportion of a customer's bill will be lower or higher depending on market conditions.

On our bill, we actually present a summary chart at the very top of the bill, which presents the total charges for the month in two categories: Supply and Delivery. The Supply portion on my chart matches with the supply portion seen on a customer's bill. On the bill, we also show an amount for Delivery. I have broken down delivery service into three categories, as shown in the chart, to explain the cost drivers of each.

I'll start by explaining the bottom two blocks for delivery service on this chart – the green block labeled "Distribution", and the Orange block labeled "Transmission".

As I mentioned, Eversource does not produce the power we sell. We purchase it and deliver it to our customers over the transmission and distribution systems that we own and operate. The Transmission rate covers the costs to move the power over long distances from the power plants that generate the electricity, right up to the distribution substation. The Distribution charge covers the costs of the lower voltage system, from the substation to the customer who uses the electricity. These costs include costs for our personnel to operate, construct, repair and maintain the poles, wires and other equipment you see on your street.

The Distribution and Transmission rates are fully regulated – albeit by different agencies. The Distribution rates we charge are fully regulated by the Authority and are cost-based. Distribution rates are set in a distribution rate case, which is required under Connecticut law, at least every 4 years. In a rate case, we present a full accounting of

our costs, and the costs are reviewed in a very comprehensive and thorough process including audits conducted by Authority, with the participation of other state agencies.

Similarly, transmission cost recovery is regulated at the Federal level by the Federal Energy Regulatory Commission or FERC. The costs we collect for the Transmission system are recovered under FERC-approved formula rates, such that we cannot recover any more than our prudently incurred costs, which includes a return component on the investments that we make in the transmission system. The rates for Transmission service on customer bills are based on the charges we, as a distribution company, pay for transmission service.

The purpose of the rate case process is to determine what level of revenues we must collect in order to cover our costs of providing safe, reliable service to customers. If the actual revenues we recover are different from the revenues we have been authorized to recover, there is a mechanism in place, called "decoupling", that will reconcile that over or under collection, so that we do not recover any more or less revenue through rates, than what is authorized by the Authority. As a result of this decoupling mechanism, Eversource does not make any extra money when residential electricity usage increases like it did in June and July of this year, because the revenue level we are allowed is capped. Also, as part of a rate case, the Authority establishes the authorized rate of return we are allowed to earn on the investments we make in the distribution system. If we earn above that allowed rate, we are required to share that excess with customers.

The last category on this chart – the light blue block labeled "Other Charges", is also reflected in the delivery portion of our bill. This covers costs for certain government mandated energy policy initiatives, such as renewable energy investments, energy

efficiency programs, purchase power agreements, including costs associated with renewable and carbon-free electricity, and the costs of small-scale renewable energy incentives such as residential solar installations. Like energy supply costs, the costs of these initiatives are shown on our bills, but, are by and large ‘passed through’ the bill without any markup or profit to Eversource. The one exception is the Energy Efficiency program, which Eversource administers and has the ability to earn an incentive depending on our performance. The Energy Efficiency rate make up 0.6 of the 4.651 cents/kWh shown here, or about 2.5% of the total bill. Based on the July 1 rates, these Other Charges made up about 20% of the bill.

So – to recap – the Distribution charges recover the costs of to operate, construct, repair and maintain the poles, wires and other equipment that delivers the power over the local electric distribution grid to the customers who use it, and the Transmission charges recover costs associated with service across the higher voltage interstate New England electric grid (including CL&P). The rates are fully regulated, and we recover only the costs we’re using – in service and demonstrate to FERC and the Authority are necessary in order to safely and reliably serve our customers. Together, the Transmission and Distribution charges currently make up about 50 percent or half, of the bill for our residential customers.

The Energy Supply and Other Charges components make up the other half of the bill, and largely are costs collected by Eversource and passed through to a third party.

Now turning to the second slide, this slide shows graphically what Ms. Conner spoke about in her opening remarks. The bottom left chart shows a typical customer bill prior to the July 1 rate change, and prior to the sharp increase in usage in June. Moving

up the left side, we saw a 36% increase in *usage* for residential customers in June, which, for a typical customer using 700 kwh a month would experience an increase of \$55 in their bill.

Moving left to right shows the increase in the rates, which were largely a result of the two changes Ms. Conner spoke of – the transmission adjustment clause and the NBFMCC. The increase in those rates was offset by a reduction in the Energy supply rate that also went into effect on July 1, so that the combined impact of all *rate* changes alone, if usage remained at 700 kWh, caused an increase of about \$6. *[moving from lower left to lower right in the chart]*. However, when the higher usage is coupled with the increase in rates, a customer's bill would increase about \$62. Of that \$62, \$55 is from increased usage alone, absent any rate change [as shown, moving from lower left to upper left in the chart], while the remaining \$7 is caused by the change in rates at the higher, 952 kWh usage level [moving from upper left to upper right on the chart]. While this is a realistic illustration, actual customer usage and bill impacts vary. Many customers use more than 700 kWh. So, the impacts to those customers would be greater, as we have now experienced.

And – I should mention, not surprisingly, we are seeing this trend continue into July and August. June's usage was 36% higher than May's usage, and July's usage was 35% higher than June's.

Thank you for allowing me the opportunity to walk through these slides. I hope they were helpful. At the end of this proceeding, we anticipate that the Authority will conclude that Eversource is not over-collecting revenues from customers. However, we know that the Authority must balance the obligation to assist our most vulnerable

Commented [BKJ1]: Pace ? add: *for a typical residential customer using about 700 kWh per month?*

They many question why the use of \$6 here does not match with the use of \$7 down below in the next sentence.

customers and those experiencing financial difficulties during this pandemic, with the obligation to ensure that the Company is able to provide essential services to those same customers and others. We hope to assist the Authority in exploring new approaches to strike that balance in these unprecedented times.

We look forward to answering any questions you all have for us.

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