STATE OF CONNECTICUT
PUBLIC UTILITIES REGULATORY AUTHORITY

APPLICATION OF CONNECTICUT WATER COMPANY TO AMEND ITS RATE SCHEDULES

Docket No.: 26-03-15

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REPLY BRIEF OF THE CONNECTICUT WATER COMPANY

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I. EXECUTIVE SUMMARY

The Connecticut Water Company ("Connecticut Water," "CWC" or the "Company") submits this reply brief in response to the initial briefs of the Office of Consumer Counsel ("OCC"), the Office of Education, Outreach and Enforcement ("EOE"), the Office of the Attorney General ("AG"), and the Bureau of Energy and Technology Policy of the Department of Energy and Environmental Protection ("DEEP/BETP"). The parties opposing the Company's request appear intent on slashing prudently incurred expenditures and capital investments by employing a variety of novel theories. They rely heavily on selective adjustments, backward-looking averages, and conclusory assertions that costs are excessive or shareholder-oriented, while giving insufficient weight to the record evidence demonstrating that the Company's requested relief supports safe, reliable, and affordable service over the long term.

OCC's 42.6% Increase Characterization Is Misleading. OCC states that the Company seeks a "42.6% increase to the Company's current profit level." OCC Brief at 2 & n.2. However, the OCC's calculation compares adjusted utility operating income at current rates ($47,073,293) with operating income at proposed rates ($67,125,773), not historical net earnings with future shareholder profits. The OCC's characterization is disingenuous, as operating income is not profit. LFE-01, Schedule C-1.0. Operating income must cover debt costs as well as the return on equity; it is not all profit available to shareholders. The dollar amount needed also depends on the investment serving customers. More investment can require more operating income without producing a higher percentage return. The Company requests an opportunity to earn a 10.00% ROE—not a 42.6% return or profit margin. OCC's description is misleading because it presents growth in operating-income dollars as evidence of excessive shareholder profit without explaining the obligations that income must support.

The omitted context is the investment on which those operating-income dollars must provide a return. The Company has added infrastructure to serve customers, and the amount of required income must be evaluated against the supported rate base, financing costs, and reasonable return—not against an assumption that operating-income dollars should remain fixed as investment grows. OCC's percentage alone cannot distinguish a higher return on the same investment from recognition of additional investment or a deficiency at existing rates. Nor does historical growth in net-income dollars, as cited by the AG, establish excessive earnings without examining the equity invested and the return actually earned. AG Brief at 2. The Company's evidence is that its achieved return averaged approximately 214 basis points below its authorized return over eleven years and that its 2025 Funds from Operations ("FFO") to debt ratio was 10.48%. Dixon Direct at 8, 11. Those facts do not guarantee recovery of every requested cost, but they directly contradict the inference that a larger dollar earnings figure, standing alone, demonstrates a windfall. The Authority should reject OCC's headline percentage as a substitute for the required analysis and decide the request on supported costs, invested capital, and a reasonable opportunity to earn a fair return.

The Company's updated request is not an abstract increase in shareholder return. It reflects substantial infrastructure investment, implementation of a modern customer information platform, continued compliance with increasing water quality obligations, and the need to address regulatory lag and credit quality that ultimately hurts customers through higher borrowing costs. The opposing briefs largely treat the Company's ability to access capital as dispositive, but the record shows that the cost of that capital affects customers. A structure that chronically under-recovers prudent costs may appear to reduce rates in the immediate term, but it ultimately weakens funds from operations, increases financing costs, and places pressure on the Company's ability to

continue investing in the system at the pace required to serve customers. It also increases risk of catastrophic infrastructure failures, which results in higher costs to recover while placing additional logistical and cost burdens on customers.

The OCC recommends reducing the Company's requested increase to approximately $345,000, a result that would effectively deny recovery of broad categories of supported rate-year costs and remove even completed capital additions based on documentation and arguments raised after the close of ordinary discovery. EOE likewise recommends a materially lower return and additional operational directives, and the AG generally adopts or endorses the most severe adjustments proposed by OCC and EOE. Those recommendations are not balanced ratemaking and do not support quality outcomes for customers. They would substitute a punitive outcome for a reasoned assessment of the evidence and would deny the Company a realistic opportunity to recover prudent costs and maintain financial integrity.

OCC's Recommendation Requires a Reality Check. After approximately three years, roughly $145 million in investment, higher long-term debt costs, and sustained inflationary pressures, OCC recommends only $344,968 in additional annual revenue, approximately one-quarter of one percent of the $134,458,794 baseline pro forma operating revenue at current rates in its schedules. LFE-1, Attachment 1, Schedule C-2.0; OCC Brief at 3–5; OCC Brief Schedule 1. Acceptance of the OCC's recommendation is not in the best interest of customers. A recommendation that essentially maintains existing revenue levels cannot support the additional infrastructure necessary to serve customers, its depreciation and financing requirements, and accumulated operating-cost pressures. The Company agrees that it must substantiate its request, and investment dollars are not themselves an annual revenue requirement: existing WICA, WQTA, and base-rate recovery, retirements, taxes, revenues, and genuine efficiencies must all be

recognized. But OCC reaches its near-zero result in part by reducing the allowed return and equity ratio, excluding plant and costs associated with the Oracle Customer Information System ("CIS"), and lowering operating allowances, not simply by identifying equivalent efficiencies. The combined result must therefore be tested against the actual cost of providing service, not presumed reasonable because it produces a small increase. Company Initial Brief at 16–26; Sections II–IV, below. In short, the OCC's recommendation ignores the realities the Company confronts every day and is not in the best interest of its customers.

The proposed ROEs reinforce that concern. Mr. D'Ascendis testified that EOE's 8.33% recommendation would be the lowest non-punitive authorized water-utility ROE in the comparison beginning in 2010; RRU-304(b) identifies the supporting data period as 2010 through May 31, 2026. D'Ascendis Rebuttal at 5; EOE Brief at 32–33. OCC's 8.30% recommendation is lower still, and OCC conceded that Mr. Garrett knew of no litigated water-utility case in the preceding three years authorizing an ROE that low. Sept. 23 Tr. 98; OCC Brief at 51–52. EOE disputes the historical comparison, and prior awards are neither a binding floor nor a substitute for current market evidence. Nevertheless, the Authority should explain why an essentially flat revenue allowance, supported in part by returns below the non-punitive awards identified in the Company's evidence, reasonably meets CWC's service and financing obligations. The Company's responsibilities remain unchanged; affordability requires an economically sustainable result, not merely a low headline increase.

For the reasons set forth in the Company's initial brief and further addressed below, the Authority should approve the Company's updated revenue requirement, requested 10.00% ROE, 54% equity capital structure, rate design, revised Rules and Regulations, and the targeted balancing accounts and deferrals described in Late-Filed Exhibit 35. To the extent the Authority makes

adjustments, those adjustments should be grounded in the record, applied consistently, and designed to preserve the Company's ability to provide safe, reliable, and cost-effective water service.

II. COST OF CAPITAL AND CAPITAL STRUCTURE

A. OCC, EOE, and AG Understate the Return Required to Support the Company's Investment Program

OCC recommends an 8.30% ROE and EOE recommends 8.33%, compared with the Company's requested 10.00%. The proximity of those recommendations does not resolve the disputed analytical issues. The Authority must evaluate the models, inputs, and resulting estimates, not count the number of recommendations on either side. Mr. D'Ascendis updated his analysis from March 31 to July 17, 2026, and obtained an adjusted indicated range of 10.22% to 12.74%, while maintaining the Company's 10.00% request. D'Ascendis Rebuttal at 3–4. The Company is not suggesting that the results are conclusive merely because the request falls below the range; but, they are substantive evidence that must be evaluated alongside the opposing analyses under the comparable-return, financial-integrity, and capital-attraction standards of *Hope* and *Bluefield* and Conn. Gen. Stat. § 16-19e(a)(4).

The AG's brief largely follows OCC and EOE, pointing to the dollar impact of alternative ROE and capital-structure recommendations rather than providing an independent analysis of the investor-required return. But the effect of a lower ROE on the revenue requirement is not evidence of the cost of equity. A recommendation that reduces rates is not, for that reason alone, just and reasonable. The proper question is whether the authorized return is commensurate with returns available on investments of comparable risk and sufficient to maintain credit and attract capital. The Company's evidence addresses that question directly; the AG's reliance on rate-reduction arithmetic does not.

Mr. D'Ascendis also provided a concrete reason to scrutinize the low model results underlying the opposing recommendations. He identified four of Mr. Rothschild's eight CAPM indications as below or only slightly above the marginal cost of utility debt; four of the eleven company results in Mr. Garrett's analyst-growth DCF as below marginal utility debt costs; and Mr. Rothschild's 4.8% DCF indication for Middlesex Water as below the 4.95% 30-year Treasury yield used in his CAPM. D'Ascendis Rebuttal, Section II, at 5–8. The Company does not contend that every low individual result invalidates a group analysis, or that the final 8.30% and 8.33% recommendations themselves fall below those debt benchmarks. Rather, these observations test whether the underlying methods provide an economically credible allowance for the greater risk borne by equity investors. Selecting the highest result in a low range, or averaging several variations, does not by itself answer that concern.

1. DCF Growth Assumptions Require Evaluation, Not a Mechanical GDP Ceiling

OCC and EOE argue that Mr. D'Ascendis improperly treats three-to-five-year analyst earnings-growth forecasts as perpetual growth and point to forecasts exceeding projected GDP growth. OCC Brief at 50–51; AG Brief at 7–8. That objection identifies a limitation inherent in applying a constant-growth model but does not establish that aggregate economic growth is the correct substitute for the growth expectations embedded in utility share prices. The Company's position is that the model should be informed by the earnings expectations investors actually consider, while recognizing that a company cannot literally outgrow the economy forever. The dispute therefore concerns the practical estimation of investor expectations, not whether the mathematical perpetuity assumption exists. Mr. D'Ascendis addresses that issue in his rebuttal discussion of Mr. Garrett's DCF, including the GDP argument at page 31. The Authority should weigh that response rather than treat the GDP observation as dispositive.

Nor are dividend-growth and sustainable-growth alternatives assumption-free observations of the cost of equity. Mr. Garrett's dividend-growth and sustainable-growth applications produce approximately 7.5% and 7.0%, respectively. OCC Brief at 47, 50. Mr. Rothschild acknowledged that his sustainable-growth calculation requires an expected future return on book equity, which he develops using forecasts and historical information. Sept. 23 Tr. 160–161. Those approaches must be assessed for whether their payout, retention, and accounting-return assumptions capture the growth investors expect; they cannot be preferred merely because their results are lower. The Company's use of multiple methods is important for precisely this reason: a disputed DCF assumption should be tested against other evidence rather than made the sole determinant of the authorized return. D'Ascendis Rebuttal, Sections V.B and VI.B; Interrog. Resp. RRU-194.

OCC also raises a distinct screening concern: exclusion of Global Water Resources' 6.12% DCF indication while retaining indications of 13.31% and 13.41%. OCC Brief at 51, citing Rothschild Surrebuttal at 13 and D'Ascendis Rebuttal at 15. That issue should be evaluated separately from the choice of growth measure. The Company's debt-cost reasonableness check explains why very low equity indications warrant scrutiny; it does not establish that every high indication is reliable. The appropriate response is to examine the economic basis for each challenged result and the effect on the overall evidence, not to presume that a screening dispute validates OCC's or EOE's ultimate recommendation. The requested 10.00% is based on the broader record, not simply a request to authorize the 10.96% updated DCF result mechanically.

2. CAPM Inputs and Supplemental Methods Must Be Examined on Their Own Merits

The characterization of utilities as relatively low-risk does not select a particular beta, risk-free rate, or market-risk premium. Mr. D'Ascendis's rebuttal separately addresses Mr. Garrett's CAPM application and Mr. Rothschild's derivatives-based analysis. D'Ascendis Rebuttal,

Sections V.C, VI.A, and VI.C. Regarding the risk-free rate, the Company specifically supports a long-term benchmark consistent with the duration of equity cash flows rather than a 10-year Treasury maturity. *Id.* at 40; Interrog. Resps. RRU-203 and RRU-305(d). That is a duration-matching argument, not a claim that the longest available maturity must be selected simply because it produces a higher return. The Authority should evaluate the consistency of the risk-free rate and premium assumptions together, rather than infer a precise cost of equity from the general proposition that water utilities are less risky than the overall market.

EOE emphasizes option-implied betas, declining option-implied cost-of-equity estimates, and a return of expected volatility toward pre-COVID levels. EOE Brief at 27–28. Those observations do not make the conversion from option prices to a required equity return self-validating. The relevant inquiry remains whether the method and time horizon measure the return required for the long-lived utility investment at issue. Likewise, EOE's assertion that substituting historical betas would lower Mr. Rothschild's results is a sensitivity within his analysis; it does not resolve the separate disputes over the market-return estimate, growth assumptions, or the weight assigned to each model. Mr. D'Ascendis's rebuttal addresses the use of derivatives separately from the DCF and CAPM applications, and those methodological questions should not be displaced by the label "market-based." D'Ascendis Rebuttal, Sections VI.A–VI.C.

OCC's objections to the ECAPM, comparable-risk non-price-regulated companies, credit-risk adjustment, and flotation costs similarly require separate treatment. OCC Brief at 53–55. OCC acknowledges that adjusted betas and the ECAPM address conceptually different issues, while disputing the magnitude of the adjustment. That distinction defeats a categorical assertion that using both necessarily duplicates the same correction, although it does not dispense with the need to support the amount. Comparable-risk non-utility evidence likewise serves as a check, not

a claim that all non-utilities have the same risk as CWC; OCC's objection concerning diversifiable risk bears on the weight of that comparison. The Company's original analysis made no size adjustment and separately identified its credit-risk and flotation-cost adjustments. D'Ascendis Direct at 6–7. The Authority can evaluate those discrete issues without treating disagreement with a supplemental method or adjustment as a reason to disregard the entire multi-model presentation.

3. Market Forecasts, Market-to-Book Ratios, and Prior Awards Are Checks, Not Dispositive Measures

EOE relies on institutional market-return forecasts ranging from 5.90% to 8.65% and argues that expected and required returns converge in an efficient market. EOE Brief at 26–27. Even accepting that theoretical relationship, it does not follow that forecasts prepared for different investment horizons and purposes can be compared directly with a utility's ratemaking ROE without examining their assumptions. Nor does the presence of a disclaimer alone disqualify a forecast; the same objection could be made to other financial publications used in this record. The stronger point is comparability and analytical weight. Mr. Rothschild characterized the institutional forecasts as a check, and they should be treated as such, not as an independent ceiling that overrides the utility-specific analyses. Sept. 23 Tr. 163:8–9; D'Ascendis Rebuttal at 8–9.

EOE's reliance on water-utility market-to-book ratios above one also does not quantify the appropriate ROE. EOE Brief at 28. A market premium is information to consider, but a ratio of market price to accounting book value does not, standing alone, isolate the required return from the other expectations reflected in price. The Company is not asking the Authority to target a particular stock price or market-to-book ratio. It asks the Authority to estimate a reasonable return for utility investment using the full record. Similarly, the Company agrees that historical authorized ROEs lag current market conditions and cannot substitute for current analysis. Interrog. Resps. RRU-188 and RRU-304. Mr. D'Ascendis expressly accepted that ROEs should be market-

based, while identifying the unusually low position of the opposing recommendations as a reasonableness check. D'Ascendis Rebuttal at 5–8. OCC and EOE therefore answer an argument the Company need not make: prior awards are neither a binding floor nor irrelevant context.

4. Recovery Mechanisms and Access to Capital Do Not Show That a Lower Return Is Sufficient

The Company acknowledges that WICA, WQTA, decoupling, and other recovery mechanisms mitigate risk. That acknowledgement does not establish that CWC has less risk than the proxy companies whose market data already reflect comparable protections. Mr. D'Ascendis explained this relative-risk distinction, and the Company supplied a comparison of the mechanisms available to its peers. Sept. 23 Tr. 41:7–44:24; Interrog. Resp. RRU-187 and Attachment 1. The proper inquiry is the risk remaining after those protections, including the timing of recovery for investment outside the mechanisms, not whether regulation reduces some risks compared with an unregulated business. The Company likewise does not seek to convert historical under-earning into a guaranteed return or an automatic basis-point premium. Its earned-return and cash-flow evidence informs whether the prospective rate framework provides a reasonable opportunity to earn the return the market evidence supports.

EOE also argues that the Company has continued to attract capital and has not demonstrated that an 8.33% ROE would impair its access. EOE Brief at 31–33. Continued access under the existing framework does not establish that a materially lower prospective return is sufficient. At the same time, the Company does not claim that the record proves inevitable market closure or a quantified offset between higher ROE and lower borrowing costs. Mr. Dixon identified a 25-basis-point pricing differential on a contemporaneous affiliate borrowing comparison; that observation is not a controlled comparison with all other water issuances, and RRU-190 acknowledges the absence of a definitive broader premium-or-discount conclusion.

Sept. 23 Tr. 9–10; Interrog. Resp. RRU-190. The evidence should be used for what it shows: financing terms and credit quality matter even while capital remains available. A sound prospective determination should address that evidence before a financing failure occurs, without treating the borrowing comparison as proof that precisely 10.00% is required.

B. The Company's Requested Capital Structure Is Reasonable

OCC proposes 49% common equity and EOE proposes 51%, compared with the Company's requested 54%. The issue is not whether debt has a lower stated cost than equity; it is whether the total financing mix is reasonable for CWC's obligations and financial risk. The Company's year-end equity ratios were 61.58% in 2020, 53.90% in 2021, 54.61% in 2022, 57.23% in 2023, and 54.56% in 2024. D'Ascendis Direct at 18–19. Thus, 54% reflects capitalization the Company has actually maintained rather than a newly constructed allowance unrelated to utility financing. Mr. D'Ascendis continues to support that structure in rebuttal and responds separately to the opposing capital-structure proposals. D'Ascendis Rebuttal at 3–4 and Section IV. The historical proxy-company range of 37.75% to 60.32% supplies context, not proof that every ratio within it is optimal; the Company's actual capitalization and prospective financing needs remain central.

The parent-level comparison and "double leverage" argument do not establish that equity invested in CWC should be compensated at the parent's debt cost. CWC is the regulated operating utility whose rate base is being financed and whose service obligations are at issue. OCC and the AG infer from H2O America's consolidated leverage that CWC's equity necessarily produces a windfall. AG Brief at 6; Garrett Direct at 57. But the consolidated financing mix alone does not trace a particular borrowing to a particular subsidiary equity contribution or establish the risk and reasonable return of that subsidiary investment. Mr. D'Ascendis addresses the appropriate capital structure in Section IV of his rebuttal. The Authority should assess CWC's capitalization on its

merits, while recognizing group support, rather than automatically substitute the parent's consolidated ratio or equate the cost of the parent's borrowing with the required return on CWC equity.

Capital structure and ROE must also be evaluated consistently. Mr. D'Ascendis acknowledged that more equity reduces financial risk, all else equal, and OCC presents a leverage-adjusted CAPM indication of 8.0% at the Company's proposed structure. Sept. 23 Tr. 9:1–9; OCC Brief at 47. The Company does not dispute the direction of that relationship. It disputes deriving an appropriate financing mix merely by replacing higher-cost equity with debt while assuming all other costs and risks remain unchanged. A lower equity ratio increases leverage; its apparent first-order revenue reduction is not, by itself, proof of a lower sustainable financing cost. The Authority should consider the return and equity layer together in light of the Company's investment program and cash-flow evidence, rather than treat each proposed reduction as independent of the other.

As the Company's initial brief explains, the requested 10.00% ROE and 54% equity ratio work together to produce the funds from operations needed to support the Company's credit metrics. Company Initial Brief at 24–27. FFO/debt measures recurring cash generation relative to debt obligations. A lower ROE reduces the cash return on the equity invested in rate base. A lower equity ratio reduces that return further and, to the extent the Company's financing follows the ratemaking structure, increases the debt that funds from operations must support. OCC and EOE propose both reductions at the same time, which compounds the pressure on the same metric. Dixon Direct at 10–11, 28; Sept. 23 Tr. 7:7–17. That pressure would come when the Company's actual 2025 FFO/debt ratio was 10.48%, S&P had revised its assessment of Connecticut's regulatory construct, citing regulatory lag and below-average authorized returns, and the Company's standalone credit profile was bbb, two notches below its parent. Dixon Direct at 6,

11. The 10.48% ratio is a starting point, not a projected post-case result, and the Company does not claim that any particular rating action is inevitable. But the Authority should not evaluate OCC's 49% and EOE's 51% equity proposals separately from their 8.30% and 8.33% ROE recommendations. Together, they reduce the cash flow available for a continuing capital program that will require both debt and equity financing. Schedule F-7.0. Customers benefit from the Company's request through stronger liquidity, less reliance on higher-cost short-term borrowing, and access to long-term financing on reasonable terms, all of which lower the long-term cost of service. Dixon Direct at 10–11.

C. Flotation Costs Are a Financing Issue, Not an Automatic Windfall

OCC contends that the Company has not established the jurisdictional basis for a permanent parent-level flotation-cost adder, while EOE and the AG argue that stock issuance above book value eliminates the need for an allowance. OCC Brief at 54–55; AG Brief at 8–9. The economic point in Mr. D'Ascendis's testimony is narrower: issuing equity involves costs that reduce net proceeds, and financing through a parent does not make those costs disappear. He explained that equity infusions reach the subsidiary through the corporate structure and compared recognition of equity issuance costs with the inclusion of issuance costs in the effective cost of debt. Sept. 23 Tr. 16–18. He also acknowledged that existing shareholders bear those costs outside the regulatory construct. *Id.* at 17. That acknowledgement describes who initially bears the cost; it does not resolve whether the cost of financing regulated investment should be recognized in rates.

An issuance above book value and an issuance cost are different measures. The former compares the issue price with accounting equity per share; the latter compares gross proceeds with the funds available after transaction costs. A premium to book therefore does not by itself show that no financing cost exists. The record identifies H2O America equity issuances and associated

information in OCC-246 and distinguishes physically issued shares from unsettled forward arrangements in RRU-189. That evidence should be evaluated with the Company's financing presentation, not dismissed because CWC is not publicly traded. Nevertheless, recognition of a financing cost does not excuse proof of attribution or permit duplicate recovery. OCC's concerns about the amount attributable to CWC and the appropriate recovery mechanism require an express determination; they do not support the categorical conclusion that subsidiary equity can never carry flotation costs. D'Ascendis Rebuttal, Sections V.D and VI.D; Sept. 23 Tr. 138–139.

In sum, the Company's request should be evaluated as a supported 10.00% ROE and 54% common-equity structure, not as the sum of every high model result or supplemental adjustment. The Company's evidence supports a finding that both are necessary to establish just and reasonable rates. The Company's updated analysis, financing evidence, and actual capitalization provide the basis for its request, while the separate model limitations and attribution questions should be assessed explicitly and on the record.

III. RATE BASE AND PROJECT ELEVATE

OCC's rate base arguments focus more on whether every required document was provided or whether an unnecessary cut-off was met than on whether the projects were prudent or their costs were unreasonable. The Company agrees that proper approvals, timely records, and meaningful review are important. But prudence should not turn solely on whether every form for every project was submitted before the record closed, and a missing document does not automatically justify excluding an entire investment. As explained in the Company's initial brief, the Authority should consider all available evidence, distinguish completed projects from forecasted additions, and recognize supported investment serving customers during the Rate Year, subject to verification and appropriate customer protections. Company Initial Brief at 18–21; Dixon Rebuttal, Section III.

The Company's capital documentation is not deficient by historical standards; it reflects a practice the Authority and OCC have already recognized. In Docket No. 23-08-32, PURA Staff audited the Company's capital additions at its headquarters, including "an in-depth review of invoices and supporting documentation provided by CWC," and the Authority found, based on that audit and the record, "that the Company demonstrated that its Test Year plant-in-service portfolio is prudent and used and useful," subject to adjustments of $2,353,206 against $114,440,016 in requested test-year additions. Docket No. 23-08-32, Decision (June 28, 2024) at 9–11 & Table 3. OCC itself acknowledged in that case that the Company's capital project summaries, which addressed each project's purpose, service to customers, system deficiencies, risk assessment, alternatives, scope and execution, cost breakdown, and schedule milestones, "provide[] the kind of evidence that has been conspicuously absent in recent rate cases." Docket No. 23-08-32, OCC Brief at 15. The Company carried that practice forward in this proceeding through Exhibit A.3, Appendix 1, and supplemented it in discovery with project-level plant additions, in-service dates, Project Request forms, and Change Request forms. OCC-136. OCC's current position reflects a change in what OCC expects, not a decline in what the Company provides.

OCC also inaccurately implies substantial portions of the plant additions are missing project narrative explanation, suggesting only 166 of 502 projects listed in OCC-136 Attachment 2 had narratives provided. Larkin-Connolly Direct at 21. In fact, the vast majority of the projects OCC was "unable to match" to a narrative fall into the categories of developer contributed plant (119), WICA/WQTA (159), and in-service amounts below $10,000 (30). OCC-136 Attachment 2, Columns J-H[JB2.1]. The Company noted project narratives for WICA/WQTA and projects below $10,000 were not provided due to their presence on other dockets (in the case of WICA and

WQTA) or their small scale (in the case of projects below $10,000). Peeling Direct, pp. 23-24. The 28 remaining projects were placed in service during the 2023 Proforma period, where corresponding narratives would have been provided as part of Docket 23-08-32. The Company's capital documentation is comprehensive and consistent with Docket 23-08-32 submissions.

A. Prudence Requires More Than Paperwork

OCC acknowledges that CWC's capital planning, authorization, and project-management procedures are generally sound. It also acknowledges that discovery supplied annual budget reports, project-level plant additions and in-service dates, 36 Project Request forms, and 53 Change Request forms; that its witness reconciled historic additions to Schedule B and annual reports; and that the sampled records indicated the described process had been carried out. OCC Brief at 16–25; OCC-133; OCC-136; Sept. 25 Tr. 95. Those concessions are significant. They provide evidence of both the control framework and its operation. The Company does not argue that written procedures prove compliance in every instance, but OCC likewise cannot acknowledge evidence that the process operated and then treat documentation short of a complete population as having no probative value.

Sampling Is Valid Evidence. A sample cannot establish with certainty that every management decision on every project was prudent. Nor does a complete collection of forms establish that certainty: OCC itself cautions against a check-the-box standard. OCC Brief at 42–44. The appropriate question is whether the sample, reconciled accounting records, project explanations, testimony, and other evidence taken together support the requested recovery, and whether specific exceptions warrant further examination. No statistical representativeness or universal inference should be assumed merely from the number of records produced. But OCC accepted a sample for review, found evidence that the process was followed within it, and recommends no historic plant disallowance. Its more demanding position for post-test-year

additions therefore requires a reasoned explanation of the evidentiary difference—not a categorical premise that only review of every authorization document can support prudence. OCC Brief at 21–26; Larkin-Connolly Direct at 24–30.

The Company accepts that it has the burden of proof, and material gaps can justify exclusion where the record as a whole is insufficient. Used-and-useful status alone does not establish prudence, just as it is not established by an approval form alone. Nevertheless, missing documentation and an unreasonable investment decision are different propositions. Prudence concerns the reasonableness of decisions given the information available when they were made, including execution and oversight, not merely whether a preferred document appears in the filing. Company Initial Brief at 12–15. Significantly, OCC's own proposed future standard recognizes that other contemporaneous evidence may demonstrate prudence when a particular record is unavailable. OCC Brief at 44. The Authority should apply that same substantive distinction here rather than convert a documentary deficiency into an automatic full-project penalty.

Pro Forma Support Need Not Consist Exclusively of Final Invoices. Updating projects during a rate case presents a practical timing problem: construction, authorization updates, accounting closeout, and placement in service continue while discovery and hearings are underway. That does not excuse inadequate support, and the Company does not dispute the importance of producing available contemporaneous records promptly. It does mean, however, that final invoices cannot invariably be the only acceptable evidence of a supported pro forma amount. Executed contracts, awarded bids, authorized budgets, engineering estimates, commitments, progress reports, cost-to-date reconciliations, project schedules, and supported in-service forecasts can establish different aspects of a proposal before final billing is complete. Their weight depends on their specificity and reliability. A bare budget is not conclusive, but neither is

final invoice-level support necessary to every prospective finding. The Company's initial brief asks for that practical assessment, with later verification where needed, and not exemption from scrutiny. Company Initial Brief at 18–21; Dixon Rebuttal, Sections III.C–III.D.

OCC's plant objection primarily concerns Project Request and Change Request records, not simply unpaid or unavailable invoices. The Company does not conflate those issues. Its point is that both cost support and procedural compliance should be evaluated through the available evidence, proportionate to the issue being tested. For prospective projects, the Authority can distinguish approval of a supported estimate from final verification of prudent actual costs and service dates. The initial brief specifically proposes compliance filings, reconciliation of the associated revenue requirement, and customer credits for unsupported costs or delayed additions. Company Initial Brief at 20–21. Such a process must preserve a meaningful opportunity for review; it should not be treated as already established or as automatic approval of later spending. It is the Company's proposed safeguard for resolving uncertainty without excluding supported Rate-Year investment categorically.

B. Calling Regulatory Lag a "Feature" Does Not Establish Economic Symmetry

OCC describes regulatory lag as a deliberate feature of traditional regulation: the utility retains savings between cases while bearing costs it fails to control. OCC Brief at 36, citing Larkin-Connolly Surrebuttal at 5. The Company disagrees that regulatory lag is a feature as opposed to a defect. It is fair to ask whether the authors of *Bluefield* and *Hope* would agree. *Bluefield* held that rates insufficient to yield a reasonable return on the value of property "at the time it is being used to render the service" are unjust and unreasonable, and that the return should be adequate, under efficient and economical management, to maintain and support the utility's credit. *Bluefield*, 262 U.S. at 690, 692–93. *Hope* likewise required a return sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and attract capital.

Hope, 320 U.S. at 603. Neither decision treats a persistent gap between the investment serving customers and its recovery in rates as a design objective. The Company does not contend that every lag makes rates confiscatory; under *Hope*, the end result controls. *Id.* at 602. But lag cannot be embraced as a virtue without asking whether that end result meets these standards. OCC's characterization does not establish economic symmetry. Necessary infrastructure investment and unavoidable input-price increases are not equivalent to costs management has failed to control, and the opportunity to achieve savings is not evidence that savings equal those obligations. The relevant question is whether the resulting rates afford an efficiently managed utility a realistic opportunity to recover supported service costs and earn a fair return—not whether lag can be described as part of the regulatory model.

Here, investment continues as facilities age and water-quality, reliability, and security obligations evolve, while materials, labor, contracted services, and financing costs do not remain fixed with base rates. Successive additions and cost increases can therefore create a continuing mismatch rather than a temporary fluctuation that reverses before the next case. Efficiencies remain essential, but the shared-service, procurement, governance, and insurance savings already reflected in the Company's presentation cannot also be assumed to provide an additional, unmeasured cushion for future obligations. OCC identifies an incentive to control costs; it does not quantify an offset sufficient to demonstrate the claimed symmetry. Company Initial Brief at 3–4, 16–20, 39–43, 47–48; Dixon Direct at 4–11.

Later inclusion of an asset in rate base does not, by itself, reimburse the Company for revenue not recovered while the asset was already serving customers, absent an authorized mechanism providing that recovery. The Company does not seek a retroactive catch-up; it seeks prospective recognition of supported service-period costs so that the mismatch is not perpetuated.

WICA, WQTA, and other mechanisms materially mitigate specified risks and must be recognized, but they do not provide contemporaneous recovery of every investment or operating cost. The approximately 214-basis-point average earned-return shortfall over eleven years and 10.48% 2025 FFO/debt ratio warrant examination of the combined financial effect of the rate order, although neither proves the cause of every shortfall or the precise relief required. Company Initial Brief at 19–20, 24–26; Dixon Direct at 8, 11.

"Advanced Recovery" Is Not Necessarily Recovery Before Service. OCC characterizes forecasted-plant recognition as advanced recovery because it occurs sooner than under its preferred historical cutoff. OCC Brief at 36–38. But recovery earlier than that cutoff methodology would permit is not necessarily recovery before customers receive service. Completed plant already serving customers presents one question; a forecast of later service presents another. The Company does not contend that a forecast makes an asset yet to be completed used and useful. Its initial brief proposes supported service dates, appropriate averaging or proration, verification of prudent actual costs, and reconciliation for delay or unsupported amounts. A defined process preserving meaningful review can align cost recognition with service rather than exclude all post-cutoff additions regardless of when customers will use them. Company Initial Brief at 18–21; Dixon Rebuttal, Sections III.C–III.D.

Timely Recovery Does Not Eliminate Cost Discipline. OCC's concern that faster recognition may encourage excessive spending warrants substantive scrutiny, not a presumption that supported pro formas weaken controls. OCC acknowledges generally sound capital procedures and evidence that the sampled process operated; EOE reports competitive bidding covering 79% of spending reviewed while identifying specific change-order documentation concerns. OCC Brief at 16–25, 36–38; EOE Brief at 15–17. Those findings support targeted

improvements in authorization, procurement, and reporting. Under the Company's proposed verification process, need, alternatives, scope, execution, approvals, actual costs, and service dates remain reviewable, with exposure to disallowance and customer credits where warranted. Timely recognition neither guarantees recovery of all spending nor removes those controls; delaying supported recovery is not a substitute for enforcing them. Company Initial Brief at 18–21.

Affordability Must Be Sustainable. Deferring recognition of prudent investment already serving customers may reduce immediate bills, but it does not reduce the investment's construction, financing, or operating costs. Persistent under-recovery can weaken cash flow and credit metrics and increase subsequent financing costs; it is not an operating efficiency. That does not mean every disallowance causes a downgrade, that future savings necessarily offset the requested increase, or that the Company is entitled to a guaranteed return. It means the Authority should assess immediate bill impacts together with the long-term cost of reliable service. Furthermore, a pattern of deferred recognition of prudent investment encourages under-investment in infrastructure, lowering quality while kicking the can to higher costs during infrastructure failures. Section 16-19e(a)(4) calls for sufficient, but no more than sufficient, rates; targeted assistance, gradualism, genuine efficiencies, and customer-protective reconciliation address affordability without assuming that necessary service can indefinitely be financed through unrecovered prudent costs. Company Initial Brief at 4–7, 12–13, 19–21, 24–30, 47–49; Dixon Direct at 6–11.

C. OCC's Proposed Exclusions Do Not Comport with Prudence, Used-and-Useful, and Matching Principles

OCC's rate-base exclusions fall into three categories, each resting on a different premise. The first excludes completed 2026 plant because OCC finds the authorization records incomplete. The second excludes forecasted plant because it was not in service by OCC's September 30, 2026

cutoff. The third excludes Project Elevate for the same timing reason, although the CIS is a prepaid service contract rather than a plant addition. The table below groups the exclusions by category. The discussion that follows addresses the common flaw in each category rather than repeating the same response for every component.

Category	OCC's Stated Basis	Components	Gross Exclusion	Net Rate-Base Reduction	Related Annual Expense Reduction
1. Completed 2026 plant	Authorization records not produced or incomplete	Not on approved lists: $3,808.58 Zero approved budgets: $2,127,409.60 Substitutions: $253,955.43 Missing Change Requests: $15,333,793.23	$17,718,966.84	$16,863,424	Depreciation: $434,150 Property tax: $82,807
2. Forecasted plant	Not in service by September 30, 2026	October–December 2026: $9,036,905 Calendar year 2027: $37,031,182	$46,068,087	$9,161,833	Depreciation: $323,848
3. Project Elevate (Oracle CIS)	Not live by September 30, 2026	Rate-Year average SaaS prepayment balance	Not a plant addition	$11,281,442	Amortization: $1,237,300
Total			**$63,787,053.84**	**$37,306,699**	**$2,078,105**

Source: OCC Brief at 27–45, Tables 3–9; OCC Brief Schedules 10–12. Gross amounts are project expenditures; net amounts reflect Rate-Year averaging, accumulated depreciation, and deferred taxes. The four projects in the "not on approved lists" component also appear among the zero-budget projects.

1. Completed Plant Excluded for Documentation Reasons—$17,718,966.84.

All four components rest on the same premise: a budget list, a zero-budget entry, a substitutions report, or a missing Change Request form did not show the authorization OCC expected. None rests on a finding that the work was unnecessary, that the assets are not in service, or that a particular cost was unreasonable. These additions are complete and serving customers, so the used-and-useful test is not in dispute. The question is prudence. On that question, OCC identifies a gap in documentation, not an imprudent decision, and its remedy bears no relationship to the size of the gap: it excludes every dollar of each project's 2026 additions. OCC Brief at 27–

33. OCC's Change Request analysis illustrates the point. It identifies spending above approved budgets, then excludes the full project rather than the increment it questions, explaining that a lesser adjustment would leave the Company "with no consequence" for bypassing the control. *Id.* at 33. A consequence is not a measure of imprudent cost. Excluding completed, customer-serving plant on that basis would also mismatch rates and service: customers would use these assets throughout the Rate Year while rates exclude their cost.

The Company bears the burden of proof, and the Authority may exclude an amount the record does not support. But the finding should identify the unsupported amount and the reason for it. For the zero-budget projects, many of which are developer and billable service work, that means examining funding and contribution records as well as approval. For the two substitutions, it means assessing the projects' own records rather than relying on the general caveat that the substitutions column may include unapproved entries. For the Change Request projects, it means evaluating the reasons for the changes and the portion of spending that remains unsupported, treating the original budget as neither a guarantee nor a ceiling. Two reconciliation items also bear on any adjustment. The four projects absent from approved lists also appear among OCC's zero-budget projects. And OCC's Gallup Centralized WTP entry reports 2026 additions of $4,024,749.78, more than its displayed cumulative 2023–2026 additions of $3,770,495.54. OCC Brief at 28–33, Tables 4–7.

2. Forecasted Plant Excluded by the Evidentiary Cutoff—$46,068,087.

OCC excludes all additions forecast for October 2026 through December 2027 because they were not complete by September 30, 2026. OCC Brief at 34–39. OCC did not find these projects imprudent; its witness testified that he had made no prudence judgment about them. Sept. 25 Tr. 96. The exclusion rests entirely on timing. The Company recognizes the Authority's recent decisions excluding forecasted plant and does not contend that a forecast makes incomplete plant

used and useful. But a uniform cutoff treats plant expected in service before the February 1, 2027 start of the Rate Year the same as plant expected late in 2027. It also denies any recognition for the part of the Rate Year in which customers will actually use the plant. Matching calls for service-contingent recognition instead: supported in-service dates, averaging or proration so that no return or depreciation is recovered before service, verification of prudent actual costs, and credits for delays or unsupported amounts. Company Initial Brief at 18–21; Dixon Rebuttal, Section III.C. Initial carbon media for the Hopkins and Egypt Road facilities should follow the same approach without duplicating O&M or WQTA recovery, and depreciation reserves and deferred taxes must follow the same service-period methodology. Dixon Rebuttal at 19; LFE-26.

CWC recognizes that the Authority has excluded forecasted plant in recent water cases, including the Company's last rate case. Docket No. 23-08-32, Decision (June 28, 2024) at 18; OCC Brief at 33–34. Those rulings, however, are not wholly consistent with the Authority's treatment of future investment across the utility sectors it regulates. In Docket No. 17-10-46, the Authority approved a settlement, to which OCC was a party, that set CL&P's base rates for three rate years beginning May 1, 2018, with step increases in the second and third years. The settlement also created an electric system improvement tracker allowing recovery of core capital spending above a specified annual level without waiting for the next rate case. Docket No. 17-10-46, Decision (Apr. 18, 2018). The Authority likewise approved a multi-year rate plan for UI in Docket No. 16-06-04 and has approved other multi-year arrangements with forward-looking step increases over the last two decades. Each of these plans set rates for future periods based on projected investment and costs, rather than limiting recovery to plant in service when the evidentiary record closed. The Company does not contend that these decisions bind the Authority here, or that settled outcomes are precedent for litigated issues. But they do show that recognizing forecasted

investment is not inherently inconsistent with Connecticut ratemaking or with protecting customers. The real question is whether adequate safeguards exist. The service-contingent recognition, verification, and reconciliation the Company proposes would protect customers at least as well as step increases fixed in advance.

3. Project Elevate Excluded by the Same Cutoff—$11,281,442 Rate Base and $1,237,300 Annual Amortization.

OCC does not challenge the decision to replace the CIS. On the contrary, the record documents both the deficiencies of the existing system and what the new system will provide. The current CIS was last substantially upgraded in 2009 and has inherent limitations. Williams Direct at 31. For example, it cannot automatically stop the WRAP discount when a customer exceeds the usage cap, so usage is reviewed only at biennial re-verification. EOE-37; EOE-71; EOE Brief at 1. It also cannot track cancelled or rescheduled service appointments. EOE-163. The new system will apply the WRAP usage cap automatically on the billing cycle, support annual recertification, and track service appointments. Oct. 1 Tr. 94:10–16, 96:21–97:1; EOE-210; Williams Direct at 30–31. It will also support accurate billing, account and data management, work-order scheduling, and rate and regulatory programs, improve cybersecurity, and prepare the Company for AMI metering. OCC-205; Dixon Rebuttal, Section III.D. Indeed, OCC and EOE both ask the Authority to order WRAP changes that depend on the new system. OCC Brief at 76–78; EOE Brief at 1–5.

Instead, OCC's objection is that the system was not live by the cutoff and that its final cost is not yet known. OCC Brief at 39–41. Unlike most forecasted plant, however, the record documents the system's progress: an executed managed-services agreement, a reconciliation of the $12,373,000 implementation estimate, completed cutover rehearsals, and a launch date advanced to January 18, 2027, before the Rate Year begins. RRU-227(a)–(d); Company Initial Brief at 20–21. Excluding the system for the entire Rate Year would leave customers served by a

billing, customer-service, and field-service platform whose cost is absent from rates. Recovery should instead be conditioned on confirmed go-live, prudent actual cost, appropriate amortization, and retirement of the legacy system. Sept. 22 Tr. 38–39; Dixon Rebuttal, Section III.D. In short, the project has been reviewed in this proceeding, its benefits are documented and unrefuted, and it remains on schedule to be in service when new rates take effect on February 1, 2027. RRU-227(d). OCC could have recommended approval subject to confirmation of go-live and final cost. Instead, it recommends disallowing the entire project based solely on when the evidentiary record closed. That recommendation rests on no finding about the project's need, benefits, or cost. Its only effect is to lower rates by removing the cost of a system customers will use throughout the Rate Year. The approach mirrors OCC's treatment of other issues in this case, where it applies a cutoff date, a missing form, or a historical average whenever doing so reduces the revenue requirement, while setting aside record evidence that supports the Company's costs. See Sections III.C.1–2 and IV.B, above and below.

In each category, the Authority should match the remedy to the evidence. It should identify any unsupported amount, distinguish insufficient proof from an affirmative finding of imprudence, and recognize supported investment for the period it serves customers, subject to the verification and reconciliation safeguards in the Company's initial brief. Related depreciation, property-tax, deferred-tax, and working-capital effects should follow the final determinations. Company Initial Brief at 18–23; OCC Brief at 44–45; OCC Brief Schedules 5 and 10–12.

IV. OPERATING EXPENSES AND SHARED-BENEFIT COSTS

A. OCC's Expense Adjustments Grouped by Methodology

OCC proposes 21 separate reductions to Rate-Year O&M expense, totaling $5,235,328 excluding the CIS amortization addressed in Section III. OCC Brief at 56–74; Brief Schedules 13–36. Although OCC presents them item by item, the adjustments rest on a handful of recurring

rationales: historical averages substituted for Rate-Year costs, shareholder-benefit allocations, categorical exclusions for lack of a quantified benefit, and calculations that flow mechanically from other adjustments. The table below groups the adjustments by rationale. The discussion that follows responds to each group once rather than repeating the same response for every item.

Group	OCC's Rationale	Adjustments	Total
1. Total target compensation	Historical averages and point-in-time counts replace Rate-Year staffing; 20% of incentive pay excluded for financial metrics	Vacancy allowance: $899,882 Overtime: $467,386 Open positions: $308,930 Short-term incentive: $243,790 Long-term incentive: $226,157	$2,146,145
2. Shared-benefit allocations	Costs labeled as primarily benefiting shareholders; full or 75% disallowance	Corporate ("shareholder") expenses: $874,106 Board of Directors fees: $396,486 Executive liability (D&O) insurance: $106,628	$1,377,220
3. Inflation	No escalation of residual costs	Residual O&M inflation: $509,435	$509,435
4. Purchased power	Substituted supply and delivery rates	Purchased power: $286,401	$286,401
5. Flow-through calculations	Derived from Group 1; methodology not disputed	Medical and dental: $269,558 Payroll taxes: $119,559 401(k): $109,416 Variable pay increase: $11,974	$510,507
6. Rate case expense	Conn. Gen. Stat. § 16-243p(b); 65-month amortization	Rate case expense: $240,819	$240,819
7. Statutory categories	Conn. Gen. Stat. § 16-243gg	Investor relations: $50,616 Entertainment: $33,778 Corporate gifts: $29,167	$113,561
8. Benefit not quantified	Exclude for lack of a measured ratepayer benefit	Employee wellness: $31,007 Non-industry dues: $18,524 Economic development: $1,709	$51,240
Resolved	Resolved during the proceeding	Industry dues; bad debt; recurring carbon-filter O&M	—
Total			**$5,235,328**

Source: OCC Brief at 56–74; OCC Brief Schedules 13–36. Excludes the $1,237,300 CIS amortization addressed in Section III. Interest synchronization affects income taxes rather than O&M and is addressed with Group 5.

B. Responses by Group

1. Total Target Compensation—$2,146,145.

OCC's largest group of adjustments reduces the Company's total target compensation through five separate adjustments. It raises the vacancy allowance from 10 to 21 positions ($899,882), removes 4.25 open positions ($308,930), replaces Rate-Year overtime with a 2023–

2025 average ($467,386), and removes the 20% of short-term ($243,790) and long-term ($226,157) incentive compensation tied to financial metrics. OCC Brief at 63–67; Brief Schedules 25–26, 28–30. Viewed one at a time, each looks modest. Together, they reduce the compensation needed to staff and operate the system by more than $2.1 million before the related benefit and payroll-tax effects in Group 5. The Company sets compensation as total target compensation: base pay, overtime, and variable pay, benchmarked to the market so it can attract and retain the workforce needed to serve customers. Each component should be evaluated as part of that whole, not trimmed separately. The Company has also controlled this cost: employee compensation, its largest expense, increased only 1% in the three years since the last rate case. Company Initial Brief at 4; Dixon Rebuttal, Sections I–II.

The overtime adjustment shows the problem with OCC's averaging. Total overtime rose every year, from $1,348,961 in 2023 to $1,453,588 in 2024 and $1,820,154 in 2025. OCC-213. OCC's three-year average of $1,540,901 is below the 2025 actual. The adjustment therefore does not normalize an unusual year; it returns the allowance to a level the Company has already surpassed. The average also ignores the annual merit increases granted in each of those years. Overtime is paid at a premium on each employee's current wage rate, so the 2023 and 2024 amounts reflect wage rates that have since increased. OCC averages those dollars as recorded, without restating them to current wage levels, and then applies only a single Rate-Year increase to the result. Brief Schedule 28. As a result, the earlier years are understated in current dollars, and the average would understate Rate-Year overtime cost even if the hours worked were unchanged. Any normalization of overtime should be based on hours, or on prior-year costs restated to current wage rates, not on nominal dollars from years with lower pay scales.

The staffing adjustments raise a related concern. Historical vacancy counts measure positions open at a point in time, including newly authorized positions not yet filled. Applying a 21-position vacancy factor while also removing open positions may reduce payroll twice for the same unfilled roles, and the two calculations should be reconciled before either is adopted. The Company recognizes that sustained vacancies are relevant to Rate-Year payroll. RRU-006; LFE-13. But OCC's 21-position factor is a 2023–2025 average that predates the measures the Company took in 2026 to address the causes of those vacancies. After a 2026 wage and market survey showed that its pay for frontline and entry-level positions had fallen behind other Connecticut water utilities, the Company corrected those rates. Sept. 21 Tr. 64:16–65:23. In June 2026, it announced compensation adjustments targeted at non-exempt positions with historical recruiting and retention challenges. LFE-10. Early results are consistent with those objectives. Voluntary turnover was approximately 0.4% per month from June through September 2026, compared with approximately 0.8% in November 2025 and May 2026. *Id.* The vacancy rate also declined from its 14.80% peak in the first quarter of 2026 to 11.51% in the third quarter, as positions were filled, offers were accepted, and active postings advanced. LFE-1, Schedule C-3.2; LFE-13; OCC-41. The Company does not claim these results are conclusive after only a few months. But an average drawn entirely from the period before these measures assumes that the conditions they were designed to correct will persist through the Rate Year. The allowance should instead reflect the positions the Company needs and expects to fill, including engineering, operations, safety, and compliance roles, in light of current recruiting and retention results. Because the Group 5 adjustments flow from these figures, any error here is repeated there. Company Initial Brief at 5–6; Dixon Rebuttal, Sections I–II.

The incentive compensation adjustment treats one piece of total target compensation as if it stood apart from the rest. By OCC's own description, 80% of the plan metrics are non-financial. A financial component does not turn a market-based element of pay into a shareholder-only cost, and financial discipline also supports the Company's ability to fund its service obligations at reasonable cost. Removing part of variable pay reduces total compensation below the market level the Company must offer, just as removing part of base pay would. In addition, $1,156,750 of at-risk executive and officer compensation is already held outside base rates and is recoverable only through the RAM if approved performance measures are met. LFE-35 at 3–4. Any further adjustment should not reach those amounts again. Company Initial Brief at 30, 49–50.

2. Shared-Benefit Allocations—$1,377,220.

Three adjustments share one premise: that a cost primarily benefits shareholders and should therefore be disallowed in whole or in large part. OCC removes all $874,106 of allocated corporate expenses. It replaces Board of Directors fees with a three-year average and then allows customers only 25% ($396,486), and it applies the same 25% allowance to D&O insurance ($106,628). OCC Brief at 58, 60–61; Brief Schedules 15, 20–21. OCC's witness acknowledged that she did not independently calculate whether a 75% shareholder allocation is appropriate. Sept. 22 Tr. 188:13–15. As the Company's initial brief explains, these costs are already limited to CWC's 25% share of enterprise costs under the Massachusetts formula, and the record shows what they purchase. Company Initial Brief at 33–47. Every cost in this group falls into one of two categories: costs that directly support utility operations and customers, or costs required to operate as a publicly traded company. Neither is a shareholder-only expense. Of the $874,106 in corporate expenses, $644,525 is CWC's share of leadership development, shared-services contractors, compensation-committee support, board software, executive recruiting, credit-rating services, legal software, and compliance services. LFE-19, Att. 1 at 3. The remaining $229,581 is CWC's share of exchange

listing, transfer-agent, shareholder-meeting, SEC-filing, and annual-report costs. *Id.* Those are not optional amenities for investors. They are the unavoidable costs of maintaining the public-company platform through which CWC obtains its equity capital: the Company's equity is supplied by H2O America, and H2O America raises that equity in the public markets. Interrog. Resp. OCC-251; EOE Brief at 31. Customers benefit from that access to capital in the same way they benefit from the Company's access to debt markets, and the costs of maintaining it are as much a cost of financing utility plant as the issuance costs embedded in the cost of debt. The board approves CWC's capital and operating budgets and maintains the local governance and ring-fencing protections required by the merger. Patla Direct at 8–9; LFE-2. D&O coverage protects the funds that pay for utility operations and helps attract qualified directors and officers. RRU-167. The merger has also reduced these costs: director fees fell by $184,175 and D&O premiums by $203,713 from pre-merger levels. LFE-38, Att. 1 at 1. On the board expense alone, OCC stacks its averaging and 75% allocation on top of the Massachusetts formula, leaving customers to bear roughly 5.5% of H2O America's total board costs. Company Initial Brief at 39 n.4. The Authority should allow these costs in full. OCC's D&O calculation should also be corrected: it derives the allowance from the $160,367 pre-capitalization amount but subtracts it from the $146,720 O&M amount.

3. Inflation—$509,435.

OCC removes the Company's residual inflation adjustment entirely. OCC Brief at 56–58; Brief Schedule 13. Removing all escalation is not a neutral choice. It assumes that residual costs incurred in 2025 will stay flat through a Rate Year ending January 31, 2028. The Company recognizes the Authority's recent concerns about broad inflation adjustments, including in the Company's last case. Docket No. 23-08-32, Decision at 114. But the Company's adjustment

applies only to costs not adjusted elsewhere, and the Authority should at a minimum allow targeted escalation for specific categories the record shows are rising, rather than assume zero growth.

4. Purchased Power—$286,401.

In its late-filed update, the Company revised its purchased-power forecast. It replaced the 10% planning escalation in its original filing with the rate under its new four-year, fixed-price supply contract and updated its usage, demand, and fixed-charge estimates. LFE-01, Schedule C-3.7 and Purchased Power Update (Oct. 7, 2026); LFE-23; OCC Brief at 70–71. For delivery components that have fluctuated significantly from one rate period to the next (Combined Public Benefits, FMCC delivery, RAM/RDM, transmission demand, and CTA demand charges), the Company used the average of the six most recent rate periods, from July 2024 through May 2026. For components that have been stable, such as the ESI, distribution demand, and fixed service charges, it used current rates. OCC Brief at 71. OCC's own figures show why averaging is appropriate. Compared with the six-period averages, current rates show the FMCC delivery charge moving from a charge of about 2.0 cents per kWh to a credit of about 1.7 cents, Combined Public Benefits falling by more than half, the CTA demand charge increasing more than five-fold, and transmission demand rising by about 26%. OCC Brief at 72–73. OCC itself acknowledges that rates after May 1, 2027 "are very difficult to accurately predict" given market volatility and Eversource's pending rate case. *Id.* at 71. Accordingly, OCC leaves the Company's averages in place for the last nine months of the Rate Year and substitutes current delivery rates only for February through April 2027. Brief Schedule 36. Three months of point-in-time rates, including a negative delivery charge, are not a better predictor of Rate-Year cost than an average that captures the volatility OCC itself describes.

5. Flow-Through Calculations—$510,507.

Four adjustments are not independent findings but arithmetic consequences of Group 1: medical and dental ($269,558), payroll taxes ($119,559), 401(k) ($109,416), and the variable pay increase ($11,974). OCC Brief at 65, 68–69; Brief Schedules 27, 31–33. OCC does not dispute the Company's methodology for any of them. They should simply be recalculated from whatever staffing and compensation levels the Authority adopts.

6. Rate Case Expense—$240,819.

OCC limits recovery to agency consultant costs and extends amortization to approximately 65 months. OCC Brief at 59–60; Brief Schedule 18. The statutory question is addressed in Section V. Recoverable costs, including the Authority-ordered cost-of-service study and mandatory customer notices, should be amortized over 36 months. That period matches the Company's two most recent filing intervals of approximately 29 and 33 months; OCC's 65-month average is driven by a single 132-month interval from a different regulatory era.

7. Statutory Categories—$113,561.

OCC removes investor relations ($50,616), entertainment ($33,778), and corporate gifts ($29,167) under Conn. Gen. Stat. § 16-243gg. OCC Brief at 58, 60, 69. The Company considers these prudent and necessary costs of doing business. Employee recognition and engagement events support morale and retention in a workforce the Company is working to stabilize, as discussed in Group 1. OCC Brief at 58. Investor relations is part of the cost of maintaining access to the public equity markets through which CWC obtains its equity capital, as discussed in Group 2. These costs are not incurred for their own sake. They support the workforce and the capital that provide service to customers. As with the limits on rate case expense addressed in Section V, the Company respectfully disagrees with a legislative construct that categorically bars recovery of prudently incurred costs without regard to their purpose, reasonableness, or benefit to customers.

Company Initial Brief at 52–54, 59–62. The Company recognizes that the statute prohibits certain costs. But the Company maintains its position that these are legitimate costs of providing regulated service and should be recoverable, as they were for many years. It also preserves its position that the cumulative effect of the statutory exclusions, together with the other disallowances proposed in this proceeding, bears on whether the end result affords the Company a reasonable opportunity to earn its authorized return. *Hope*, 320 U.S. at 602–03. Within that framework, the Authority should apply the exclusions only to expenditures that actually fall within the statutory categories, confirm that the identified amounts remain in the updated request, and ensure that the same dollars are not also removed through the $874,106 corporate-expense adjustment or the inflation adjustment. Each exclusion should be made only once.

8. Costs Excluded for Lack of a Quantified Benefit—$51,240.

OCC removes the employee wellness program ($31,007), non-industry dues ($18,524), and economic development fees ($1,709) because the Company has not quantified a ratepayer benefit. OCC Brief at 62–63. The Company accepts that it must show a connection to utility service; as Commissioner Beecher noted, the question is whether the record shows a net benefit. Sept. 21 Tr. 232:14–20. But the absence of a separately measured saving is not evidence that a cost has no value, and few ordinary business expenses could meet a standard requiring each modest item to prove its own return. The Company's memberships include organizations representing the municipalities it serves, which support coordination on service and infrastructure work in those communities, and the wellness benefit is a modest part of a competitive benefits package. OCC-87 through OCC-89; OCC-112. The dues and economic development adjustments should also be reconciled so that the same membership is not removed twice.

C. Related Adjustments and Performance-Based Recovery

Executive Compensation Performance Metrics. Beyond its dollar adjustments, OCC proposes increasing compensation at risk from 10% to 15% if additional non-revenue-water and lead-service-line measures are added. OCC Brief at 74–76. The Company requests continuation of the existing framework and remains open to discussion of revised measures, but achievement of the existing targets does not alone justify increasing the amount withheld from base rates. Any new measures should have supported baselines, clear definitions, attainable timelines, safeguards for factors outside Company control, and no duplication with other compensation exclusions. LFE-35 already places $1,156,750 outside base-rate expense for recovery only upon approved performance and Authority authorization through the RAM. The Authority should evaluate any change prospectively and on its own record, not as an additional unquantified O&M reduction. Company Initial Brief at 30, 49–50; RRU-005, Attachment 1.

OCC's proposed non-revenue water metric demonstrates the unintended consequence of adopting a metric without full discussion and careful evaluation. OCC recommends a metric tied to 90% of water systems achieving 14% or less non-revenue water, without considering system size or scale of water loss that the metric would address. There is a wide disparity between annual water supplied by the Company's water systems and the value of the corresponding potential water savings associated with a 14% benchmark. A 14% non-revenue figure for the Northern-Western system in 2025 would correspond to 468,000,000 gallons, while the same 14% figure in the Chris Lutheran system would correspond to just over 25,000 gallons. Application Schedule G-6.0. The proposed metric would incentivize the Company to focus its water savings efforts on its many small systems to meet the 90% threshold, achieving only thousands of gallons in annual water loss reduction, while larger systems offer substantially greater opportunities for water savings and benefits to customers and the environment. In this circumstance, a metric tied to the Company's

overall non-revenue water gallonage would be a more effective metric. This illustrates why proposed metrics must be carefully evaluated before implementation.

V. RATE CASE EXPENSE

OCC and EOE read Conn. Gen. Stat. § 16-243p(b) as barring virtually all rate proceeding costs other than OCC and PURA consultant expenses, including costs the Authority specifically ordered the Company to incur. That interpretation is too broad. The statute should be construed to bar ordinary advocacy costs associated with preparing and prosecuting a rate application, not to penalize compliance with Authority directives imposed for regulatory purposes and for the benefit of the record. The cost-of-service study ordered in the prior case is such a compelled regulatory work product. It was not optional advocacy; it was required by the Authority and used to inform allocation and rate design.

The same is true for mandatory customer notice costs. Customers are entitled to notice and an opportunity to participate; the Company should not be required to fund that public participation requirement from shareholder resources. The Authority should read § 16-243p(b) in harmony with other provisions of Title 16, including the statutes governing consultant costs and regulatory proceedings, and should avoid an interpretation that creates serious constitutional and policy concerns by requiring utilities to absorb costs imposed by the regulator for regulatory purposes.

If the Authority determines that some portion of the Company's requested rate case expense is barred, it should identify the specific categories, explain the statutory basis for each determination, and amortize recoverable costs over a period that reflects the Company's expected filing cadence. OCC's proposed 65-month amortization is distorted by an older, atypical interval and does not reflect the Company's recent three-year rate-case cycle or the statutory expectation of periodic review.

VI. CIAC

On CIAC, the Company and OCC appear largely aligned on the central point that the existing accounting and ratemaking treatment should not be changed in this case without a broader technical process. The current treatment reflects a deliberate historical transition, not an inadvertent accumulation. Account 272 is outside rate base and expense, and the balance reflects depreciation cash historically authorized and reinvested in utility plant. Recasting that balance as a current refund, depreciation offset, or capital-structure adjustment would raise retroactive ratemaking, intergenerational equity, accounting, tax, and credit concerns that have not been developed in this record.

The Authority should maintain the existing treatment of post-1988 contributed plant and pre-1989 CIAC-funded plant in this case, continue the annual amortization of pre-1989 CIAC into Account 272, make no current rate-base, depreciation, capital-structure, or refund adjustment based on Account 272, and initiate technical meetings or a separate generic proceeding if it wishes to consider prospective changes. Any future change should be supported by a complete record, be prospective, avoid duplicate recovery or duplicate credits, and be revenue neutral unless the Authority determines otherwise based on developed evidence.

VII. WRAP, CUSTOMER SERVICE, AND RATE DESIGN

A. WRAP Should Continue to Balance Affordability, Conservation, and Administrative Feasibility

EOE and OCC recommend modifications to WRAP, including lower and more frequent usage caps, annual recertification, and future review of discount tiers. The Company supports the objective of assisting customers in need while promoting reasonable usage and protecting all customers from unnecessary program costs. However, the Company points out that it has administered the program in line with the directives outlined in the decision of the Company's last

rate case, Docket No. 23-08-32. Therefore, the Company, and the Authority, should view EOE and OCC's recommendations as suggested improvements to the program and not a failure by the Company to provide adequate and supportive customer assistance in line with Authority orders.

Specific to their recommendations, a quarterly cap may be administratively feasible after the new CIS is implemented, but it should be set at a level that recognizes variations in household size, tenant limitations, seasonal variation, and the fact that WRAP customers historically use less water on average than non-WRAP residential customers.

The Company does not object to continued evaluation of income reverification periods or DSS data-sharing opportunities, but any change should avoid unnecessary barriers to participation by eligible customers. Likewise, recalibration of discount tiers should be based on a complete analysis of affordability, program enrollment, arrearages, administrative cost, and conservation impacts. The Authority should not reduce discounts based solely on an average bill calculation without considering the customers the program is intended to serve and the practical consequences of making assistance less meaningful. The Company also notes that the discount thresholds and tiers were developed in direct response to OCC's recommendation and expert witness testimony in Docket No. 23-08-32.

B. Rate Design Should Maintain Gradualism and Conservation Signals

OCC recommends a 1.75-times system-average limitation for certain classes, while the Company proposed a 1.5-times limitation consistent with gradualism and prior practice. The Company's approach appropriately balances movement toward cost of service with customer impact. While the cost-of-service study provides an important directional guide, rate design is not a mechanical exercise. Gradualism is especially important in a case involving a significant overall revenue requirement and multiple customer classes with different usage profiles and affordability considerations.

With respect to residential inclining block rates, the Company recognizes the conservation value of preserving a meaningful relationship among tiers. If the Authority determines that the percentage differential among blocks should be maintained rather than the current fixed-dollar differential, the Company is prepared to implement that approach. The rate design should continue to send an appropriate conservation signal to high-usage customers while avoiding unnecessary burdens on nondiscretionary use.

VIII. RESPONSE TO DEEP/BETP ON INCLINING BLOCK RATES

DEEP/BETP supports maintaining and strengthening the conservation signal embedded in the Company's residential inclining block structure. The Company appreciates DEEP/BETP's recognition that the current structure has been effective in encouraging reduced discretionary usage by high-use customers while average residential usage has remained relatively stable. The Company agrees that inclining block rates can further conservation and cost-causation objectives when designed and implemented reasonably.

The Company's proposal largely maintained the current rate design, including the existing dollar differentials between blocks. As noted above, however, the Company is not opposed to an approach that preserves the existing percentage differential among tiers if the Authority concludes that doing so better maintains the conservation signal as overall rates change. Any such design should be implemented within the broader revenue allocation and gradualism principles adopted by the Authority and should remain administratively feasible for customer billing and communication.

IX. CONCLUSION

The record supports the Company's updated request. The opposing briefs would reduce the Company's revenue requirement through a series of adjustments that, considered individually and cumulatively, do not reflect the costs the Company will incur to provide safe, reliable, and

high-quality water service during the Rate Year. They understate the return required to support capital investment, overstate the significance of documentation disputes, treat shared-benefit governance and risk-management costs as nearly shareholder-only, and read statutory rate-case expense limits more broadly than necessary.

The Authority should approve the Company's updated annual revenue increase of $25,004,395, its requested 10.00% ROE and 54% common-equity capital structure, proposed rate design, revised Rules and Regulations, and the mechanisms described in LFE-35. In the alternative, any adjustments should be specific, evidence-based, and consistent with the statutory requirement that rates be sufficient, but no more than sufficient, to allow the Company to cover prudent operating and capital costs, attract needed capital, maintain financial integrity, and provide appropriate protection to the public interest.

Respectfully Submitted,

THE CONNECTICUT WATER COMPANY

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CERTIFICATION

This is to certify that a copy of this submission has been sent to all parties and/or intervenors of record via First Class Mail, postage prepaid or via electronic mail on this 5th day of November 2026. A copy has also been filed with the Authority as an electronic web filing and is complete.



David W. Bogan, Esq.