STATE OF CONNECTICUT

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

DOCKET NO. 13-03-23 PETITION OF THE CONNECTICUT LIGHT AND POWER COMPANY FOR APPROVAL TO RECOVER ITS 2011-2012 MAJOR STORM COSTS

March 12, 2014

By the following Commissioners:

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DECISION

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DECISION

I. INTRODUCTION

A. SUMMARY

In this proceeding, the Public Utilities Regulatory Authority allows The Connecticut Light and Power Company a storm cost reserve recovery of $365 million versus recoverable storm costs of $414 million. Recoverable storm costs are net of The Connecticut Light and Power Company's $8.3 million storm reserve fund balance and $40 million of costs written down pursuant to Section 4.3 of the Settlement Agreement approved in the April 2, 2012 Decision in Docket No. 12-01-07 Application For Approval of Holding Company Transaction Involving Northeast Utilities and NSTAR. Additionally, the Public Utilities Regulatory Authority finds $49 million of downward adjustments which include amounts transferred to capital, reimbursements received subsequent to the initial Company filing and elimination of storm costs found to be included in the base rates of the company. The $365 million ($414 - $49) will be amortized over six years, beginning no earlier than December 1, 2014.

B. BACKGROUND OF THE PROCEEDING

In August 2011, Connecticut was impacted by Tropical Storm Irene (Storm Irene) causing 671,789 concurrent outages to The Connecticut Light and Power Company's (CL&P or Company) customers at its peak and requiring restoration to a total of 1,024,032 CL&P customers. This was followed by a Nor'easter in October 2011 (October Nor'easter) in which 807,228 customers were without power at the peak and requiring restoration to a total of 1,438,797 CL&P customers. In addition, in October 2012, Storm Sandy (Storm Sandy) hit Connecticut causing 496,769 CL&P customers to lose power concurrently at the peak and requiring restoration to a total of 856,184 customers. CL&P has indicated that these storms, as well as storms in June 2011 and September 2012, caused a variety of problems, including in some instances, flooding, a lack of water, interruptions in cellular telephone, cable television and other communications services, downed trees and power outages impacting nearly every citizen and business in the State. Petition, p. 1.

C. CONDUCT OF THE PROCEEDING

By Petition dated March 28, 2013, the Company requested approval, to recover major storm costs. In particular, CL&P requested that the Public Utilities Regulatory Authority (Authority or PURA) approve recovery of $462.3 million in storm costs incurred when restoring service to customers as a result of five major storms in 2011 and 2012, with the total amount subject to collection from customers limited to $414 million as a result of the $40 million customer write down required by the settlement and the offset of the remaining balance of $8.3 million in CL&P's storm reserve fund balance. Petition, p. 7

By Notice of Hearing dated September 5, 2013, a hearing was held at the Authority's offices on September 16, 2013. Hearings were also subsequently held on

September 23, 2013 and September 24, 2013. A Late-Filed Exhibit Hearing was held on October 1, 2013. The hearing in this matter was closed by Notice of Close of Hearing dated October 22, 2013.

D. PARTIES AND INTERVENORS

The Authority recognized the following as Parties to this proceeding: The Connecticut Light and Power Company, c/o Northeast Utilities Services Company, P.O. Box 270, Hartford, CT 06141-0270; the Office of Consumer Counsel (OCC), Ten Franklin Square, New Britain, CT 06051; the Public Utilities Regulatory Authority's Prosecutorial Unit, Ten Franklin Square, New Britain, CT 06051; the Office of Attorney General; requested and were granted Intervenor status in this proceeding.

II. PETITION

CL&P petitioned the Authority for approval to recover costs to restore service to its customers resulting from five major storms in 2011 and 2012. CL&P notes that its filing presents an accounting of the Company's costs for its preparation and response to Storm Irene in August 2011, the October Nor'easter in October 2011, Storm Sandy in October 2012, and two additional major storms in June 2011 and September 2012. March 28, 2013 Petition. A summary of the requested storm costs is as follows:

Summary of CL&P Storms with Amounts Recorded to the Storm Reserve
Distribution Company Costs at January 31, 2013
$ Thousands

	June 2011 Storm	Tropical Storm Irene	Nor'easter	September 2012 Storm	Hurricane Sandy	Total
CL&P Work Order Number ===>	STRM111C	STRM111D	STRM111E	STRM112K	STRM112L	Transfer to Storm
Storm Event Start Date ===>	6/11/2011	8/28/2011	10/29/2011	9/18/2012	10/31/2012	Reserve
Direct Labor (CL&P and other NU Companies)	2,646.0	7,762.9	14,556.9	2,158.1	17,634.8	
Material (including Stores Loading & Lobby Stock)	123.6	3,283.5	3,684.0	37.5	3,670.1	
Payroll-related overheads (Benefits & Non-Productive)	2,582.7	13,340.4	19,934.6	2,193.0	21,515.3	
Vehicles	491.8	1,549.0	2,118.0	352.5	2,315.7	
Outside Contractors/Vendors	9,636.4	101,208.8	164,087.9	7,320.5	136,664.2	
Employee Expenses/Other	(1,108.0)	(1,857.0)	(5,500.5)	93.0	783.4	
Total Storm Restoration Costs	14,372.5	125,287.6	198,880.9	12,154.6	182,583.5	
Less: Non-Incremental Storm Costs	3,445.1	14,128.1	23,822.8	2,967.6	26,582.9	
Total Transferred to Storm Reserve	10,927.4	111,159.5	175,058.1	9,187.0	156,000.6	462,332.6
Reserve Accruals/Other						(8,344.3)
Total Storm Reserve at January 31, 2013						**453,988.3**

Petition, Exhibit CL&P-1, p. 1.

The Company's filing was submitted pursuant to the General Statutes of Connecticut (Conn. Gen. Stat.) §§ 16-11, 16-19, 16-19e and 4-176, and Section 4.3 of the settlement agreement (Settlement) approved by the Authority in its April 2, 2012 Decision in Docket No. 12-01-07. According to the Company, the Settlement provides that CL&P's storm costs would be subject to review and approval in an adjudicatory proceeding. The Settlement also provided that CL&P's distribution rates would remain

frozen until December 1, 2014, and therefore; the Petition does not propose to amend these rates. Rather, the Petition requests that the Authority approve recovery of CL&P's incurred net storm costs in future rates, over a six year period, commencing when the new rates are implemented after the base rate freeze expires. Petition, p. 1.

The Petition seeks to only recover incremental, non-capital storm costs. CL&P indicated that the Davies Consulting (Davies) testimony filed as part of the Petition, addresses the three larger storms: Storm Irene, the October Nor'easter, and Storm Sandy. The Company holds that the Davies testimony demonstrates that CL&P's infrastructure and maintenance practices were reasonable and did not cause increased restoration costs; that the Company's emergency plan and procedures in place for the 2011 storms, and the Company's actions pursuant to that plan and procedures, were reasonable and consistent with industry norms; that the Company took appropriate steps under the circumstances to mobilize and acquire resources to respond to the 2011 and 2012 storms; and, therefore, CL&P's storm costs were reasonable and prudently incurred. Petition, p. 5.

A. STORM COSTS SUBJECT TO COLLECTION FROM CUSTOMERS

The Company holds that of the $462.3 million of incurred storm costs, the total amount subject to collection from customers is limited to $414 million as a result of the $40 million customer write down required by the Settlement and the offset of the remaining balance of $8.3 million in CL&P's storm reserve fund balance. Thus, any disallowances by the PURA up to $40 million are already accounted for in the Company's proposed total collectible amount of $414 million. Petition, p. 7.

B. EVALUATIVE CRITERIA

The Company has claimed that its restoration performance relative to the storms in this proceeding was reasonable and within industry norms. Davies makes a similar argument regarding CL&P's performance in Storm Irene, the October Nor'easter, and Storm Sandy. Petition, p. 5. While industry norms provide statistical inference that is meaningful and the Authority will fairly consider them, their ability to conclusively assess, beyond any doubt, the Company's prudence in this proceeding is not definitive. In its August 1, 2012 Decision in Docket No. 11-09-09, PURA Investigation of Public Service Companies' Response to 2011 Storms, the Authority disagreed with CL&P's argument that the conclusions from the consultants' reports verify that the Company met the required standard of care. CL&P Reply Brief, pp. 18, 22 and 23. Although it is understood that the consultants' reports suggest CL&P adhered to industry norms in some respects, such as the overall time of full restoration, (see Report of Witt Associates, December 1, 2011, p. 11; Witt Associates, CL&P Management Performance Audit: 2011 Major Storm Events, June 1, 2012, p. 1;) the standard of care in the Authority's three-part test[1] on prudency is not limited by industry norms, nor limited to the single issue of full restoration timing.

[1] The three part test is as follows: "First, there must be a clearly understood definition of the standard of care by which a utility's performance can be measured; second, the actions of the utility must be examined to determine if there has been a failure on its part to conform to the standard required; and finally, there must be a reasonably close casual connection between the imprudent conduct, if any,

The Authority also noted that industry norms have shortcomings:

> Further, Witt Associates makes the following clarification on industry norms by noting, "[t]he industry has recognized that such norms themselves are in need of improvement, particularly in the areas of damage assessment and establishment of restoration priorities. Trends in industry best practice are now towards addressing these recurring challenges." June 1, 2012 CL&P Management Performance Audit: 2011 Major Storm Events by Witt Associates, p. 4.
>
> Decision in Docket No. 11-09-09, p. 18

When addressing the issues in this Decision, inherent in the PURA's judgment will also be whether the Company met its standard of care, and how it performed in light of the Authority's evaluative criteria established in the June 24, 2013 Procedural Order in this docket. Here the Authority noted that it would:

> (r)eview the accuracy of the costs contained in the Recovery Petition for which recovery is sought to ensure that the costs are quantifiable, fully supportable, properly assigned to storm related activities, and meet any other standard necessary to be considered as properly incurred storm costs from an accounting standpoint. Additionally, the Authority must determine that these costs for items and services are not included in the rates and charges currently charged customers.
>
> … (w)ill evaluate the prudency of the actions taken by the Company before, during and after each of the subject storms. This should include whether or not the Company employed prudent management and operating procedures in incurring its storm costs, and if not, how, and in what monetary amount, should ratepayers be compensated for these deficiencies. The review will also examine whether or not CL&P prudently or imprudently avoided any operational costs that could have mitigated restoration.
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> June 24, 2013 Notice of Procedural Order.

III. AUTHORITY ANALYSIS

A. CAPITALIZATION

CL&P states that during a major storm restoration, some of the restoration work is capital work involving the replacement of plant assets such as poles and other capital units of property. However, the Company claims that with multiple thousands of damage locations and the exigent circumstances of a storm restoration event, it is essentially impossible to establish a unique work order for each capital project as is

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and actual loss or damage." Docket No. 08-02-06, DPUC Investigation into The Connecticut Light and Power Company's Billing Issues, August 6, 2008, pp. 10 and 11.

done under normal non-storm conditions. For this reason, storm-related capital costs were appropriately identified by an after-the-fact analysis of the total costs charged to the storm work orders. CL&P Brief, p. 10.

The amounts to be capitalized were based on the actual cost of materials charged to each storm work order that are capital units of property, such as poles, conductors, cutouts, switches and lightning arrestors, plus a reasonable estimate of the labor costs to install the capital units of property, plus associated overheads. The labor estimates were developed using information from the Company's work management system regarding man-hours and vehicle charges typically incurred for the installation of each material item, based on union contract pay rates, hourly vehicle use rates and historical time studies. The Company then applied several factors to increase the labor estimates to account for the fact that in a storm restoration, tasks would take longer to perform due to adverse conditions and at premium pay rates. Id. pp. 10 and 11.

In addition to these direct costs, the Company also accounted for indirect costs normally included in capital projects, such as labor overhead charges, supervision costs and actual storeroom and lobby stock overheads. The Company maintains that this approach resulted in an appropriate quantification of storm-related plant assets to be included in rate base, with valuations based on known cost structures adjusted for storm conditions. This approach to storm cost capitalization has been used by CL&P for many years. Tr. 9/16/13 p. 59. Further, the Company's independent external auditors reviewed CL&P's financial statements for 2011 and 2012, including the impacts of the catastrophic storms, and determined that the regulatory asset amounts and plant asset values were appropriate. Id. p. 11.

The Authority's Prosecutorial Unit (PRO) submitted pre-filed testimony to demonstrate how capital costs were underestimated in the total cost charged to the major storm work orders for the five catastrophic storms of 2011 and 2012. Rosenkoetter PFT, p. 1. PRO testified that CL&P estimated the cost of capital expenditures for storm restoration and did not charge each capital item to a unique work order as it would do in a non-storm restoration situation. Instead, the Company based the capital cost estimates on the materials that are capital units of property (retirement units) issued or charged to the storm restoration expense work order. Id., p. 4. Further in computing the amount of cost to be capitalized, CL&P used a Labor Time Factor of 2.0, a Labor Time Set Up Factor of 1.5, and a Labor Time Overtime Factor of 1.69 in order to reflect the presence of adverse conditions, planning time required, increased travel time required to get to the site, and the fact that the work would be performed, in part, with overtime labor. Id., p. 6. PRO also noted that a review of sample outside contractor invoices indicates that approximately 80% of the time charged to CL&P by outside contractors for Storm Irene and the October Nor'easter was double time. Rosenkoetter Revised PFT, p. 9.

Additionally, PRO argued that there were four areas involving the Company's estimation process that resulted in an underestimation of the amount of storm costs that were transferred to capital: 1) CL&P did not review or revise its time estimates used in its storm restoration cost capitalization process in over 13 years; 2) an internal audit was not conducted of the Company's process of classifying storm restoration work as

either an expense or capital nor the factors used to estimate the total capital costs; 3) the restoration cost capitalization process did not incorporate cost for outside contractors and mutual aid workers, which could be considerably different from in-house; and 4) the factor used to adjust the capital cost estimated for overtime (1.69) did not reflect sufficient weight for the work performed at double time rates, and additional costs (travel, lodging, meals, etc.) that are associated with using outside vendors to perform work during storm restoration. Id., p. 11.

Additionally, PRO indicated that it focused on the overtime factor used by CL&P to make a conservative estimate of the amount that the Company was underestimating capital costs and therefore, overestimating incremental restoration expense. Id., p. 12. PRO noted that its review indicates that outside contractors charged CL&P approximately $170/hour. Id. PRO estimated that the hourly rate for employee restoration work was $60/hour based on the consulting team's experience. Id. PRO also estimated that about 70% of the restoration work performed was by outside contractors versus 30% at the employee rate. The weighted average hourly rate was, $149 [(70% x $170) + 30% x ($60 x 1.69)]. Id., p. 13. PRO asserted that a more accurate overtime factor would be the $149 estimated weighted average hourly rate divided by the estimated $60 per hour fully loaded CL&P line worker rate at regular time, which is approximately 2.5 ($149/$60).

However, PRO stated that additional information indicates that CL&P's fully loaded composite labor rate was $72.89 per hour, as opposed to the $60.00 per hour. PRO Brief, p. 9. Thus, PRO revised its overtime factor to 2.14 [(70% x $170 + (30% x ($72.89 x 1.69)]/$72.89. According to PRO, the quantified effect of using 2.14 as an overtime factor results in an increase in capitalization of 26.6% over CL&P's labor time overtime factor of 1.69. Multiplying that percentage times the CL&P labor capitalized of $29.653 million results in an additional $7.888 million in storm costs to be transferred to capital, and recommends a similar reduction in the incremental restoration expense. Id., p. 12.

The OCC discussed the capitalization of outside contractor costs. The OCC notes that the Company's response to interrogatory OCC -111 indicated that time was essentially doubled for installation. The capitalization system was also modified to account for set-up time. That response also indicated that the storm cost capitalization system contains a variable which recognizes that work was being done, at least in part, on an overtime basis and was more expensive. Specifically, the regular time crew rate was increased to 1.69. Schultz PFT, p. 13. The OCC highlights CL&P's capitalized rate of 9.55% for the 5 storms being addressed in this proceeding, versus the Company's 8.7% for 11 other storms in 2011 and 2012 that were not part of the cost request in this proceeding. The OCC holds that 8.7% is for normal thunderstorms, high winds and freezing rain, and not a tropical storm or a nor'easter. Id., p. 14. For a tropical storm or nor'easter the OCC indicated the appropriate capitalization rate was approximately 20%. Tr. 9/24/13, p. 576.

The OCC claims that the major component of the costs charged to the reserve is outside contractor/vendor charges. This component was $400.3 million of the total storm costs, or 67.9%. The OCC also claims that work done by the outside contractors was associated with capital work and that the Company's exclusion of 100% of the

outside contractor/vendor charges from any capitalization is not appropriate. The fact that the Company was billed by outside contractors for digger trucks, pole trailers and wire trailers is evidence that the contractors performed duties which resulted in the replacement of poles and wires. Also, documentation supporting the cost of various outside contractors makes specific reference to setting poles is evidence that contractor costs were incurred in performing capital work. Schultz PFT, p. 15. The OCC cites to the Company's response to interrogatory OCC-104, wherein it acknowledged that the replacement of poles and wires was performed by outside contractors. The OCC also cites the Company's response to interrogatory OCC-102, whereby CL&P acknowledged that the cost during storm restoration for setting poles, replacing transformers and connecting wire can be higher than under normal conditions. According to the OCC, that response demonstrated that the Company was unaware of how much more the costs were and that it did not have any studies determining the actual amount. The OCC suggests that only some of the costs for outside contractors be capitalized. Id., pp. 14 and 15.

Additionally, the OCC asserts that the Company has determined the costs that are capitalized based on historical average costs for setting a pole, running conduit, etc. Thus, the estimated cost is based on identified units of property being replaced. The OCC also asserts that the Company identified the physical units of property that were installed and then applied an average cost to the respective units installed. The OCC states that the average would not generally include a significant amount of company overtime and would not be based on the rates being charged by contractors for storm restoration. Id., p. 16.

Therefore, the OCC recommended that the reserve balance be reduced to $31.134 million for the estimated capital costs associated with outside contract labor. This recommendation was based only on the total dollars sampled by the OCC and not on the total dollars expended for outside vendors. Id., p. 17.

In developing these amounts, the OCC claimed that when it found the equipment listed in the vendor invoices, such as diggers, pole trailers and wire trailers, they were highlighted and a total was calculated. The OCC noted that whatever is in this column for the diggers, poles and wire trailers, that is the portion from the total sample cost invoice. To determine the capitalization percentage, the diggers, pole and wire and trailers was divided into the total sample contract labor equipment cost ($4,789,025/$21,321,762) = 22.46%. This percentage was multiplied times the total sample to obtain the estimated $31.134 million (22.46% x $138.6M) of capital costs associated with outside contract labor. The OCC believes this is a conservative estimate because it does not factor bucket truck costs in the capital percentage and the capitalization rate is only applied to outside contractor costs in the sample. Schultz PFT, p. 17. Additionally, the estimate does not include other outside contractor costs along with the tree contractors, excavators and other vendors that provided some form of assistance. Id., p. 18.

The Authority finds that the majority of the costs being considered in this case are for line crews and other utilities and contractors that were needed to repair the system. CL&P Brief, p. 5. CL&P indicated that its costs were driven largely by the cost of line crews from other utilities and contractors that were needed to repair the system.

Out of the total incremental costs for which CL&P is seeking recovery in this case, approximately 88%, 86% and 87% are for the costs of outside contractors and vendors in Storm Irene, the October Nor'easter and Storm Sandy, respectively. Id., pp. 6 and 7. Of the total storm costs incurred, ($589,583,900) inclusive of capital, $400,346,600 or 67.9% was identified by CL&P as being for outside contractors and vendors. Response to Interrogatory Q-FI-21; Exhibit LA-2; OCC Brief at 26. Mutual aid company workers and external contractors assisted in capital work during the restoration process. Response to Interrogatory OCC-104. CL&P does not dispute that contractors performed some capital work. CL&P Reply Brief at 44. Despite the significant portion of the repairs being made by outside contractors and vendors for the five storms, CL&P did not capitalize any of the outside vendor and contractor costs as these costs were to be addressed through the storm reserve. While CL&P capitalized $0 of the $400,346,600 of outside contractor and vendor costs, it acknowledged that outside contractors and vendors assisted in capital projects during service restoration.

The Company contends that its storm cost capitalization process is based on known cost structures adjusted for higher costs of installing plant assets under storm conditions. The Authority finds that the adjustment factors applied by CL&P did not adequately account for the increased costs associated for the storms at issue in this proceeding. A substantial portion of the costs incurred were for mutual aid and outside contractors. CL&P indicated that its practice has been to keep the storm adjustment factors consistent as it has been assumed that working in storm restoration conditions carry the same general complications from storm to storm. Tr. 9/16/13, pp. 83-85. Thus, the storm adjustment factors utilized for the storms at issue in this case were not adjusted or increased to account for the magnitude of these major storms. Id. CL&P did not change the factors from storm to storm and used the same storm adjustment factors for catastrophic storms as it does for storms that do not reach its $5 million threshold. Id. Also, its storm adjustment factors do not factor in any extra expenditures due to external contractors that perform capital work at heavily weighted overtime rates as compared to the Company's internal labor. Id., pp. 80 and 81. While the labor adjustment factors applied by CL&P in determining the storm cost capitalization may be appropriate for typical storm events, the storms at issue in this case clearly were not typical storm events.

The 1.69 labor overtime factor applied by CL&P is based on studies of internal labor. The internal employees typically start out at a normal straight time rate (i.e., 1.0 rate) for the first 8 hours before overtime is applied and would impact the resulting 1.69 overtime rate. Id., pp. 78 - 80. This is not reflective of the rates that would be charged by mutual aid providers and contractors. For companies providing mutual aid to CL&P in storm restoration, the first eight hours are at a premium, then double time after that or double time for the entire period worked. Id., p. 80. For contractors providing services under a Master Service Agreement, the first eight hours are paid at overtime rates, the subsequent hours are paid at double time rates, and any storm work performed on weekends and holidays are paid at double time rates. Response to Interrogatory FI-31. For contractors not working under a Master Service Agreement, the contractor charges straight, overtime or double time rates based on the agreement the contractor has with the local union from the geographic area where the contractor originated. A sample union agreement provided by CL&P in response to FI-31 indicates that the first eight hours are paid at time and one-half with the second eight hours, weekends and holidays

paid at the double time rate. CL&P's 1.69 overtime rate applied by CL&P does not account for higher labor rates being paid to outside contractors.

The Authority agrees PRO's approach to adjust the overtime factor applied by CL&P from 1.69 to 2.14 to account for the higher costs associated with outside contractors as compared to internal labor is both conservative and reasonable. While the outside contractor rate used by PRO in its calculations of $170 per hour is based on a small sampling of the outside vendor labor costs, a review of PRO's sample, contractor invoices and the average overtime and double time rates for contractor overhead line crews demonstrates that the average $170 per hour rate for outside contractors is a reasonable estimate. Response to Interrogatory FI-17, Attachment 1. Therefore, the Authority will require that $7,887,800 in incremental storm restoration costs, be capitalized.

B. CAPITALIZATION OF FOOD AND LODGING

As part of CL&P's normal capitalization process, the costs associated with travel, meals and lodging for contractors installing capital assets, are capitalized Tr. 9/16/13, p. 62. The cost of contractors travelling long distances would also be capitalized. Id. Similarly, under the normal capitalization process, if the Company internal employees are required to work longer than their normal day and meals are provided, the costs associated with those meals and lodging costs, (if incurred), would also be capitalized. Id. The capitalization of incurred food, lodging and travel costs on assets that are to be capitalized is a normal and appropriate practice. However, CL&P did not capitalize these costs associated with its storm restoration activities. Tr. 9/16/13, pp. 63 and 83.

Although these travel, lodging and meal costs were not capitalized and may not have a significant impact in normal storm events, the impact is of great concern for the unprecedented storms at issue in this case. The storm restoration costs in this case included the costs to feed and lodge emergency preparedness personnel, including mutual aid and external contractor crews. Quinlan/Bowes PFT p. 37. CL&P identified a total of $29,146,094 for food and lodging, yet none of these costs were capitalized by CL&P. Based on a review of the contractor invoices provided in Exhibit CL&P-7, significant additional food and lodging costs were incurred and incorporated as part of the contractor invoices but were not included in the $29,146,094.

A portion of the food and lodging costs incurred as part of the storm restoration efforts should be capitalized as part of the cost of the capital assets put in place in the storm restoration process. The amount to be removed from the incremental storm restoration costs and capitalized is $3,667,046 as calculated below:

	Description	Amount
1	Total Storm Restoration Costs, per CL&P	589,583,900
2	Food and Lodging	29,146,094
3	Storm Restoration Costs, Excluding Food & Lodging	560,437,806
4	Total Storm Costs Capitalized, per CL&P	56,304,800
5	Additional Transformer Installation Capitalization	6,319,454
6	Additional Capitalization for Contractor Labor	7,887,800
7	Capitalized Storm Costs, as Adjusted	70,512,054
8	Percentage of Storm Costs Capitalized (L. 7 / L. 3)	12.58%
9	Food and Lodging Costs to be Capitalized (L. 2 * L.8)	3,667,046

In determining the amount of food and lodging costs to be capitalized, the Authority calculated the percentage of as-adjusted capitalized storm restoration costs to the total storm restoration costs, exclusive of food and lodging, of 12.58%. The 12.58% factor was then applied to the $29,146,094, resulting in the $3,667,046 of incremental restoration costs to be capitalized.

C. CAPITALIZATION OF INCREMENTAL COSTS IN PLACE OF NON-INCREMENTAL COSTS

The OCC argues that the Company did not appropriately distinguish incremental costs from non-incremental costs when capitalizing storm costs. The OCC notes that while the Company appropriately classified all regular labor incurred during restoration as non-incremental and excluded the regular labor costs from the reserve amount it sought for recovery, CL&P capitalized $7.968 million of regular labor costs before removing the remaining regular labor charged to the storm work orders. Schultz PFT, p. 9.

The OCC holds that ratemaking only allows recovery for incremental costs incurred during storms because the non-incremental costs are already included in current rates and recovered from ratepayers. Including the non-incremental labor costs in the capitalized storm costs is the equivalent of including the costs in the deferred amount sought for recovery with the only difference being the period of time that the costs are being recovered from customers. Thus, the OCC recommends that capitalized storm costs be reduced by $7.968 million to remove the non-incremental labor costs. Id., pp. 9 and 10. The OCC also expressed concern over whether $1.940 million of vehicle costs capitalized and $18.618 million of payroll overhead capitalized are incremental. Id., p. 10. The OCC recommends reducing capitalization by another $0.5219 million ($1.940M x ($7.968M regular labor capitalized/$29.653M – total CL&P payroll capitalized) for vehicle costs, and $5.008 million ($18.618 x ($7.968M/$29.653M – total CL&P payroll capitalized) for payroll overheads. Id., p. 11. Therefore, the OCC recommends that a total of $13,498,102 ($7,968,000 + $521,860 + $5,008,000) of non-incremental costs be removed from capital. OCC Brief, p. 25.

Additionally, the OCC was concerned with the Company's use of standard cost methods in determining the amount to be capitalized as a result of the major storm

events. In the opinion of the OCC, the capitalized amount must factor in all incremental cost contributors, yet CL&P capitalized none of the outside contractor/vendor costs. Id., pp. 11 and 12.

The Company states that under Generally Accepted Accounting Principles (GAAP) and the Federal Energy Regulatory Commission (FERC) accounting guidelines, utilities are required to capitalize expenditures associated with long-lived assets based on units of property. CL&P applied these principles to capitalize the value of plant assets installed under normal conditions, as well as for those installed under storm conditions. GAAP, FERC guidelines and CL&P policy require that all costs associated with the installation of a capital asset be assigned to that unit of property. CL&P contends that the OCC's theory is inconsistent with those principles because it would result in capital asset values that are understated by excluding costs to install the capital assets. Id., pp. 48 and 49.

CL&P also asserts that contrary to the OCC's argument, the concept of non-incremental costs in this case applies only to storm-related expenses, not capital. It applies only for purposes of determining whether a storm qualifies for treatment under the CL&P Storm Reserve. The Company indicates that for purposes of determining whether storm costs qualify for treatment under the CL&P Storm Reserve, it removes the capital costs from the storm work order, then categorizes its expenses between incremental and non-incremental, because only incremental expenses qualify for recovery under that reserve. Id., p. 49.

Further, the Company argues that there is no regulatory requirement, order or precedent to support the theory that storm-related capital labor costs should be treated as a "non-incremental" expense. Id. Moreover, CL&P assigns to capital, the regular and overtime labor costs associated with installing material items in a storm, and is required by accounting standards to include those costs as a component of the capital asset values. Id., pp. 49 and 50. According to the company, if the labor costs associated with installing capital plant assets are removed from its $56.3 million of storm-related capital, CL&P would be unable to recover those costs. Id., p. 50.

The Authority notes the OCC's concern that non-incremental labor, vehicle and overhead costs are factored into base rates, and that they were capitalized by CL&P as part of its estimation process when capitalizing storm costs. However, removal of the non-incremental costs from capital would result in an understatement of the installed assets. Previously in this Decision, the Authority expressed its concern that none of the outside contractor/vendor costs were capitalized by CL&P. The concern is heightened by the fact that such costs account for 68.9% of the total storm restoration costs incurred and the acknowledgement that outside contractors provided capital work.

Rather than reduce the amount of storm costs that were capitalized by the $13,498,102 as recommended by the OCC, the Authority will require that amount be derived from the incremental outside contractor/vendor costs incurred by CL&P instead of the non-incremental costs applied by the Company. The amounts capitalized by CL&P were not based on the tracking of actual hours spent by employees and outside vendors in performing storm-related capital work, but rather on an estimation process.

This should have a $0 impact on the amount of storm costs capitalized and result in a $13,498,102 reduction to the incremental storm costs included in the storm reserve.

CL&P argues that capital costs in base rates are set to include a certain level of capitalized labor costs for particular projects. The Company also states that base rates did not include a level of capital costs for catastrophic storms because storms are not planned events. The Company claims that if these costs are disallowed, CL&P will not recover them elsewhere. Company Written Exceptions, pp. 3 and 4.

The PURA has considered the Company's position. The Company states that capital dollars are tied to specific projects and therefore not available for storm capital labor costs. Likewise, there are no labor dollars devoted to catastrophic storms. Id. The deductions that were made in relation to the $13,498,102 were for items labeled as regular labor. Considering no other source of regular labor was available for these storm costs (capital, catastrophic), this leaves base expense regular labor to support the storm activities. This makes sense as during a storm period the "all hands on deck" mentality takes place and all employees regular time is devoted to recovery activities. The fact that any particular base expense labor dollar was devoted to a capital item during the storm does not require that labor amount to be recovered again in capital. The Company has recovered these labor dollars in base rates. PURA also notes that the Company capitalized or treated as incremental, all overtime costs during these storms as well as expensing all outside services costs. The provision that this decision provides in keeping these non-incremental costs with the associated capital items, while offsetting other costs is a fair resolution in this matter.

Regarding capital costs incurred after the last rate year, the Company states that amounts for capitalized labor after the last rate year are clearly incremental because current rates do not include any level of capital costs post expiration of a rate plan. Id.

After the expiration of a rate plan a Company may, as it chooses, file for another rate plan or continue with its current rates. If it elects to continue with current rates the company still proceeds with capital investment as projects are a yearly occurrence. As with the "during a rate plan" scenario, the Company applies capital labor to these projects which are included in rate base for recovery in a subsequent rate case. Following the discussion above, considering no other source of regular labor is available (capital, catastrophic) this leaves base expense regular labor to support the storm activities in a post rate plan period. The PURA notes that the same conditions apply in this scenario whereby the Company capitalized or treated as incremental, all overtime costs during these storms as well as expensing all outside services costs.

D. RESERVE PROGRAM

The Company states that since insurance for storm damage to poles and wires beyond 1,000 feet from a substation was not available on commercially reasonable terms, CL&P and its affiliates established a reserve program that operated from 1994 - 2012. This arrangement was patterned as an insurance model and was not structured to provide a dollar-for-dollar reimbursement for storm costs. Instead, the reserve was structured under the principle that not all participating Northeast Utilities (NU) affiliates would need to withdraw funds at the same time, because storms would have different levels of impact across the NU service territory. CL&P indicated that each participating affiliate would make contributions to the reserve which would be used toward storm funding among the participating group of affiliates subject to the repayment terms outlined in the program guidelines. CL&P Brief, pp. 31 and 32.

CL&P states that at the time of the in 2011 and 2012 storms, there was a net negative balance in the reserve account due to withdrawals in prior years. The reserve account negative balance was subject to reimbursement by the affiliates under the program. Under normal operation, the reserve account functioned more similarly to a loan of funds from a third party account administrator, rather than a fully funded benefit account to provide coverage for storm costs. CL&P claims that the negative balance in 2011 was attributable to withdrawals for storm-related costs prior to 2011 (including $7.0 million to CL&P in 2010). Id., p. 32.

The program was terminated in 2012 because it had become uneconomic due to the magnitude of the costs and frequency of the catastrophic storms during this period. Nevertheless, the existence of a negative balance prior to the 2011 and 2012 storms did not mean that program funding would have been unavailable to CL&P. The Company and participating affiliates, could have made withdrawals from the program up to an annual aggregate program limit of $15 million if the program had not been terminated. Notwithstanding the above, any additional withdrawals by the companies for the 2011 and 2012 storms would have increased the negative balance in the account and extended the repayment obligation, including applicable administrative fees and interest. Id.

PRO notes that from October 2006 to October 2012, the Company paid $11.185 million into the distribution segment of the storm reserve fund. Whitman PFT, p. 5. During that timeframe, $9.057 million was paid by the reserve fund for distribution losses claimed by CL&P. Id. Accordingly, the Company paid $2.128 million more into the fund for distribution coverage than it received to cover distribution storm costs during that period. PRO suggests that the Company is obligated to pay an additional $4.0 million to correct the remaining storm reserve deficit. Whitman Revised PFT, p. 6; PRO Brief, p. 31.

PRO also maintains that the Company acted imprudently in this regard since 1) it is reasonable for a company to have an insurance mechanism in place with sufficient capacity to cover damages suffered by the policyholder; 2) CL&P failed to recognize the limited capacity of the fund and the likelihood that the fund could become depleted; and 3) as a result of this failure, there were no storm reserve fund payouts to offset any of

the costs of the storm damage because the fund was depleted. Id. Thus, PRO recommends that the PURA reduce the Company's request for storm reserve recovery by $6.128 million ($2.128M + $4.0M). Whitman Revised PFT, p. 6.

The Authority finds that PRO's arguments have merit. The Authority also finds that while this funding arrangement may have been better able to protect against smaller storms, the Company should have foreseen the weaknesses of this fund if a storm of larger regional proportions were to arise. Since the Company was deficient in this area, ratepayers are facing extra costs that were unnecessary and could have been avoided. It was clearly disadvantageous to ratepayers that after CL&P paid $11.2 million into this fund, the Company received nothing for the 2011 and 2012 storms since the fund had a net negative balance. Accordingly, the Authority finds that the Company's actions were imprudent and the full $6.128 million will be disallowed from net recovery. However, since the net under recovery by CL&P from the storm reserve fund had built up prior to the time storm Irene and the October Nor'easter impacted CL&P's service territory and the reserve mechanism was still in place at the time of these two storms, the $6.128 million imprudence adjustment is subsumed in the $40 million write down discussed later in this Decision.

The Authority is aware that the fund was established with a $10 million deductible and to provide $15 million coverage per storm in the aggregate for the combined affiliates, CL&P, WMECO, and Public Service of New Hampshire. The program guidelines later changed such that the coverage was $15 million per occurrence and $45 million in the annual aggregate. Response to Interrogatory PRO–20, Attachment 1, p. 41. Since the fund program had a loan capability, the Company could have conservatively borrowed $5.0 million for Storm Irene, and $5.0 million for the October Nor'easter. These amounts could have been reimbursed at a later time at an annual interest rate, according to the program guidelines, of the 5-year Constant Maturity Treasury (CMT) rate. Late Filed Exhibit No. 5, SPO1, p. 1. That rate as of the October 22, 2013, was 1.30%, versus an even lower rate at August 29, 2011 and October 31, 2011 of 0.99%. U.S. Department of The Treasury, Daily Treasury Yield Curve Rates. Had the Company taken advantage of the funding arrangement during 2011 and 2012, these storm costs may have been spread among the CL&P affiliates. The Company did not determine if ratepayers could have benefitted through the allocation of costs between its affiliates had CL&P taken advantage of the funding plan during 2011 and 2012. Tr. 10/1/13, pp. 812-814. The opinion of the Authority is that the Company should have taken advantage of this low cost borrowing at the time as a prudent financial exercise. Since, the Company was deficient in preventing its ratepayers from experiencing more costs than necessary, the Authority will not permit ratepayers to be charged CL&P's currently allowed 7.68% cost of capital (embedded cost of debt is 6.09%) on the $10 million. Instead, the Authority will recalculate the Company's revenue requirements to assume a 1.3% interest cost on this amount over the amortization period.

E. ALL RISK PROPERTY INSURANCE COVERAGE

Consistent with standard industry practice, NU on behalf of CL&P and its other electric company affiliates maintains $250 million of "all risk" property insurance coverage with a pool of insurers. The insurance policy covers losses such as damage

to buildings, switching stations, substations, and poles and wires located within 1,000 feet of a substation. The Company holds that this coverage is consistent with industry standard practice, including the property insurance coverage maintained by UI, Public Service Electric & Gas, and all of the other utilities that participated in Edison Electric Institute's (EEI) insurance surveys in 2011 and 2012. CL&P notes that 35 utilities participated in the 2011 EEI survey and 41 participated in the 2012 survey. CL&P Brief, p. 30.

During the October 1, 2013 hearing, PRO inquired whether CL&P had sustained damage to substations and to poles and wires located within 1,000 feet of substations that may have exceeded the $2.5 million per-occurrence deductible in the property insurance policy and, whether the Company was entitled to any reimbursements from its insurers under the all-risk policy. CL&P noted that it was not entitled to reimbursements from its insurers because its costs to repair substation equipment and facilities were less than the $2.5 million per-occurrence deductible. CL&P Brief, pp. 30 and 31.

PRO stated that CL&P had industry-typical all risks insurance in effect at the time of the 2011 and 2012 storms which excluded distribution assets except for substations and plant within 1,000 feet of the substations. PRO notes that CL&P made no claims since it believed that it had not exceeded its deductible in any instance. The deductible was $2.5 million per occurrence. PRO also notes that CL&P was unable to account for the actual cost of any particular trouble spot during the storms. PRO Brief, p. 31. Additionally, PRO argues that CL&P performed an after-the-fact analysis based on assumptions that none of the five storms resulted in damage exceeding $2.5 million to substations and plant justifying its failure to file for claims under its insurance policy. Id. Further, CL&P failed to implement the type of cost accounting during storms that would be needed to file valid, defensible claims. PRO states that this imprudence led to CL&P's inability to file claims under its insurance policy for the costs of plant repair and replacement damages occurring within a 1,000 foot radius of each of the approximately 618 distribution stations. Id., p. 33. In the opinion of PRO, CL&P has no evidence to support its claim that in none of the three largest catastrophic storms, did CL&P incur more than $2.5 million of damage to plant at any of the 618 substations or within the 1,000 foot radius around all those substations. Id., p. 32. Therefore, PRO recommends that the Authority disallow $25 million from CL&P's incremental storm expense to account for its inability to utilize its all risks insurance policy because it was imprudent not to have the necessary cost accounting in place to make accurate and defensible claims against its insurance policy. In the alternative, PRO recommends a disallowance of $7.5 million, (CL&P's insurance deductible of $2.5 million x 3 for largest storms in 2011 and 2012). Id., p. 33.

CL&P demonstrated that it tracked both substation damage and damage within 1,000 feet of the substations in Late Filed Exhibit No. 6 Supplement 1. First, for damage within substations, the Company utilizes a unique activity code to determine repair activity within substations. Therefore, CL&P is able to directly and readily determine the damage and repair costs attributable to substation damage. Those costs are as follows:

2011-2012 Storm-Related Substation Damage ($ in Thousands)

June 2011 Storm	Irene	October 2011 Snowstorm	September 2012 Storm	Storm Sandy
322.7	626.5	1,164.7	99.3	1,476.8

CL&P further states that the above amounts are overstated for insurance purposes, since a large majority of labor costs that are included in these amounts should be eliminated as it was not related to repair or replacement of damaged equipment, but rather was related to other restoration activities, such as switching. Late Filed Exhibit No. 6, Supplement 1.

Regarding repairs outside of substations but within 1000 feet of them, CL&P conducted a separate analysis. The Company first determined the number of number of substation feeder lockouts, which indicates that damage has occurred to a feeder originating from a substation. To determine the number of such interruptions that occurred within 1000 feet of substations, polled its Outage Management System which includes locational information on interruptions. To determine the damages, CL&P multiplied the number of feeder lockouts that occurred within 1000 feet of substations by the average cost of trouble spot repair. The results are as follows:

2011-2012 Storm-Related Damage Within 1000 Feet of Substations

	June 2011 Storm	Irene	October 2011 Snowstorm	September 2012 Storm	Storm Sandy
Trouble Spots	43	23	21	13	20
Total Cost (thousands)	$260	$205	$178	$112	$244

CL&P further states that the June 2011 and September 2012 results include all feeder lockouts, not only ones within 1000 feet of substations, due to the small number of such lockouts. Furthermore, the stated costs include costs an insurer would not pay. Therefore, the results for those two events is overstated. Late Filed Exhibit No. 6, Supplement 1.

The exhibit shows that substation damage was not sufficient to meet the insurance deductible of $2.5 million for the storms in question, with the highest applicable cost of $1.5 million for Storm Sandy. In all cases, the insurance claim that resulted from damage within 1,000 feet of substations was less than $250,000. In each case, the damage to substations and within 1,000 feet of substations was less than $2.5 million. Therefore, the Company did not meet the insurance deductible of $2.5 million.

In its Written Exceptions, PRO states that CL&P did not track damage within 1000 feet of substations and failed to keep any records of such damage, and that the Authority should find against CL&P with a presumption that its records were incapable of determining the damage within 1000 feet of substations. PRO further PRO Written Exceptions, pp. 5-9. As described above, OMS systems, including CL&P's, include detailed locational data that enable the Company to determine such damage. Furthermore, as demonstrated in the data synopsized above, the extent of the damage within 1000 feet of substations was a small fraction of the total, including substation damage. Finally, as described above, there is substantial conservativism built into the substation damage costs, providing assurance that the costs presented are high relative to the insurable amounts, even though they are not explicitly calculated. Because the damages, including the built in conservativism, did not approach the $2.5 million deductible, the Authority agrees with the Company that it is not a worthwhile endeavor to delineate the costs any further, since CL&P has firmly established that the costs did not approach the insurance deductible.

The Authority determines that CL&P demonstrated that it accounted for damage locations sufficiently to demonstrate that the cost of the damage repair during the storms subject to this proceeding did not exceed the deductible of $2.5 million per event. Therefore, the Authority will not make the adjustment recommended by PRO.

The Authority does agree with PRO that CL&P should more closely track damages during major storm events to ensure that costs are clearly demonstrable for insurance purposes, particularly the costs for damages and repairs within 1000 feet of substations (since damages within substations is already precisely tracked). Therefore, the Authority orders the Company below to develop an accurate cost tracking mechanism for insurance tracking purposes.

F. CONSOLIDATION OF THE TWO JUNE 2011 STORM EVENTS

The Petition includes costs related to restoration from storms that occurred on June 8, and 9, 2011. PRO states that, the June 8, 2011 storm should not have qualified as a major storm since that storm's costs did not exceed $5 million, the criterion for major storm cost recovery. PRO also states that the PURA should not delegate its authority to CL&P to exercise discretion to combine two separate storms' costs and treat them as one combined storm for cost recovery purposes. PRO asserts that the two storms should have been tracked and accounted for separately and not treat them as one catastrophic storm. PRO Brief, pp. 17-19. The AG states that the June 8, 2011 storm should not have qualified for cost recovery for the same reasons as PRO. AG Brief, pp. 10 and 11.

CL&P argues that the Authority should allow expenses associated with the June 8, 2011 storm since all the outages from that storm had not been restored by the time of the June 9, 2011 storm. The Company notes that the Authority has in the past allowed combination of two storms into one restoration event. See Decision dated January 29, 2008 in Docket No. 07-07-01, Application of The Connecticut Light and Power Company to Amend Rate Schedules, and the June 30, 2010 Decision in Docket No. 09-12-05,

Application of The Connecticut Light and Power Company to Amend its Rate Schedules.

Major storms are determined in accordance with an Authority-approved statistical criterion. Whenever the frequency of restoration work locations exceeds the 98.5% percentile, the major storm criterion is considered met and all interruptions for that day and all subsequent days are considered major storm days, ending on the day that restoration is complete. Decision dated March 22, 1995 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, p. 3. Thus, the Authority finds that the June 8, 2011 weather event alone did not result in sufficient work locations required to achieve restoration to be declared a major storm. Response to Interrogatory OCC-35, Major Storm Report for June 8-9 Thunderstorm. The major storm criterion only applies to work locations that occur on the major storm day(s) and on subsequent days. Work locations that occurred on a prior day or days do not qualify as a major storm. Clearly, the June 8, 2011 event should not have qualified for special treatment as a major storm event. Therefore, the Authority will disallow the June 8, 2011 outages for recovery as a major storm.

CL&P did not separately account for the outages that resulted from the June 8, and June 9, 2011 weather events. PRO proffers a methodology that approximates the June 8, 2011 restoration cost by calculating the ratio of the June 8, 2011 trouble spots (381) to the June 9, 2011 trouble spots (2,603), which is 14.6%. Response to Interrogatory PRO-29. In other adjustments contained in this Decision, the Authority has reduced the total June 8 and 9, 2011 incremental restoration cost from $10.927 million to $10.149 million. Multiplying the 14.6% ratio by the adjusted total June 8, and 9, 2011 restoration cost of $10.149 million yields a June 8, 2011 storm cost of $1.482 million. The Authority therefore disallows the $1.482 million that is attributable to the June 8, 2011 storm cost.

G. CROSS-ARM FAILURES

PRO states that CL&P imprudently incurred costs to repair or replace cross-arms that were damaged as a result of the Company's failure to follow National Electric Safety Code (NESC) guidelines for inspecting and detecting cross-arm deterioration. CL&P was also imprudent in maintaining adequate strength of its wood distribution cross-arms as evidenced by the age of their in-service population, the low number of maintenance-related replacements prior to the storms, the lack of cross-arm testing or forensic analysis, and the high ratio of cross-arm replacement to pole replacements in the 2011 storms. PRO recommends a disallowance of $19 million in storm related costs that it estimates were attributable to cross-arm failures. PRO Brief, pp. 20-28.

CL&P states that its cross-arm maintenance practices are consistent with industry standards, and that few, if any, utilities have practices in this area that are stronger than the Company's. CL&P asserts that few cross-arm failures occur annually, and that there was no evidence of deficiencies in cross-arm inspection and maintenance practices prior to the 2011 storms. Finally, the Company states that there is no evidence that the failure rate of its cross-arms under storm conditions was higher

than that of other utilities during major storms and that its construction standards require a higher strength cross-arm than required by the NESC. CL&P Brief, pp. 23 and 24.

Cross-arm inspection is addressed by NESC Section 21-214, Inspection and Tests of Lines and Equipment. Section 21-214 states (in pertinent part) "[l]ines and equipment shall be inspected at such intervals as experience has shown to be necessary." This section further provides that "[w]hen considered necessary, lines and equipment shall be subjected to practical tests to determine required maintenance." Notably, the NESC does not prescribe an inspection methodology nor an inspection frequency.

In its Decision in dated August 1, 2013 in Docket No. 11-09-09, the Authority made the following findings regarding CL&P's distribution system maintenance program in general and cross-arm inspection in particular:

> With regard to other infrastructure maintenance issues, Liberty determined that wood pole failures did not materially contribute to the effects of the 2011 storms. Liberty also determined that CL&P's pole maintenance program is adequate to maintain the poles to NESC safety requirements. Liberty did, however, determine that a high number of cross-arms were broken during the storms and that CL&P should institute a program to verify the material condition of wood cross-arms.
>
> Decision dated August 1, 2013, pp. 47 and 48.

Because this recommendation was first made in 2012, CL&P could not have implemented it in advance of the 2011 storms. CL&P incorporated this recommendation into its storm hardening plans that were approved by the Authority Decision dated January 16, 2013 in Docket No. 12-07-06, Application of The Connecticut Light and Power Company for Approval of its System Resiliency Plan. CL&P Compliance Filing dated December 28, 2012, filed in compliance with Order No. 1 in Docket No. 11-09-09.

The Authority conducts an annual review of CL&P distribution maintenance practices pursuant to Conn. Gen. Stat. §16-32g.[2] CL&P performs cross-arm inspections visually. CL&P inspects 100% of its distribution backbone circuits each year, 20% of its lateral circuits each year, and an additional cross-arm inspection as part of its pole inspection program. The visual inspection determines if the cross-arm has deteriorated to the extent that its structural integrity has been compromised. Tr. 9/24/13, pp. 711 and 712, 754. Prior to Docket No. 11-09-09, there were no findings or orders regarding cross-arm maintenance or inspection by the Authority, either in the Conn. Gen. Stat. §16-32g proceedings or in other dockets related to electric reliability.

CL&P used a cross-arm grade that exceeds NESC strength requirements for nearly 50 years. CL&P Reply Brief, p. 14; Late Filed Exhibit No. 32. CL&P submitted

[2] The most recent such proceeding was Docket No. 12-12-12, PURA Review of Electric Companies' and Electric Distribution Companies' Plans for Maintenance of Transmission and Distribution Overhead and Underground Lines.

an infrastructure assessment study conducted by Quanta Technology that demonstrates that its cross-arm construction meets or exceeds pertinent NESC requirements. Late Filed Exhibit No. 32, Quanta Technology – Structural Hardening for the Northeast Utilities - CL&P Distribution System, p. 21. This exhibit demonstrates that CL&P's construction practices provide a measure of assurance of cross-arm integrity.

CL&P provided data demonstrating that only 0.00001 percent of its cross-arms fail annually during non-storm conditions. Tr. 9/24/13, p. 713. Furthermore, CL&P provided comparative data from other utilities demonstrating that its cross-arm failure rate in major storms is below the median of comparable utilities. Late Filed Exhibit No. 35. Therefore, there is no significant statistical evidence that supports the argument that CL&P's cross-arm failure rate is excessive.

PRO cites a paper entitled "Effects of Surface Decay on Remaining Strength of Transmission Line Wood Cross-Arms," (Late Filed Exhibit No. 32) that concludes that visual inspection methods do not assure a reliable assessment of cross-arm strength which may fail under the load of a tree or limb falling on a line or structure. PRO Brief, p. 21. The Authority notes that the document is a research paper put forward by three researchers and is not a regulatory requirement nor an industry standard. Furthermore, it is applicable to cross-arms in the transmission system (specifically, 115kV transmission structures not the distribution system. Transmission systems operate at much higher voltages, have unique construction characteristics, and their failure is of far more consequence in terms of reliability than distribution cross-arms. Therefore, the Authority believes the document is not instructive in this proceeding in determining whether CL&P's maintenance practices were adequate. Furthermore, the Authority does not have jurisdiction over transmission system construction practices, which are subject to regulation by the FERC.

Finally, the Authority notes that it is a desirable feature of utility pole construction practices that cross-arms should fail more frequently than utility poles, although that failure rate should not be excessive. When trees and limbs fall on wires and structures, cross-arm failure tends to prevent failure of the pole, a far more lengthy and expensive repair. It is desirable that, during major storms, the cross-arm failure rate should exceed the pole failure rate. Additionally, cross-arms and their attachments are integrally weaker than the utility poles themselves. Therefore, statistical evidence that cross-arm failure rates exceed pole failure rate is not indicative of a poor utility pole maintenance program.

For the above reasons, the Authority determines that CL&P's cross-arm maintenance practices did not increase the infrastructure damage during the 2011 storms. Therefore, the Authority will not disallow any storm costs on this basis.

H. VEGETATION MANAGEMENT

The OCC states that the restoration costs for the 2011 and 2012 storms were escalated due to CL&P's vegetation management practices prior to 2012, including the Company's enhanced tree trimming (ETT) from 2004 through 2011. According to the OCC, the levels of vegetation management prior to 2012 were not sufficient or prudent and that CL&P should have implemented a shorter trimming cycle. The OCC notes

generally decreased levels of ETT spending between 2003 and 2011, which resulted in more outages during the storms than would have been the case with increased vegetation management activity. The OCC further asserts that the recent increased level of ETT spending indicates that prior spending was insufficient. OCC Brief, pp. 16-18.

Regarding maintenance tree trimming, the OCC acknowledges that the Company has generally spent the amount allowed in rates. However, CL&P could have spent more than the amount allowed in rates and its decision not to do so, resulted in more outages during the 2011-2012 storms than would have otherwise been the case. Further, the OCC contends that the issue is not whether the Company spent what was allowed, but whether the spending was at a level that was necessary. When responding to whether enhanced tree trimming versus scheduled maintenance impact costs from the storms, the OCC noted that it did. The OCC indicated that trees that attributed to causing the damage were those along, but outside of the right of way, which are not typically part of the scheduled maintenance program. The OCC concludes that the Authority should disallow $61.269 million as related to deficiencies in CL&P vegetation management program. Id., pp. 18-21.

CL&P states that its ETT program is an industry best practice that is performed by the Company and only a “handful” of other electric utilities. CL&P states that it executed its ETT program reasonably and for its intended purpose, consistent with spending levels forecasted in its last two rate cases. The spending level on ETT has varied over time to meet the specific reliability objectives of the program in any given year. After initially high levels of funding in the early 2000s to accomplish initial program objectives, spending was necessarily lower, but that the spending increased in 2007 and 2008, when additional spending needs were identified to accomplish reliability objectives. The Company asserts that most of the damage during the 2011 and 2012 major storms was caused by trees falling from outside of the rights-of-way, including from outside the ETT zone, meaning that the ETT would not have prevented many of these outages. CL&P Reply Brief, pp. 11 and 12.

CL&P’s historical allowed and actual tree trimming expenses are shown in the table below.

CL&P Tree Trimming Expenses
($ in Thousands)

	Maintenance Trimming		Enhanced Tree Trimming
	Amount Allowed in Rates	*Actual*	
2003	11,495	7806	13,444
2004	11,571	10,461	2915
2005	11,571	10,072	2940
2006	11,571	12,566	2727
2007	11,571	14,219	9463
2008	19,600	19,184	8383
2009	19,600	19,688	4546
2010	21,500	20,595	4484
2011	21,500	23,340	3639

2012	21,500	25,925	24,883

Responses to Interrogatories OCC-25 and OCC-53.

As shown in the table above, maintenance tree trimming in each year prior to the 2011 storms approximated the amount allowed in rates, and the Company performed substantial ETT each year.

Maintenance tree trimming is primarily oriented toward mitigating day-to-day, non-storm tree contact outages. Therefore, in those Decisions where tree trimming expenses were approved, the Authority considered the impact of tree trimming on reliability in its decision-making. For example, in the Decision dated January 28, 2008 in Docket No. 07-07-01, Application of The Connecticut Light and Power Company to Amend Rate Schedules, the Authority determined that the Company's line clearance proposal for 2008 was too costly for ratepayers although the proposed reliability improvement was very desirable. The Authority based its decision primarily on non-storm based reliability statistics. Decision dated November 28, 2008, pp. 35-38. Since 1998, non-storm CL&P reliability indices have not shown any decline, indicating that the maintenance trimming program has been largely effective. Decision dated August 21, 2013 in Docket No. 13-07-01, DPUC 2013 Annual Report to the General Assembly on Electric Distribution System Reliability, p. 5.

ETT was first implemented by CL&P in the late 1990s. ETT is not a common or standard industry practice, but was implemented by CL&P as a targeted way to help reduce day-to-day outages and outages during major storms. Decision dated February 27, 1999 in Docket No. 98-01-02, DPUC Review of The Connecticut Light and Power Company's Rates and Charges – Phase II, p. 146. The main goal of ETT is to reduce the exposure of the electric system to vegetation contacts from trees and limbs originating from outside the maintenance trim zone. In the Decision dated November 1, 2012 in Docket No. 12-06-09, PURA Establishment of Performance Standards for Electric and Gas Companies, the Authority determined that approximately 78% of all vegetation related outages are caused by trees and limbs that originate from outside the maintenance trim zone. Docket No. 12-06-09 Decision dated November 1, 2012, p. 12. Therefore, the ETT program, which is targeted toward reducing vegetation related contacts originating from outside the maintenance trim zone, is essential to mitigating outages during major storms. There is no "perfect" or right amount of ETT, and there was no compelling reason for the Company to significantly expand its ETT efforts prior to 2011. As with maintenance trimming, there was not a decline in non-major storm reliability indices throughout the 2000s, indicating that the Company was executing its vegetation management program effectively.

The Company's maintenance trimming and ETT programs met all Authority directives prior to 2011, and there were no violations of PURA orders regarding these programs. The Authority concludes that the Company's conduct of its vegetation management program did not exacerbate the damage during the 2011-2012 major storms. Therefore, the Authority will not disallow any storm costs on this basis.

I. OUTAGE DATA COLLECTION

PRO states that CL&P tracks hours worked by crews and the materials issued for storm repair. According to PRO, the information on what was repaired and replaced for each work package, together with the hours worked on that package, should be recorded and reported in future storms. PRO Brief, p. 29.

There has not been an opportunity to discuss additional outage data collection requirements in this proceeding. The Authority has outage reporting requirements in place that arose from Docket No. 86-11-18, DPUC Review of Performance of UI, CL&P and SNETCO in Restoring Service After Storm Carl, and Docket No. 12-06-09. It is unclear as to the data that PRO is seeking and how it would be used in future investigations. Further, this docket is only applicable to CL&P and any additional requirements should also apply to The United Illuminating Company. Therefore, the Authority will not require any further reporting requirements at this time.

J. TOOLS AND DURABLE GOODS

The Company testified that tools and supplies are essential costs in any storm restoration and a portion of CL&P's non-capital material expense for the five storms included these types of items. Such materials include small tools, rain gear, hard hats, safety glasses, reflective vests and similar items that are necessary to equip Company personnel to safely perform their required storm response duties. Even though some of these material items may have a useful life beyond a particular storm event, every event requires CL&P to purchase some amount of these items to account for breakage, inventory turnover and changes in storm duty assignments for its personnel, and the items would not be needed but for the event. The Company claims that small material purchases are typically not eligible for capital treatment, and therefore, must be recovered as an incremental expense. The portion of incremental material expense attributable to these items was claimed by the OCC to be approximately $1.3 million. CL&P Brief, p. 33.

CL&P states that the record shows that the Company requires items such as tools and work gear in order to conduct restoration operations and that, these expenses are directly tied to the storm response effort. CL&P holds that the items are issued specifically because of the storm, and are a valid and reasonable cost of the storm response. In addition, due to the "all-hands-on-deck" philosophy employed by the Company in responding to events of this magnitude, an unprecedented number of employees were used during the restorations and many employees were supporting the storm response effort in ways that were very different from their everyday jobs, which would not require the type of personal gear that was needed for these employees to safely perform storm duty. CL&P Brief, pp. 33 and 34.

The OCC claims that although durable supplies were purchased during the storms for storm restoration, these supplies have far more than a few days of usefulness. Marsh PFT, pp. 8 and 9. Thus, they will be used in future construction, operation, maintenance work, and storm restorations, and their costs should be considered by the Company to be normal operating expenses and not allowed in storm

costs recovery. Id., p. 9. The OCC identified those durable goods items, such as hand tools hoists, tool bags, reusable hardware, boots, hard hats, safety glasses, rain gear, insulating blankets, line tools, permanent signage, test meters, some leather goods, lighting and traffic cones. The OCC applied the average stores' expense loading for those non direct purchases and added any affiliate amounts to provide a total cost. In this regard, the OCC recommends a disallowance of $1.309 million as follows:

Tools, Durable Goods and Personal Gear to be Disallowed

Storm June 2011	$47,236
Storm Irene	$241,050
Nor'easter 2011	$375,211
2011 total	$663,497
Storm Sept 2012	$14,698
Storm Sandy	$630,558
2012 total	$645,256
Storms total	$1,308,753

Id., pp. 9 and 10.

Costs for items that can be used post storm should be considered to be normal operating expenses. The Authority finds that while the storms prompted the procurement of these items, a portion of these are costs for items that can be used subsequent to the restorations. The Authority will disallow 50% of the $1.31 million from storm costs for recovery.

K. WORK DONE ON CUSTOMER PROPERTY

The Company testified that in Storm Irene, the October Nor'easter and Storm Sandy, the Company hired electricians to repair damaged CL&P service connections. The electricians were paid a lower hourly rate than fully qualified line workers. According to the Company, this practice had many benefits, including that it enabled CL&P to accomplish its work at a lower cost and enabled CL&P to keep line workers fully engaged on bulk power restoration, reduced outage durations for customers affected by single service interruptions, and reduced overall storm costs. In Docket No. 11-09-09, the PURA's consultant, Liberty Consulting, concluded that this program was a best practice, stating that, "CL&P used local electricians to reconnect services or tack them to the pole. This was the first time this has been done, and it worked well. This is a unique and proactive approach to a time consuming restoration task. It is a best practice that more utilities should use." CL&P Brief, p. 26.

The Company also noted that the work performed by electricians was predominantly on CL&P facilities, but an incidental portion of their work was on customer-owned equipment. Working under strict guidelines imposed by CL&P, the electricians were instructed to make incidental temporary repairs to customer-owned service entrance equipment to assist the affected customers and shorten the duration of their outages. The total incremental expense incurred by CL&P for electricians hired to

repair the Company's service connections was $9.14 million, of which $54,305.90 was attributable to materials and incidental labor on customer-owned equipment. Under the unique circumstances of the three storms, CL&P maintains that this program was a best practice that benefitted customers, and the costs should be allowed in full, including the $54,305.90 expended on customer-owned equipment. CL&P Brief, pp. 26 and 27.

The OCC claimed that electricians were hired to assist customers directly with the restoration of customer-owned service entrance equipment. Marsh PFT, p. 11. The OCC indicates that the base rate of pay was $85/hour and total costs provided by the Company were as follows:

	Irene	Nor'easter	Sandy
Electrician cost	$526,677	$2,094,280	$5,612,102
Material cost	$ 0	$ 917,009	$ 15,445
Total cost	$526,677	$3,011,289	$5,627,547
# services repaired	1,301	9,550	6,821

Marsh PFT, p. 11.

The OCC also notes that some of the work involved repair of the service attachment on the house end of the service, work that normally would have been done by a line worker. The OCC argues that all costs associated with any work provided by the Company on customer facilities should be disallowed because the work was not related to restoring the Company's facilities. Id., p. 12. Additionally, CL&P has an established Cut and Reconnect Policy in place that gives approved electricians the privilege of cutting and reconnecting the service wire as a convenience in order to perform repairs on customer equipment. Id., p. 13. In the opinion of the OCC, there are no provisions for the Company to pay the electrician for the cut and reconnect and while this may contribute to positive public relations, it is contrary to the rate making process to ask the customer base to collectively pay for repairs on selected customers' property. Id., p. 14. Providing such services to a limited group of customers and not others can be viewed as discriminatory. Thus, the OCC recommends disallowance of 50% of such costs incurred in 2011 and 2012, or $4.583 million ($9.165M/2). Id., pp. 14 and 15.

Due to the circumstances of the storms and the lengthy time periods that customers were without power, the fact that CL&P could restore service more quickly by using outside electricians, the cut and reconnect work is viewed favorably. Many customers were in danger without power and since this process expedited the service restored time it cannot be viewed as imprudent. Also, while select customers received this treatment, the service was established and available to all customers. The practice was reasonable in view of the circumstances, thus the Authority makes no disallowance for this issue.

L. ONE-TIME PAYMENTS BY CL&P TO MANAGERS

CL&P notes that it made one-time payments totaling $424,800 to managers and directors in recognition of their extraordinary efforts, contributions and sacrifices they put forth and the resultant beneficial impact of their respective efforts on the Storm Sandy restoration effort. No portion of the $424,800 payments was made to officers. The average payment per-employee was approximately $2,851. CL&P states that in Storm Sandy, as well as in the other catastrophic storms, the Company's employees, including managers and directors, worked far beyond the requirements of their positions, sacrificing endless hours of hard work on behalf of customers to restore power and communicate with customers and municipal officials throughout the crisis. CL&P notes that the PURA concluded that Company personnel "performed their storm-related activities in a timely and effective manner" for Storm Sandy. (Docket No. 12-11-07, August 21, 2013 Decision at page 54.) The Company claims that under these circumstances, it was reasonable for CL&P to provide one-time payments to these employees. The one-time payments provided compensation for salaried employees who are not normally compensated for overtime or storm duty, but who made an extraordinary time commitment in that storm event, exceeding any level of time commitment contemplated by their normal duties. CL&P maintains that these costs were directly to the benefit of customers and should be allowed for recovery. CL&P Brief, p. 28.

The OCC notes that the Company made one-time bonus payments of $471,800 to management-level employees not eligible for overtime. Further, that the amount actually included in the storm cost recovery request is only $424,800, because a credit of $47,000 was made. OCC Brief, p. 3. The OCC holds it is not uncommon to have an incentive compensation plan. Such a plan provides extra compensation to individuals for providing services beyond what one would expect from their normal, day-to-day activities. The OCC points out that CL&P already has an incentive compensation plan in place for non-union employees. Thus, the management-level employees who were the recipients of the bonus payments are also eligible for incentive compensation.

Although it is a good business practice to reward employees for a job well-done under trying circumstances, the OCC argues that it is not appropriate to ask ratepayers to fund bonus payments to highly-paid employees who are already eligible for incentive compensation. Such bonus payments are not a necessary cost required for restoring service to customers, and there is already an expectation that storm duties will be part of a non-union employee's responsibilities. Tr. pp. 564 and 565; OCC Brief, p. 4.

The OCC concludes that the bonus payments to non-union employees are discretionary payments that should be borne by the Company. Therefore, the storm reserve costs should therefore be reduced by $424,800. OCC Brief, pp. 3 and 4.

In the opinion of the Authority, management level employees who perform in an exemplary manner should be rewarded. However, the OCC's observation that these same individuals are also eligible for rewards through an incentive compensation plan cannot be overlooked. The Authority fully recognizes the efforts of those who assisted in the difficult Storm Sandy restoration. The Authority finds that both ratepayers and the Company benefited from those efforts and therefore, both should be equally responsible

for a portion of these costs. Accordingly, the Authority will disallow 50% of the $424,800, or $212,400, from the net reserve for recovery.

M. TRANSFORMER INSTALLATION

PRO notes that there were 6,353 transformers installed during the storm restoration period for the five catastrophic storms in 2011 and 2012. The process of transferring cost from storm work orders to capital relies on identifying materials that are capital units of property that were issued from the storerooms to the storm work orders and adding the labor cost to install the capital units of property. PRO Brief, p. 12. According to PRO, CL&P capitalized the cost of installation of transformers during storm restoration, but did not utilize the Company's adjustment factors (labor time 2.0, Labor time set up of 1.5, labor time overtime factor of 1.69) when estimating the amount of installation costs to be capitalized. Thus, PRO recalculated the labor time overtime factor of 2.14 to the labor and payroll benefits cost accounts that comprise the installation cost of $608.23 per transformer for 2011 storms and $646.81 for 2012 storms to obtain a total adjusted cost per transformer of $2,123.21 for 2011 and $2,277.05 for 2012. PRO Brief, p. 14.

PRO further noted that multiplying the adjusted unit costs to install transformers by the 6,353 transformers installed during the five storms yielded total additional costs to be capitalized of $9.889 million. Accordingly, less the payroll benefit installation cost PRO recommended an additional $6.319 million be subtracted from incremental restoration expense.

PRO Brief, pp.14, 16.

CL&P disagrees with that recommendation. The Company asserts that most CL&P's transformers installed during the storms were pre-capitalized. Also, CL&P's capital costs properly include the costs of transformers and no further adjustments are warranted. Additionally, CL&P claims that PRO's transformer labor capitalization adjustment included new factual assertions and data that were not in the evidentiary record. CL&P Reply Brief, p. 46.

The Authority finds that PRO's calculations are supported by the record and are reasonable. In capitalizing the units of property associated with the storms, such as poles, conductors, cutouts, switches and lightning arrestors, etc., CL&P applied several factors to increase the labor estimates as compared to what would occur under non-storm conditions. These factors are applied by CL&P to account for the fact that the tasks being capitalized will take longer to perform due to adverse conditions and will be performed at premium pay rates due to storm-related overtime. CL&P Reply Brief, p. 11; Responses to Interrogatories Q-OCC-111 and Q-OCC-2. While the size of the appropriate labor overtime factor to apply is disputed in this docket, the fact that they are applied to account for the adverse conditions and premium pay rates is not disputed. CL&P acknowledges that the amount capitalized for the installed transformers did not include any increase to account for the adverse storm conditions and premium pay. Tr. 9/16/13, p. 89; Tr. 10/01/13 pp. 838 and 839. It is not disputed that the transformers were installed during the adverse conditions and during a time that premium pay rates were being incurred. CL&P's pre-capitalization of the transformers without applying the additional adverse condition and premium pay factors is not

reflective of the actual costs to place the transformers into service. While CL&P contends that PRO's transformer labor capitalization adjustment includes data that is not in the evidentiary record, this assertion is not accurate. The Authority was able to confirm that the amounts relied on by PRO in its calculations were included in the evidentiary record or could be calculated and confirmed with information in the record. While the calculation presented by PRO in support of its recommended $6.3 million increase in costs relies on an overtime gross-up factor of 2.14 instead of the 1.69 factor applied by CL&P to other assets capitalized during the storms, the Authority finds the 2.14 factor to be reasonable and appropriate. Accordingly, the Authority will require the $6,319,454 to be moved from the incremental expenses in the requested storm reserve to capital.

N. REIMBURSEMENTS FROM AT&T NOT USED TO OFFSET STORM DEFERRAL

CL&P included offsets for reimbursements received from The Southern New England Telephone Company d/b/a AT&T Connecticut (AT&T) for storm-related vegetation management of $5,518,455. Response to PRO – 009; Late Filed Exhibit No. 13. CL&P used an accounting cut-off date of January 31, 2013. Thus, any storm related costs or reimbursements recorded on CL&P's books after January 31, 2013, were not included in the filing. CL&P billed an additional $6,029,952 to AT&T for vegetation management that was not included in the filing, part of which was paid on September 6, 2013. Late Filed Exhibit No. 13. CL&P agreed that the $6,029,952 was based on the amount AT&T has agreed to pay using its interpretation of the Agreement, and not on the actual amount invoiced by CL&P. Tr. pp. 843 - 847. Thus, the Authority expects that the balance will be used to offset the storm deferral when reimbursed by AT&T.

O. CONTRACTUAL REIMBURSEMENTS FROM AT&T

CL&P was questioned as to whether it had properly administered its joint utility pole contract with AT&T. That contract obligates AT&T to reimburse CL&P for a portion of its storm-related vegetation management expense. The Company holds that the record demonstrates that CL&P administered the contract by requiring AT&T to reimburse CL&P for 30% of the direct expense of the tree work. CL&P Brief, p. 29.

The contract requires AT&T to reimburse CL&P for 30% of "storm-related tree work." Storm-related tree work refers to the tree work necessitated by weather conditions such as hurricanes, tornados, high wind and lightning storms, ice storms, and heavy wet snow storms. The Company argues that its administration of the contract during the five storms in question was consistent with the manner in which CL&P and AT&T have historically interpreted and applied the contract. The scope of CL&P's vegetation management work during storm restoration is limited to any of the work necessary to facilitate repair of the electric distribution system and no extra work to benefit AT&T. Id.

The OCC indicates that CL&P and AT&T have a Joint Line Agreement and various intercompany operating procedures. Intercompany Operating Procedure 80, entered into in September, 1994 (IOP 80) deals with Joint Tree Trimming. Section 80.07, entitled "Storm Related Tree Work," states as follows:

> Storm related tree work refers to the tree work necessitated by severe weather conditions such as hurricanes, tornadoes, high wind and lightning storms, ice storms, and heavy wet snow storms. Storm related tree work will be initiated immediately by the affected Company(s), without the prior concurrence of the other Company, and shall be performed as deemed necessary at the time to restore service. The costs associated with storm related tree work shall be divided such that the Electric Company shall pay 70% and the Telephone Company shall pay 30% of the total storm related tree work costs.

OCC Brief, pp. 7 and 8.

The OCC claims that there is no indication in the above language that there are categories of costs for storm-related tree work, such as a "direct cost" category and an "indirect cost" category. The OCC also argues that the language calls for storm-related tree work to be split 70/30 between CL&P and AT&T. Additionally, the OCC indicates that in Late Filed Exhibit No. 13, Attachment 1, the gross vegetation management expense for the five storms is $69,328,637. This attachment also lists a subset, or "direct costs" of $38,494,689. According to the OCC, the difference between the gross costs and "direct costs" is $30,833,948 referred to at times during the hearing as indirect costs and included expenses for meals, lodging, standby costs and supervision costs. OCC Brief, p. 8.

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The OCC notes that the total invoice to AT&T for the five storms is $11,548,407 to which the OCC points out that CL&P does not attempt to bill AT&T for the remaining costs that the Company knows AT&T will not provide reimbursement. OCC Brief, p. 9. Instead of pursuing AT&T for these costs pursuant to its contract with AT&T, CL&P has permitted AT&T to choose what it wishes to pay and charges its customers for the remainder. Id.

Thus the OCC recommends that CL&P's storm recovery in this proceeding be reduced by 30% of the amount that the Company failed to pursue from AT&T. This amount is $9,250,184. Although the PURA does not directly approve the contract, the Authority may find that CL&P has failed to pursue prudent claims under the contract and deny recovery on that basis. OCC Brief, p. 10.

In the draft decision, PURA stated that it would reserve judgement on the issue until Docket No. 13-01-28, Application of the United Illuminating Company for Determination of Cost Responsibility is resolved. The OCC and AG in their written exceptions state that PURA has all required information in this proceeding to make a decision in the current proceeding. OCC Written Exceptions, p. 2. AG Written Exceptions, p. 3.

The PURA has considered the arguments of the OCC and AG and does agree that information has been provided in this proceeding. AT&T benefits when the storm related work is performed, and as such, should be liable for its proportionate share of

those costs. PURA therefore disallows the $9,250,184 and removes this amount from the net storm recovery. CL&P shall seek reimbursement from AT&T as it wishes, however, under no circumstances shall ratepayers be charged for these costs.

P. REPAIR EXPENSE TAX CREDIT

According to the AG, in March 2012, the Internal Revenue Service (IRS) issued Revenue Procedures 2012-2019 and 2012-2020. These new regulations allow businesses, including Connecticut's public service companies, to adopt an alternative method of determining how capital expenditures can be treated for federal tax purposes. The IRS now allows certain qualified capital spending associated with the repair and maintenance of utility plant to be deducted as an expense rather than capitalized for tax purposes. AG Reply Brief, pp. 8 and 9.

The AG states that CL&P capitalized $56.3 million in storm costs, removing them from "incremental expense" to be recovered from ratepayers and instead booked them as rate base, and recovered over the life of the assets. The AG notes that these capital investments appear to be eligible for the repair expense tax credit and a corresponding federal tax benefit of as much as $22 million. The AG maintains that the Authority should make clear that any such tax credits be subject to review in Docket No. 13-07-06, Joint Petition of George Jepsen, Attorney General for the State of Connecticut, and Elin Swanson Katz, Consumer Counsel, for an Investigation into the Response of Connecticut's Public Service Companies to Certain Changes to IRS Accounting Regulations, and thereafter held for the benefit of ratepayers. Id., p. 9.

This docket is not the forum for determining the impact of the IRS rulings. With any financial or accounting issues that may impact the Company's rates, such matters will be adjudicated in the appropriate setting and at the proper time. Accordingly, the Authority will defer from responding to the AG at this time.

Q. IMPRUDENCE PENALTY REGARDING DOCKET NO. 11-09-09

The August 1, 2012 Decision in Docket No. 11-09-09, the Authority determined that CL&P's responses to Tropical Storm Irene and the October 2011 Nor'easter were inadequate and deficient in five principal areas. Decision, pp. 1, 114.

The AG recommends that the Authority impose substantial additional disallowances as a consequence of the five areas in which CL&P's response to the 2011 storms was deficient and inadequate. AG Brief, p. 18. The AG also recommends that the Authority disallow 30 - 50 % or $85 million to $140 million of the costs from Tropical Storm Irene and the October 2011 Nor'easter as a penalty. Id., p. 21. The AG contends that this amount reflects the seriousness of the failings on CL&P's part to provide safe, adequate and reliable service to its customers. CL&P ratepayers pay among the highest rates and while the Company cannot prevent damaging storms, their customers deserve a reasonable management response to those storms when they disrupt service. Id., p. 21.

CL&P argues that there is no legal authority in this case to impose a penalty as the AG has suggested. CL&P Reply Brief, p. 35. The Company also contends that the

Docket No. 11-09-09 Decision conclusions concerning its storm performance did not constitute prudence findings, nor did the PURA authorize them to be the basis for additional monetary penalties.[3] Id., p. 36.

In its June 24, 2013 Procedural Order, the Authority indicated that the prudency of the Company's actions taken before, during and after each of the subject storms would be evaluated in this proceeding. This includes whether the Company employed prudent management and operating procedures in incurring its storm costs, and if not, how, and in what monetary amount, should ratepayers be compensated for these deficiencies. The Authority notes that the parties have cited various claims of imprudence by CL&P. The Authority has carefully considered those claims and has responded to them. The Authority has also reflected the rulings in the Company's allowed storm cost recovery amount.

The Authority indicated in the August 1, 2012 Decision in Docket No. 11-09-09 that any findings of poor management would be addressed in the Company's next rate making proceeding through an appropriate reduction to the Company's allowed return on equity (ROE). The Authority will, consider this issue at that time. Accordingly, the AG's request for a 30-50% reduction of costs is hereby denied.

R. 2012 STORMS' RESPONSE

The Company has made timely compliance filings in response to the Decision Orders in Docket No. 11-09-09 and has adequately addressed the numerous recommendations resulting from the Witt, Davies and Liberty Reports. The Company has also implemented its new Powered Up Program, a comprehensive program that addresses multiple focus areas with multiple initiatives, incorporating recommendations and resolving criticisms that were collected from the 2011 storm reviews. Marsh PFT, p. 29.

The OCC states that one measure for assessing the overall effectiveness of the Storm Sandy restoration is the level of collective outrage, complaints, and criticism expressed by customers and stakeholders. The level of complaints resulting from Storm Sandy was small compared to the 2011 storms. The OCC claims that this is a good indicator that the new Emergency Preparedness and Response Plan (EPRP) and its implementation were effective in improving the restoration effort. The OCC notes that the Company was better prepared and organized. Overall coordination and communication appears to have been much improved and the duration of the restoration effort was not excessive. Id., p. 30.

Additionally, the OCC comments that the Company has taken adequate steps to change its attitude toward storm management and has taken appropriate action to establish new practices for execution of future storm response. The implementation for

[3] PURA expressly stated it made no findings in that docket on whether CL&P was imprudent. PURA stated, "the Authority must legally refrain from making a determination or ruling as to the prudency of CL&P's 2011 Storm-related costs as that issue and proceeding are for another day." (Docket No. 11-09-09, Aug. 1, 2012 decision at 18.)

reacting to the 2012 storms was an improvement but the lasting effects of the improper vegetation management still had some impact on 2012. Id.

S. $40 MILLION WRITE-DOWN FROM MERGER AGREEMENT SETTLEMENT

Section 4.3, Recovery of 2011 Storm Costs of the Settlement Agreement, the Authority's April 2, 2012 Decision in Docket No. 12-01-07, states:

> CL&P will file with the Authority a request for recovery of costs associated with Tropical Storm Irene and the October 2011 snow storm ("2011 Storm Costs") net of insurance proceeds and the storm reserve fund. Such request will be subject to review and approval by the Authority in an adjudicatory proceeding. However, CL&P will limit its recovery to an amount $40 million less than the total 2011 Storm Costs ("$40 million write-down"). Nothing in this Agreement shall restrict any party from advocating or the Authority from determining, an appropriate level of 2011 Storm Cost recovery that is lower than 2011 Storm Costs less the $40 million write-down. At the end of the Base Rate Freeze Period when new rates are implemented, any 2011 Storm Costs approved by the Authority for recovery will be recovered in rates consistent with standard cost review and recovery practice of the Authority over a six year recovery period.
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> Settlement, p. 6

The Company states that disallowances by the PURA up to $40 million are already accounted for in CL&P's proposed total collectible amount of $414 million. Petition, p. 7. The Authority asked CL&P that if it ruled, hypothetically, that $50 million of storm costs were to be disallowed, would the Company be requesting approval for $404 million ($462.3M - $40M - $8.3M - $10M) or $364 million ($462.3M - $40M - $8.3M - $50M) of storm costs. In response the Company indicated that it would expect a net recovery of $404 million. According to the Company, the Settlement provides a substantial guaranteed benefit of $40 million, in that CL&P could be found entirely prudent and it would be required to provide $40 million to customers. Response to Interrogatory FI-1.

The AG argues that whatever the amount the Authority determines to be CL&P's Tropical Storm Irene and the October 2011 Nor'easter costs then that amount would be subject to the $40 million write-down. AG Brief, p. 5. The AG also states that the parties are also free to argue that certain of the incremental costs that CL&P actually incurred in connection with Tropical Storm Irene and the October 2011 Nor'easter were imprudently incurred, and could be subject to disallowance for recovery. Because these costs were part of the "total 2011 Storm Costs," imprudently incurred costs could be disallowed, but they should be measured concurrent with, and not in addition to, the $40 million write-down. Id.

The Authority approved section 4.3 of the settlement agreement as providing a floor for a write-down on storm costs, and not as a ceiling. Thus, the Authority determines that the AG's proffered interpretation of section 4.3 is closer to the language and intention of the provision than the interpretation proffered by the Company.

Section 4.3 provides that CL&P would limit its recovery to an amount $40 million less than the total 2011 Storm Costs. Settlement p. 5. Deducting the $8.3 million storm reserve from the requested incurred costs results in a requested cost recovery of $414 million. When determining just and reasonable rates, the Authority must consider only those costs to which an entity seeking recovery is entitled, not merely those requested. The Authority therefore finds that once it determines the amount of costs allowed to be recoverable, the $40 million write down should then be deducted. Absent this interpretation the costs disallowed by the Authority would significantly diminish or eliminate any merger benefit contemplated by Section 4.3. Such an interpretation would be unfair to ratepayers, result in rates that are more than just and reasonable and lessen any merger benefits attributable to the $40 million write down.

Further, the Authority finds that a key issue is that Section 4.3 has not taken a clear position on the Authority's "disallowance enforcement" nor has it provided any actual wording as to when "disallowance enforcement" shall begin.

The Authority interprets Section 4.3 by applying the $40 million. Specifically, the Authority will first determine the incremental storm cost recovery for Storm Irene and the October Nor'easter and will then subtract $40 million dollars from that amount. This approach should provide the ratepayers and the Company with a fair and reasonable outcome of this matter.

T. ADIT EFFECT OF THE $40 MILLION WRITE-DOWN

There is a tax benefit associated with the $414 million of storm costs, because these storm costs qualified for a federal tax deduction. The Company indicates that the amount of the tax benefit is $169 million and is currently recorded on CL&P's books as accumulated deferred income tax (ADIT). Further, as the costs are recovered from customers, the tax liability associated with these revenues will become due and payable to the federal government. CL&P Reply Brief, pp. 56 and 57. CL&P explains that in situations with no special write-offs or disallowances, the revenues will equal the expenses, and these amounts exactly offset in terms of tax benefits and liabilities. The Company will recover the $414 million prior to any carrying charges. CL&P claims that its revenue requirement calculations ensure that customers will receive the tax benefits and liabilities associated with the $414 million of storm costs. Id., p. 57. CL&P asserts that the parties want customers to not only get the tax benefit associated with the $414 million of storm costs that they will pay, but also the benefit for $40 million of storm costs that they will not pay. CL&P argues that the Company incurred the $40 million in storm costs and it took the appropriate tax deduction. CL&P asserts that the notion of crediting customers with a non-conforming tax benefit for a cost they do not pay is clearly contrary to standard practice. Id., p. 58.

The Company also asserts that the manner in which the OCC, the AG, and PRO have elected to raise the ADIT issue is inconsistent with the Uniform Administation

Procedures Act (UAPA) and the Authority's Rules of Practice. Id., p. 60. The evidentiary record in this case contains no discussion of an alleged additional financial benefit owed to customers as a result of the ADIT credits. The Company claims that it is prejudicial to CL&P for the OCC, AG, and PRO to raise this issue for the first time in their briefs. That their failure to develop the ADIT issue on the record deprived the Company of its fundamental due process rights to respond to such claims during the hearing process. Id.

The OCC asserts that CL&P is inappropriately seeking to retain a $16.34 million tax benefit from claiming a federal tax deduction on the full $454 million of storm costs. According to the OCC, CL&P's approach would not provide ratepayers the tax benefits resulting from the $40 million write-down in the Settlement, thereby impacting the value of the write-down by $16.34 million. Therefore, the OCC recommends that the PURA disallow $16.34 million of recovery on the above basis. OCC Brief, p. 2.

The AG argues that because CL&P claimed $453,988,000 in incurred storm costs, it was authorized to claim $185,454,000 as a tax deduction. This $185 million is determined by multiplying CL&P's $454 million in storm costs by its effective tax rate of 40.85%. AG Brief, p. 6. The AG states that this $185 million is reflected on CL&P's accounting ledgers as accumulated deferred income taxes, recorded as a liability of the company owed to its ratepayers. This $185 million cash benefit should offset CL&P's overall storm costs and reduce the storm reserve balance to $268,533,902. Pursuant to the Settlement, CL&P was then required to write down that $268 storm reserve balance by $40 million, meaning that ratepayers would be required to pay $228 million, net storm costs. The AG further argues that CL&P did not give ratepayers the full benefit of the $185 million in tax benefits. Instead, CL&P credited ratepayers with $169,114,000 of those benefits as a direct offset to its total storm costs, which is $16.34 million less than ratepayers are due. Id., pp. 6 and 7. Accordingly, the AG recommends that the Authority reduce CL&P's Total Storm Reserve, Net of ADIT from $244,874,000 to $228,534,000. Id., p. 9.

The fact the storm costs were deductible for tax purposes and thus resulted in a tax benefit is undisputed. The first key point in this issue is the Company's assertion that customers should not be entitled to a tax benefit for storm costs they are not paying. The second key point is whether the language in the Settlement called for the $40 million write-down to be applied to the total storm costs or the net storm costs after the offsetting tax benefit is applied. Whether the $40 million write-down is applied before or after the offset for the resulting tax benefits makes a substantial difference ($16.34 million) in the resulting storm reserve, net of Accumulated Deferred Income Taxes, to be included in rate base in the next rate case.

With regards to the second key issue, the specific language in Section 4.3 of the Settlement does not specify that the $40 million write-down will be applied to the net of tax 2011 Storm Costs. The Settlement directs CL&P to file a request for recovery of "…costs associated with Tropical Storm Irene and the October 2011 snow storm ("2011 Storm Costs") net of insurance proceeds and the storm reserve fund." It also indicates that "…CL&P will limit its recovery to an amount $40 million less than the total 2011 Storm costs ('$40 million write-down')." The language indicates the costs are "net of insurance proceeds and the storm reserve fund." Unfortunately, the specific language

contained in the Settlement does not indicate whether the 2011 Storm Costs is before or after the tax benefits associated with the deduction of the storm costs is considered. Absent explicit language indicating that the $40 million write-down was to be applied to the net of tax 2011 Storm Costs, the Authority interprets the 2011 Storm Costs to be the actual costs and not the net of tax amount.

With regards to the first key point, the Company's assertion that customers should not be entitled to a tax benefit for storm costs they are not paying is consistent with standard cost recovery practice. In rate case proceedings, ratepayers do not receive the tax benefits of costs and write-offs that are not allowed for recovery in rates. To the degree that CL&P is not permitted to pass its storm costs on to customers due to the various disallowances addressed in this Decision combined with the $40 million write-down agreed to in the Settlement, ratepayers should not receive the tax benefit associated with such costs being retained by CL&P. In determining the amount of accumulated deferred income taxes associated with the storm reserve, the amount will be based on applying CL&P's combined state and federal corporate income tax rate of 40.85% to the total storm reserve net of disallowances and the write-down. For all costs directed to be moved from the net storm reserve to capital accounts in this Decision, the amount moved to capital will be considered in rate base in the next rate case along with the offsetting accumulated deferred income taxes associated with the amounts being moved to capital.

U. SUMMARY OF AUTHORITY ADJUSTMENTS

	Impact on Storm Reserve Recovery	Impact on capitalization
Issue		
Capitalized costs	$ (7.89)	$ 7.89
Consol. Of 6/11 storms	$ (1.48)	
Transformer Installation	$ (6.32)	$ 6.32
Capitalization of reg. labor	$ (7.97)	
vehicle costs	$ (0.52)	
Payroll Overheads	$ (5.01)	
Tool and Durables	$ (0.65)	
One time payments	$ (0.21)	
Capitalization of Food and Lodging	$ (3.67)	$ 3.67
Already billed to AT&T	$ (6.03)	
AT&T Contract 30% vegetation	$ (9.25)	
Total	$ (49.00)	$ 17.88

As evidenced, of the $49 million reduction to storm cost, $17.88 million is transferred to capital, $13.5 million ($7.97 + $0.52 + $5.01) relates to amounts deemed

as non-incremental costs included in base rates of the company and $15.28 million ($6.03 + $9.25) relates to reimbursements received by the company subsequent to initial filing and pending contractual disputes.

V. RECOVERY OF STORM COST RESERVES ALLOWED

After adjusting for all accounting adjustments and the $40 million provided for in the Settlement, the Authority allows CL&P a storm cost reserve recovery of $365 million as follows:

	Storm Cost Recovery Allowed
Company Request	$ 462.30
Less:	
Reserve	$ 8.30
Settlement Write Off	$ 40.00
Net Recoverable Storm Cost Request	$ 414.00
Less:	
Transferred to Capital	$ 17.88
Non incremental costs	$ 13.50
AT&T Reimbursement/ Pending issue	$ 15.28
Consol. Of 6/11 storms	$ 1.48
Tool and Durables	$ 0.65
One time payments	$ 0.21
	$ 365.00

IV. FINDINGS OF FACT

1. CL&P indentified costs of $589.6 million in its preparation and response to Storm Irene in August 2011, the October Nor'easter in October 2011, Storm Sandy in October 2012, and two additional major storms in June 2011 and September 2012. Of the total $589.6 million, CL&P proposed that $56.3 million would be capitalized and $462.3 million placed in its storm reserve.

2. The Company only seeks to recover incremental, non-capital storm costs.

3. The Petition requests that the Authority approve recovery of CL&P's prudently incurred net storm costs in future rates, over a six-year period, commencing when new rates are implemented after the base rate freeze expires on December 1, 2014.

4. Storm cost recovery is reduced by Section 4.3 of the Settlement which provided customers a $40 million write-down.

5. During a major storm restoration, some of the restoration work is capital work involving the replacement of plant assets such as poles and other capital units of property.

6. CL&P identified its storm-related capital costs by an after-the-fact analysis of the total costs charged to the storm work orders.

7. CL&P's labor estimates were developed using information from the Company's work management system regarding man-hours and vehicle charges typically incurred for the installation of each material item, based on union contract pay rates, hourly vehicle use rates and historical time studies.

8. The Company applied several factors to increase the labor estimates to account for the fact that in a storm restoration, tasks will take longer to perform due to adverse conditions, and much of the work was performed at premium pay rates.

9. The Company accounted for indirect costs normally included in capital projects, such as labor overhead charges, supervision costs and actual storeroom and lobby stock overheads.

10. In determining the storm costs to be capitalized, CL&P used a Labor Time Factor of 2.0, a Labor Time Set Up Factor of 1.5, and a Labor time Overtime Factor of 1.69 in order to reflect the presence of adverse conditions, planning time required, increased travel time required to get to the site, and the fact that the work would be performed, in part, with overtime labor.

11. PRO determined an overtime factor of 2.14.

12. Using 2.14 as an overtime factor results in an increase in capitalization of labor costs of 26.6% over CL&P's labor time overtime factor of 1.69.

13. Approximately 80% of the time charged to CL&P by outside contractors for Storm Irene and the October Nor'easter was double time.

14. CL&P's restoration cost capitalization process does not incorporate the costs associated with outside contractors and mutual aid workers.

15. CL&P's capitalized rate was 9.55% for the five storms in this proceeding, versus the Company's 8.7% for 11 other storms in 2011 and 2012 that were not part of the cost request in this proceeding.

16. CL&P was billed by outside contractors for digger trucks, pole trailers and wire trailers.

17. The cost during storm restoration for setting poles, replacing transformers and connecting wire can be higher than under normal conditions.

18. For contractors providing services under Master Service Agreements, the first eight hours are paid at overtime rates, the subsequent hours are paid at double time rates and any storm work performed on weekends and holidays are paid at double time rates.

19. For contractors not working under a Master Service Agreement, the contractor charges straight, overtime or double time rates based on the agreement the contractor has with the local union from the geographic area where the contractor originated.

20. Despite the significant portion of the repairs being made by outside contractors and vendors for the five storms, CL&P did not capitalize any of the outside vendor and contractor costs. All such costs remained in the storm reserve.

21. In CL&P's normal capitalization process outside of the unique conditions of storm events, if a contractor installing a capital asset incurs costs associated with travel, meals and lodging, such costs would be capitalized as part of the project.

22. Due to the method by which CL&P is capitalizing costs associated with storm restoration activities, none of the lodging and travel costs incurred would be capitalized.

23. The combined total identified by CL&P as costs for food and lodging is $29,146,094, none of which was capitalized by CL&P.

24. The Company removes the capital costs from the storm work order then categorizes its expenses between incremental and non-incremental.

25. Only incremental expenses qualify for recovery under the Storm Reserve.

26. CL&P assigns to capital the regular and overtime labor costs associated with installing material items in a storm, and is required by accounting standards to include those costs as a component of the capital asset values.

27. Each participating NU affiliate made contributions into a reserve that was used toward storm funding among the participating group of affiliates.

28. The reserve fund program reinsurer would advance the necessary additional funds to the affiliates subject to the repayment terms outlined in the program guidelines.

29. At the time of the storms in 2011 and 2012, there was a net negative balance in the reserve account.

30. The reserve account functioned more similarly to a loan of funds from the third party account administrator rather than a fully funded benefit account to provide coverage for storm costs.

31. This reserve arrangement was managed through a third party, Energy Insurance Services, Inc.

32. During the October 2006 to October 2012 timeframe, the Company paid $11.185 million into the distribution segment of the storm reserve fund.

33. During the October 2006 to October 2012 timeframe, $9.057 million was paid by the reserve fund for distribution losses claimed by CL&P.

34. CL&P is obligated to pay an additional approximate $4.0 million to correct the remaining storm reserve deficit.

35. NU maintains $250 million of “all risk” property insurance coverage with a pool of insurers.

36. The “all risk” insurance policy covers losses such as damage to buildings, switching stations, substations, and poles and wires located within 1,000 feet of a substation.

37. CL&P did an after-the-fact analysis to determine that none of the five storms resulted in damage exceeding $2.5 million to substations and plant within 1,000 feet of substations.

38. CL&P did not employ a specific methodology to estimate what damage occurred within 1,000 feet of any of its substations.

39. CL&P’s Outage Management System tracked trouble spots located within 1000 feet of substations.

40. Major storms are determined in accordance with an Authority-approved statistical criterion.

41. Whenever the frequency of restoration work locations exceeds the 98.5% percentile, the major storm criterion is considered met and all interruptions for that day and all subsequent days are considered major storm days, ending on the day that restoration is complete.

42. CL&P did not separately account for the outages that resulted from the June 8, and June 9, 2011 weather events.

43. NESC cross-arm inspection is addressed by Section 21-214, Inspection and Tests of Lines and Equipment.

44. The NESC provides that lines and equipment will be inspected at such intervals as experience has shown to be necessary.

45. The NESC does not prescribe an inspection methodology nor an inspection frequency for cross-arms.

46. The amount of CL&P's cross-arms that fail annually during non-storm conditions is 0.00001 percent.

47. Transmission systems operate at much higher voltages, have unique construction characteristics, and their failure is of far more consequence in terms of reliability than distribution cross-arms.

48. Maintenance tree trimming in each year prior to the 2011 storms approximated the amount allowed in rates, and the Company performed substantial ETT each year.

49. ETT was first implemented by CL&P in the late 1990s.

50. The main goal of ETT is to reduce the exposure of the electric system to vegetation contacts from trees and limbs originating from outside the maintenance trim zone.

51. Outage reporting requirements have been ordered by the Decisions in Docket No. 86-11-18 and Docket No. 12-06-09.

52. Tools and supplies include small tools, rain gear, hard hats, safety glasses, reflective vests and similar items that are necessary to equip Company personnel to safely perform their required storm-response duties.

53. CL&P made one-time payments totaling $424,800 to managers and directors in recognition of their extraordinary efforts in the Storm Sandy restoration.

54. Management-level employees who were the recipients of the bonus payments are also eligible for incentive compensation.

55. There were 6,353 transformers installed during the storm restoration period for the five catastrophic storms in 2011 and 2012.

56. CL&P capitalized the cost of installation of transformers during storm restoration, but did not utilized the CL&P storm adjustment factors (labor time 2.0, Labor time set up of 1.5, labor time overtime factor of 1.69) in estimating the amount of installation costs to be capitalized.

57. The amount capitalized for transformers that were installed as a result of the storms did not include any increase factors to account for the adverse storm conditions and premium pay.

58. CL&P billed an additional $6,029,952 to AT&T for vegetation management part of which is outstanding.

59. The CL&P/AT&T joint pole contract obligates AT&T to reimburse CL&P for a portion of its storm-related vegetation management expense.

60. Pursuant to the joint pole contract, AT&T reimburses CL&P for 30% of “storm-related tree work” that is necessitated by weather conditions such as hurricanes, tornados, high wind and lightning storms, ice storms, and heavy wet snow storms.

61. AT&T will reimburse CL&P $11.55 million for the five storms in question.

62. Gross vegetation management expense for the five storms was $69,328,637.

63. Of the $69,328,637, $30,833,948 is for indirect costs such as expenses, meals, lodging, standby costs and supervision costs.

64. The IRS allows certain qualified capital spending associated with the repair and maintenance of utility plant to be deducted as an expense rather than capitalized for tax purposes.

65. The August 1, 2012 Decision in Docket No. 11-09-09, found CL&P’s performance for Storm Irene and the October Nor’easter to be deficient in certain areas.

66. CL&P’s Powered Up Program addresses multiple focus areas with multiple initiatives, incorporating recommendations and resolving criticisms that were collected from the 2011 storm reviews.

67. There is a tax benefit associated with the storm costs because these qualified for a federal tax deduction. CL&P based the tax benefit in its recovery request on $414 million of storm costs, which is net of the $40 million write-down.

68. As the costs are recovered from customers, the tax liability associated with the receipt of these revenues will become due and payable to the federal government.

69. CL&P was authorized to take an immediate tax deduction against earnings in the taxable year preceding the year in which a disaster occurred.

70. Since CL&P claimed $453,988,000 in storm costs incurred, it was authorized to claim $185,454,000 as a tax deduction.

71. The $185 million is determined by multiplying CL&P's $454 million in storm costs by its effective tax rate of 40.85%.

72. The Settlement does not indicate whether the 2011 Storm Costs to which the $40 million write-down is applied is before or after the tax benefits associated with the deduction of the storm costs is considered.

V. CONCLUSION AND ORDER

A. CONCLUSION

The Authority will allow CL&P a storm cost reserve recovery of $365 million versus recoverable storm costs of $414 million. Recoverable storm costs are net of the Company's $8.3 million storm reserve fund balance, $40 million of costs written down pursuant to Section 4.3 of the Settlement Agreement. Additionally, the Public Utilities Regulatory Authority finds $49 million of downward adjustments which include amounts transferred to capital, reimbursements received subsequent to the initial Company filing and elimination of storm costs found to be included in the base rates of the company. The $365 million ($414 - $49) will be amortized over six years, beginning no earlier than December 1, 2014.

B. ORDERS

For the following Order, submit one original and two copies of the required documentation to the Executive Secretary, Ten Franklin Square, New Britain, CT 06051, and file an electronic version through the Authority's website at www.ct.gov/PURA. Submission filed in compliance with the Authority's Orders must be identified by all three of the following: Docket Number, Title, and Order Number.

1. At the time of CL&P's next rate proceeding, using the cost of capital allowed in that proceeding, the Company shall calculate its revenue requirements pursuant to the Company's storm cost reserve recovery allowed in this Decision for the rate year beginning December 1, 2014, and each rate year thereafter over the approved 6-year amortization period. The Company shall adjust this calculation to reflect the impact of using a 1.3% interest rate on $10 million of reserve recovery over the full amortization period pursuant to Section lll, D of this Decision.

2. Not later than June 30, 2014, CL&P shall develop and submit an accounting mechanism that will enable it to precisely track the cost of repair or replacement

of equipment within substations and within 1000 feet of substations, in sufficient detail to support clear and concise future insurance claims.

DOCKET NO. 13-03-23 PETITION OF THE CONNECTICUT LIGHT AND POWER COMPANY FOR APPROVAL TO RECOVER ITS 2011-2012 MAJOR STORM COSTS

This Decision is adopted by the following Commissioners:

Michael A. Caron

John W. Betkoski, III

Arthur H. House

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 14, 2014

Nicholas E. Neeley
Acting Executive Secretary
Public Utilities Regulatory Authority

Date