STATE OF CONNECTICUT
PUBLIC UTILITIES REGULATORY AUTHORITY

APPLICATION OF CONNECTICUT WATER COMPANY TO AMEND ITS RATE SCHEDULES	**:**	**Docket No.: 26-03-15**
	:	**October 22, 2026**

INITIAL BRIEF OF THE CONNECTICUT WATER COMPANY

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I. INTRODUCTION AND EXECUTIVE SUMMARY

The Connecticut Water Company ("Connecticut Water," "CWC" or the "Company") hereby submits its initial brief in connection with the above-referenced proceeding.

Connecticut Water prides itself on its longstanding record of providing quality water and service with a local team of over 200 professionals who serve 108,000 customers in 60 communities across Connecticut. Since its last rate case, the Company has worked hard to control operating costs while maintaining service, water quality, and natural resource protection. However, prudent investments in its water systems over the past three years now require the Company to seek a rate increase. The Company seeks to increase revenue by approximately $25 million or 18.6% above current base rates.[1] This request is driven primarily by significant capital investment in the Company's infrastructure to ensure clean water and reliable service, and by increases in operating and maintenance costs.

Mr. Dixon's direct testimony explains why this investment-driven request must also be evaluated in terms of regulatory lag, earned returns and credit quality. The Water Infrastructure and Conservation Adjustment ("WICA") and Water Quality and Treatment Adjustment ("WQTA") mitigate lag for eligible investment, but do not eliminate the timing gap between necessary investment outside those mechanisms and recovery through base rates. Exhibit A.4, Dixon Direct Testimony at 4–6. The Company's achieved return has averaged approximately 214 basis points below its authorized return over the last eleven years, and its actual 2025 funds-from-operations-to-debt ("FFO/debt") ratio was 10.48%. *Id*. at 8, 11. These indicators connect the need for timely recovery to the Company's ability to finance continued infrastructure investment. The requested rate relief, 10.00% return on equity ("ROE") and 54% equity ratio

[1] LFE-01 Att. 1 (The Company's corrections and updates during the proceeding reduced the requested revenue requirement by approximately $3.8 million from the original request of $28.8 million).

should therefore be considered together as measures supporting recurring cash flow, credit quality and access to capital at reasonable cost for customers—not simply as an increase in the return available to shareholders. *Id*. at 10–11, 28.

The Company's efforts to control operating costs are particularly evident in employee compensation, its single largest expense, which has increased by only 1% in the three years since the last rate case, far less than inflation over that period. This limited increase demonstrates that the Company's shared-services strategy provides access to broader resources and specialized expertise while reducing the cost to customers of obtaining those capabilities. Connecticut Water, as well as H2O America's other three operating utilities, provide shared resources in information technology, cybersecurity, legal, finance and accounting, communications and human resources, allowing the Company to access enterprise-level capabilities that would be cost prohibitive for a standalone utility. Exhibit A.1, Patla Direct Testimony at 6. Corporate insurance provides a second example of the Company's commitment to cost efficiency. Through its captive insurance program, the Company effectively self-insures certain corporate coverages, retaining the associated risk while reducing insurance costs. The pro forma insurance request reflects a reduction of almost $115,000 from test-year levels, passing those savings to customers through the rates established in this proceeding. Exhibit A.4, Dixon Direct Testimony at 24–25; Schedule C-3.13 at 1; Sept. 22 Tr. 213:9–218:18. Shared services and captive insurance are but two examples demonstrating the Company's commitment to providing enhanced service to customers at a lower cost.

Recent history and the record reveal the benefits to the Company as a result of its 2019 merger with SJW Group (n/k/a "H2O America"). Connecticut Water customers now experience lower costs by virtue of the shared services arrangement, which provides a single vehicle for the

provision of certain services common to the Company and its affiliates, San Jose Water, Maine Water, and Texas Water. At the same time, the Company benefits from San Jose Water's credit rating, which is higher than that of the Company.[2]

Alongside these cost-control efforts, the Company provides assistance programs and payment options that address the affordability pressures facing its customers. Its tiered Water Rate Assistance Program ("WRAP") offers discounts of 10%, 40% and 80% to income-eligible customers. Sept. 25 Tr. 184–189. When measured against the performance metrics the Authority established in Docket No. 23-08-32 (nonpayment disconnections, customers in arrears, average residential arrears, and failed payment plans), the Company exceeded the required 110% average annual improvement in each year, achieving 166% for 2024 and 262% for 2025. Exhibit A.2, Williams Direct Testimony at 19–20. After the Company moved payment arrangements to PromisePay in early 2025, the share of customers defaulting on payment plans fell from approximately 80% at the start of 2024 to 11.66% during 2025. Id. at 20. Average residential bills were 0.83% of median household income in the Company's service communities in the test year. Exhibit A.1, Patla Direct Testimony at 16–17. These measures demonstrate the Company's commitment to helping customers afford their water service.

The Company's service obligations require more than physical infrastructure. Reliable water service also depends on qualified personnel, effective management, sound governance, financial controls, risk management and access to capital. These functions support the planning, financing, operation and protection of the Company's water systems. Connecticut law acknowledges these needs by requiring rates sufficient to cover operating costs, "including, but

[2] Interestingly, the Authority's Decision approving the merger required "ring-fencing" in order to shield Connecticut customers from adverse effects associated with its affiliates. Yet, history has shown that the opposite is true.

not limited to, appropriate staffing levels," and capital costs, "to attract needed capital and to maintain [its] financial integrity." Conn. Gen. Stat. § 16-19e(a)(4).

Several issues in this proceeding, and the Authority's October 13, 2026 Notice of Request for Briefs (the "Notice"), turn on how the Authority treats costs whose benefits are shared by customers and shareholders. The Company respectfully submits that the existence of a shareholder benefit does not negate corresponding customer benefit. Board oversight, financial audits and directors and officers ("D&O") liability insurance are but a few examples that benefit investors precisely because they make the utility a better-run, lower-risk enterprise, and a better-run, lower-risk utility is one that delivers more reliable service at a lower long-term cost to customers. These are also essential functions without which the utility cannot responsibly operate; whether their benefits are characterized as accruing to customers or shareholders is secondary to their necessity, prudence and reasonable cost. Without strong governance, effective risk mitigation and meaningful shareholder oversight, investment decisions receive less scrutiny, financial and compliance failures may go undetected, and unmanaged risks can impair service reliability and increase long-term costs. The Office of Consumer Counsel's ("OCC") own revenue requirement witness acknowledged that financial strength, access to capital and infrastructure investment can benefit customers, Sept. 21 Tr. 213:4–218:4, and that board oversight serves recognized functions, Sept. 22 Tr. 179–195. When legitimate and prudently incurred business expenses are disallowed or assigned to shareholders without a demonstrated basis, the effect is not confined to investors. Persistent under-recovery erodes earned returns and cash flow, weakens credit metrics, raises the cost of debt and equity, and creates incentives to defer or forgo spending that serves customers. Those consequences are ultimately borne by the customers.

The three issues in the Notice are addressed in Sections IX, X, and XI of this brief. First, in response to Item 3 in the Notice, the Company submits that expenses serving both customers and shareholders must be allocated through a reasoned assessment of the functions and benefits shown in this record, rather than percentages carried forward from the last rate case. The prior decision invited the Company to substantiate these costs in future cases, and the Company has done so. OCC instead carried forward the prior percentages, and its witness conceded that she had not independently calculated whether allocating 75% of Board of Directors expense to shareholders is appropriate. Sept. 22 Tr. 188:13–15. The Authority should not adopt that allocation, or any comparable fixed percentage for D&O insurance or audit expense, without an evidentiary foundation. The Company proposes a framework grounded in the governing statutes for determining the recoverable portion of these costs.

Second, in response to Item 2, the Company acknowledges that Conn. Gen. Stat. § 16-243p(b) bars recovery of ordinary rate proceeding costs for water companies of its size, but submits that the statute should be construed narrowly to exclude costs the Authority itself compels for regulatory purposes, including but not limited to the cost-of-service study directed in Docket No. 23-08-32, and to avoid the serious constitutional questions a broader reading would raise.

Third, in response to Item 1 in the Notice, the Company submits that the Authority should maintain the existing contributions in aid of construction ("CIAC") accounting and ratemaking treatment in this case. Account 272 reflects the Authority's deliberate transition allowing depreciation recovery on pre-1989 contributed plant, with the resulting funds reinvested in utility plant. Writing off, refunding or offsetting that balance would raise substantial retroactive-ratemaking and intergenerational-equity concerns. Any prospective reclassification or

other revenue-neutral treatment should be developed in a separate technical process or proceeding involving all parties and, if necessary, the Company's independent auditors.

Accordingly, the Company respectfully requests approval of its updated annual revenue increase of $25,004,395, or 18.6%, together with its proposed rate design, 10.00% return on equity and capital structure of 54% common equity and 46% long-term debt. LFE-1, Att. 1, Sch. A-1.0; Sections V–VI, infra. The Company also requests approval of its revised Rules and Regulations. Application at 2; Exhibit A.2, Williams Direct Testimony at 40; Schedule H-2.6. The Company further requests approval of the mechanisms described in Late-Filed Exhibit 35: continuation of the tank painting and well maintenance balancing accounts at revised funding levels; establishment of balancing accounts for medical and dental expense and carbon filter operating and maintenance ("O&M"); expansion of the lead service line program cost deferral; continuation of performance-based recovery of at-risk executive and officer compensation through the rate adjustment mechanism ("RAM"); and adoption of the proposed treatment of Per- and Polyfluoroalkyl Substances ("PFAS") settlement proceeds and PFAS defense costs. LFE-35 at 1–5. Together, the requested rate relief and targeted mechanisms would support timely recovery of prudent costs, preserve performance accountability and the Authority's review, and sustain the Company's ability to finance necessary investment and provide safe, reliable water service at a reasonable long-term cost to customers.

II. PROCEDURAL HISTORY

On March 13, 2026, the Company filed a preliminary notice of its intention to file a general rate application in compliance with Regulations of Connecticut State Agencies ("R.C.S.A.") §§ 16-1-22(b) and 16-1-53a. Notice was also provided to the Governor, the chief executive officer of every municipality in the Company's service area, the OCC, and the state senators and representatives elected from the Company's service communities. Application at 2–3.

On May 11, 2026, the Company filed its Application pursuant to Conn. Gen. Stat. §§ 16-19 and 16-19e and R.C.S.A. §§ 16-1-53 et seq., requesting that new rates become effective on and after February 1, 2027. Application at 1. In addition to the rate amendments, the Company requested approval to continue its performance metrics; continue the tank and well maintenance balancing accounts established in Docket No. 23-08-32 and establish additional balancing accounts for medical insurance and carbon filters; expand the lead service line identification cost deferral established in Docket No. 23-08-32; and adopt revised Rules and Regulations. *Id.* at 2.

In support of its Application, the Company submitted the prefiled testimony and exhibits of seven witnesses, together with the Standard Filing Requirement schedules: Craig J. Patla (Exhibit A.1); Michelle R. Williams (Exhibit A.2); David C. Peeling (Exhibit A.3); Troy M. Dixon (Exhibit A.4); Jordan L. Herskowitz (Exhibit A.5); Dylan D'Ascendis (Exhibit A.6); and Talha Sheikh (Exhibit A.7).

Mr. Patla, President of the Company, provided an overview of the Company, its governance and the need for rate relief; Ms. Williams, Vice President of Customer Experience, addressed customer service, financial assistance, billing and collections, affordability and performance metrics; Mr. Peeling, Vice President of Operations and Engineering, addressed the capital program and project prudence; Mr. Dixon, Vice President of Regulatory Affairs, addressed the revenue requirement, capital structure, financing and rate design; Ms. Herskowitz of the Company's Human Resources Department addressed compensation and benefits; Mr. D'Ascendis of ScottMadden addressed return on equity and capital structure; and Mr. Sheikh of ScottMadden presented the allocated cost of service study. Exhibit A.1, Patla Direct Testimony at 20–21.

On May 19, 2026, the Authority issued a Notice of Proceeding stating that it would conduct a contested proceeding to review the Application pursuant to Conn. Gen. Stat. §§ 16-11, 16-19,

16-19e, 16-19k, 16-19l, 16-19gg(b), 16-19kk, 16-19oo, 16-19yy, 16-22, 16-262r, 16-262s(b), and 16-262y. Notice at 1. On June 11, 2026, the Authority held a scheduling conference, and established June 16, 2026, as the deadline for requests for party or intervenor status. The designated parties included the Company, OCC and the Authority's Office of Education, Outreach, and Enforcement ("EOE").

The Authority provided opportunities for public participation throughout the proceeding. On June 19, 2026, the Authority issued a Notice of Opportunity to Comment inviting public comments on the Application. Public comment hearings were held in person on July 29, 2026 and August 10, 2026, and remotely on August 26, 2026. The Authority received comments from Senators/State Representatives, in-state organizations/town groups and individual customers.

The proceeding also included extensive discovery and review of the Company's records and facilities. Twenty sets of interrogatories were issued between June 12 and September 1, 2026, and the Company responded to approximately 1,500 interrogatories including sub-parts and 79 Late-Filed Exhibits ("LFE"). Rolling discovery concluded on September 15, 2026. The Authority issued a Notice of Audit on June 22, 2026, revised on July 16, 2026, scheduling an accounting audit for July 27 and 28, 2026. It also issued a Notice of Inspection on July 21, 2026, scheduling engineering inspections for August 3, 4 and 5, 2026.

On July 31, 2026, OCC filed the prefiled direct testimony of Grace N. Koenig, Brendan Larkin-Connolly, David J. Garrett and Jared N. Geiger. Their testimony addressed accounting and operating expenses, capital additions, cost of capital, and cost of service and rate design, respectively. EOE also filed the prefiled direct testimony of Aaron L. Rothschild on July 31, 2026, addressing the cost of equity, cost of debt and capital structure and presenting recommendations concerning the Company's overall rate of return and return on equity.

On August 21, 2026, the Company filed the rebuttal testimony of Mr. Dixon and Mr. D'Ascendis in response to the OCC and EOE testimony. On September 4, 2026, OCC filed the surrebuttal testimony of Ms. Koenig, Mr. Larkin-Connolly and Mr. Garrett. Ms. Koenig responded to Mr. Dixon's rebuttal testimony and submitted schedules supporting OCC's proposed adjustments. Mr. Larkin-Connolly responded to Mr. Dixon's testimony concerning forecasted plant additions and the carbon filtration plant, presenting conclusions and recommendations regarding those capital additions. Mr. Garrett responded to Mr. D'Ascendis's testimony concerning the Company's rate of return. EOE also filed Mr. Rothschild's surrebuttal testimony on September 4, 2026.

Evidentiary hearings were held on September 21, 22, 23, 24 and 25 and October 1, 2026. The proceeding included 79 late-filed exhibits, and the Authority held a late-filed exhibit hearing on October 7, 2026.

Through its notice admitting evidence, the Authority also admitted materials concerning the treatment of contributions in aid of construction ("CIAC") in Docket No. 83-08-19. These included correspondence submitted between October 1983 and April 1984 by the Company, Day, Berry, and Howard, General Waterworks Management and Service Company, Bridgeport Hydraulic Company, and the Department of Public Utility Control ("DPUC"); the March 19, 1984 hearing transcript; archived Legislative Regulation Review Committee materials concerning the May 27, 1986 amendment to R.C.S.A. § 16-27-4; and DPUC's June 9, 1986 file copy of the Secretary's Return of approved regulations and associated documents.

The evidentiary record closed on October 8, 2026. On October 13, 2026, the Authority issued the Notice requesting that parties address three issues in their briefs: the accounting and

ratemaking treatment of CIAC; the applicability of Conn. Gen. Stat. § 16-243p(b) to rate proceeding costs; and the allocation of expenses benefiting both customers and shareholders.

III. LEGAL AND REGULATORY FRAMEWORK

A. Ratemaking Standards

Conn. Gen. Stat. § 16-19 governs the Authority's consideration of the Company's application and requires that the Authority determine that a proposed rate amendment conforms to the principles and guidelines set forth in Conn. Gen. Stat. § 16-19e. Among those principles is that the "level and structure of rates be sufficient, but no more than sufficient, to allow public service companies to cover their operating costs including, but not limited to, appropriate staffing levels, and capital costs, to attract needed capital and to maintain their financial integrity and yet provide appropriate protection to the relevant public interests, both existing and foreseeable." Conn. Gen. Stat. § 16-19e(a)(4). The Connecticut Supreme Court has stated that Section 16-19e(a)(4) codifies the "just and reasonable" ratemaking standard established in Federal Power Commission v. *Hope* Natural Gas Company, 320 U.S. 591, 603 (1944) ("*Hope*"). *See also* Connecticut Light and Power Co. v. DPUC, et al, 216 Conn. 627, 635 (1990); *Bluefield* Water Works & Improvement Company v. Public Service Commission of West Virginia, 262 U.S. 679, 692 (1923) ("*Bluefield*").

Section 16-19e(a)(4) is a balancing standard. It protects customers by limiting rates to what is sufficient and "no more than sufficient," and it protects the utility's ability to serve by requiring rates sufficient to cover operating costs—expressly including appropriate staffing levels—and capital costs, to attract capital, and to maintain financial integrity. Both sides of that balance serve the public interest. Under *Hope* and *Bluefield*, the return to equity owners should be commensurate with returns on investments in other enterprises having corresponding risks and sufficient to assure confidence in the financial integrity of the enterprise so as to maintain its credit and attract capital. *Hope* at 603; *Bluefield* at 692–93. Those standards are not satisfied merely by authorizing a

nominal return on equity; a utility's opportunity to earn its authorized return depends equally on recovery of its prudently incurred operating expenses.[3]

The Company therefore asks the Authority to assess the combined effect of its determinations concerning rate base, expenses, capital structure and recovery mechanisms, rather than the authorized ROE in isolation. The governing standard provides an opportunity, not a guarantee, to earn a fair return; that opportunity must nevertheless be realistic under efficient and economical management. Historical under-earning is relevant to that inquiry, although it does not by itself establish that any particular adjustment is unlawful or that the overall rates are confiscatory. *Hope* at 602–03; *Bluefield* at 692–93.

In a rate case, the Authority is also guided by the principle "that the level and structure of rates charged customers shall reflect prudent and efficient management of the franchise operation." Conn. Gen. Stat. §16-19e(a)(5); *see* Connecticut Light and Power Co., 216 Conn. at 645 (1990). The Court held that "[t]he prudence of a management decision depends on good faith and reasonableness, judged at the time the decision is made." *Id.* The Court's articulation of the prudence standard relied upon a decision from the First Circuit Court of Appeals, which stated that "managers of a utility have broad discretion in conducting their business affairs and in incurring costs necessary to provide services to their customers" and while in hindsight a management decision may be called into question, the legal standard requires an evaluation of "the utility's actions and the costs resulting therefrom based on the particular circumstances existing at the time the challenged costs were actually incurred." Violet v. FERC, 800 F. 2d 280, 282-283 (1st Cir. 1986).

[3] The Company's requested capital structure and return on equity are linked to credit metrics, including funds from operations to debt. *See* Sept. 23 Tr. 8:7–17.

The Company bears the burden of demonstrating that its expenses are prudent, reasonable, appropriately allocated and consistent with applicable statutory requirements. The Authority may require evidence supporting recovery, but the inquiry under Sections 16-19 and 16-19e should account for benefits that are indirect, long-term or preventive. Preventing failures, managing risk, maintaining credit quality and retaining institutional knowledge support reliable service even when their benefits cannot be immediately or precisely quantified. Giving those benefits insufficient weight risks undermining the Company's ability to serve its customers over time.

The Company's Application and the evidentiary record in this docket demonstrate that the proposed rate amendments conform to these aforementioned principles.

B. Test Year

The Authority has stated that it "is the practice of this [Authority] in utility rate cases to establish rates prospectively upon review of a historical [test year ("TY")]." Docket No. 09-12-05, Application of The Connecticut Light and Power Company to Amend its Rate Schedules, June 30, 2010 ("2010 CL&P Rate Case Decision") at 11. Revenues and expenses are "adjusted for known changes or to reflect a normalized, annualized TY, known as the pro forma TY." 2010 CL&P Rate Case Decision at 11; *see also* Docket No. 13-01-19, Application of the United Illuminating Company to Increase Rates and Charges, Aug. 14, 2013 ("2013 UI Rate Case") at 6. The Company's proposed amendments are based on the TY ending December 31, 2025.

C. The Authority's Findings Must Rest on Substantial Evidence and Reasoned Explanation

The Authority has broad discretion in setting rates; that discretion, however, is exercised within a framework that requires the Authority's factual findings to be supported by substantial evidence in the record and its conclusions to be reasonably drawn from those findings. *See* GenConn Energy, LLC v. Public Utilities Regulatory Authority, 348 Conn. 532, 551 (2024)

(*GenConn*). The same principle governs here. Where the Authority determines that only a portion of an expense should be recovered, the portion selected must be tied to evidence concerning the nature of the expense and the benefits it provides—not adopted by default or carried forward without examination.

Additionally, the Authority's discretion remains subject to judicial review. Under Conn. Gen. Stat. § 4-183(j), the Company may obtain relief on appeal where its substantial rights have been prejudiced by findings or conclusions that are affected by legal error, clearly erroneous in view of the reliable, probative and substantial evidence on the whole record, or arbitrary, capricious or an abuse of discretion. These limits require the Authority to explain how the evidence and governing statutory factors support its determinations. In *Aquarion Water Co. of Connecticut v. Public Utilities Regulatory Authority*, No. HHB-CV-24-6089616-S, 2025 WL 3641396, at *3 (Conn. Super. Ct. Dec. 9, 2025), the Court remanded PURA's allowance of only 50% of rate case expenses because PURA failed to explain why that percentage was appropriate. Broad policy concerns were not sufficient for supplying the missing rationale. Accordingly, any disallowance or allocation of the Company's expenses must rest on an explanation connecting the record evidence and applicable statutory standards to the particular adjustment adopted, sufficient to permit meaningful judicial review.

IV. REVENUE REQUIREMENT AND RATE BASE

As filed, the Company sought an increase of approximately $28.8 million, or 21.4%, over currently authorized revenues, based on a return on approximately $907 million of rate base calculated at the approximate midpoint of the February 1, 2027 through January 31, 2028 Rate Year. Exhibit A.4, Dixon Direct Testimony at 4, 13–14, 17.

During the proceeding, the Company corrected and updated its schedules, reducing the revenue requirement by approximately $3.8 million through a mix of lower capital costs and

reduced pro forma expenses. LFE-1. The culmination of the updated pro forma rate base, operating income and capital structure yields an overall revenue increase of $25,004,395, or 18.6%. LFE-1, Att. 1, Sch. A-1.0. The impact of the increase varies by customer class, system and level of consumption. Exhibit A.4, Dixon Direct Testimony at 30.

The Company's request is driven primarily by continued investment in infrastructure needed to maintain system reliability, safety and water quality, including projects required by regulatory compliance, together with the regulatory lag associated with investment outside the WICA and WQTA mechanisms. Exhibit A.4, Dixon Direct Testimony at 4–6. Inflation and higher interest rates have compounded those pressures by increasing operating costs and the cost of financing utility plant. *Id.* at 5–6.

Inflation of nearly 10% between test years and higher interest rates increased operating, project and financing costs. Exhibit A.4, Dixon Direct Testimony at 4–6. Efficiencies mitigate these pressures but cannot replace recovery of necessary investment. For non-WICA and non-WQTA additions, financing and placement in-service precede base-rate recovery. *Id*. at 5–6. Recognizing supported rate-year plant and known and measurable expense changes addresses that mismatch, not historical earnings shortfalls.

Although regulatory lag can encourage cost discipline and WICA and WQTA mitigate it, neither resolves delayed recovery outside those mechanisms or after the rate-base cutoff. Temporarily lower bills do not justify persistent, material under-earning. The question is whether the overall rate order affords an efficiently managed utility a realistic opportunity to recover prudent costs and earn a fair return. Exhibit A.4, Dixon Direct Testimony at 4–9; *Hope* at 602–03.

The revenue requirement consists of operation and maintenance expenses, depreciation and taxes, and a return on rate base that reflects both the cost of debt and the opportunity to earn a reasonable return on equity:

- Operating & Maintenance Expenses: The Company seeks recovery of the reasonable and prudent costs of operating and maintaining its water systems and providing service to customers. These costs include the personnel, materials, services and administrative functions necessary to support utility operations. The adjusted total for O&M expenses is $50,149,196. Schedule LFE-1, C-1.0.
    - Equity Return: The Company proposes a capital structure consisting of 54% common equity and a return on equity of 10.0%. LFE-1 Att. 1, Schedule A-1.0. A reasonable opportunity to earn that return is critical to the Company's financial integrity and ability to attract the capital needed to maintain and improve its systems.
    - Interest Cost: The Company finances its rate base with 46% long-term debt at an embedded cost of approximately 4.462%. LFE-1, Att. 1, Schedule D-1.0LF. CWC typically replaces maturing long-term debt and refinances existing debt when favorable rates are available. It places new debt through a placement agent or direct lender inquiries, with each issuance approved by the Authority. Exhibit A.4, Dixon Direct Testimony at 12, 28–29.
- Depreciation: Depreciation expense allocates the cost of utility assets over their service lives so that customers pay for assets as those assets serve them. The Company's depreciation rates are those approved in Docket No. 23-08-32, applied to plant in service. Exhibit A.4, Dixon Direct Testimony at 13, 27. The calculated Test Year depreciation expense is $21,782,362 and the total expense after adjustments is

$25,060,733. Refer to LFE-01 Att 1, Schedule C-3-23p1. An increased depreciation expense of 3.1% is not recovered through WICA/WQTA.

- Property and Payroll Taxes: The Company is often one of the largest taxpayers in each of the 60 jurisdictions in which it operates. Exhibit A.4, Dixon Direct Testimony at 13. Property taxes are based on the Company's most recent municipal tax bills, adjusted for plant in service as of September 30, 2026, and payroll taxes correspond to the total target compensation adjustments in Schedule C-3.2. *Id.* at 27.
- Income Taxes: The cost of service reflects a reduction for combined state and federal income taxes, primarily because of the Company's tax treatment of eligible projects that are capitalized for book purposes and deducted for tax purposes, which is an immediate benefit to customers that lowers the overall request. Exhibit A.4, Dixon Direct Testimony at 13.

A. Plant Additions and Project Elevate's New Customer Information System are Prudent and Properly Included in Rate Base

The capital investments in rate base were necessary to provide safe, reliable service and to comply with water quality requirements. Exhibit A.1, Patla Direct Testimony at 14–15. The Company continues to replace at least 1% of its water mains annually, and is investing in source, treatment and distribution facilities, as well as customer information and cybersecurity systems required to operate the business. *Id.* at 15–16. The Company also committed to remove an approximately $6 million group of 2025 additions from this case so that they may be reviewed in the first WICA filing after the case, along with related depreciation and tax effects. Sept. 24 Tr. 174:22–177:20.

OCC proposes to remove forecasted plant additions—reducing plant in service by $27,534,209 and rate base by a net $10.4 million—and to remove the Oracle CIS SaaS project,

reducing rate base by $11.2 million and O&M expense by approximately $1 million. Koenig Surrebuttal at 4–5; Surrebuttal Schs. GNK-9, GNK-10. Those adjustments rest on the recommendations of OCC witness Larkin-Connolly. Koenig Surrebuttal at 4–5. His review had not identified a historical test-year dollar adjustment, and his recommendation excludes projects not completed by the late-filed exhibit cutoff. Sept. 25 Tr. 92–99. Forecasting rate base to the midpoint of the Rate Year aligns recovery with investment expected to serve customers while those rates are in effect, rather than fixing recovery to an earlier evidentiary date. Exhibit A.4, Dixon Direct Testimony at 14. Project Elevate illustrates why that distinction matters: its scheduled deployment precedes the February 1, 2027 start of the Rate Year, even though it follows the late-filed exhibit cutoff. Interrog. Resp. RRU-227(d).

Chairman Wiehl explored whether regulatory lag benefits customers by delaying an asset's inclusion in rates without a catch-up for earlier years. Mr. Dixon characterized that premise as customers paying 80% rather than 100% of an asset's lifetime cost, and the Chairman agreed before asking which approach creates greater net rate pressure. Sept. 23 Tr. 53:18–54:11. The Company's response is that lower payments attributable to unrecovered prudent costs are not an operating efficiency: they shift the cost of service to investors without reducing the investment needed to serve customers. The 80% example was hypothetical, not a measured shortfall for any particular asset; actual recovery depends on depreciation, rate-case timing and applicable mechanisms, as the ensuing testimony recognized. Id. at 54:12–25.

The governing inquiry is whether prospective rates, viewed as a whole, afford a reasonable opportunity to recover prudent costs, maintain financial integrity and attract capital—not simply whether excluding investment lowers current bills. Conn. Gen. Stat. § 16-19e(a)(4); Hope, 320 U.S. at 602–03. That standard neither guarantees the authorized return nor requires recovery of

every individual cost. Here, however, the Company's approximately 214-basis-point average earned-return shortfall over eleven years and demonstrated borrowing-cost differential provide record-based reasons not to treat persistent under-recovery as a sustainable customer benefit. Exhibit A.4, Dixon Direct Testimony at 6–11. Recognizing supported investment expected to serve customers during the Rate Year, subject to verification and prudency review, addresses prospective service costs rather than recouping past earnings shortfalls. *Id*. at 14; Section V.C, infra.

Project Elevate replaces essential customer-service infrastructure last substantially upgraded in 2009. After a multi-year evaluation, the Company selected Oracle Customer Cloud Service and Oracle Field Service to maintain service, meet regulatory requirements and address cybersecurity risks. Exhibit A.2, Williams Direct Testimony at 31; Larkin-Connolly Direct Testimony, Section VII, Q56. The system supports accurate billing, customer inquiries, account and data management, work-order scheduling, and rate and regulatory programs. Dixon Rebuttal, Section III.D. It also improves customer and employee experience, security and readiness for AMI smart metering, reducing the operational risks of an obsolete platform. Interrog. Resp. OCC-205.

Updated discovery supports the deployment forecast: cutover rehearsals proceeded as planned, and launch was advanced to January 18, 2027 to reduce the risk of missing the Rate Year, superseding earlier dates including February 11, 2027 in OCC-296, Attachment 2. Interrog. Resp. RRU-227(d). RRU-227 also provides an executed managed-services agreement and reconciles the $12,373,000 implementation estimate to an $11,238,808 unamortized balance at December 31, 2027. *Id*., parts (a)–(c), Att. 1. These discovery figures are not the final Rate-Year average in LFE-1, but substantiate the forecast rather than merely assume eventual completion.

OCC's recommendation should be evaluated on its actual basis. Mr. Larkin-Connolly did not recommend that the decision to replace or upgrade the CIS was itself imprudent; he objected

to recovery before completion and reserved judgment on final costs, including the potential for overruns. Sept. 25 Tr. 100–103. Those are legitimate verification issues, but they do not establish that a system expected to serve customers from the start of the Rate Year should be excluded for the entire period. As Mr. Dixon explains, the appropriate response is to align recovery with service and verify completion, in-service status and final cost through a compliance filing if needed. Dixon Rebuttal, Section III.D. Approval need not insulate project-management decisions or unsupported spending from scrutiny. The Authority can condition recovery on confirmed service, review actual prudent costs, and require consistent treatment of the retired legacy system, whose retirement Mr. Dixon committed to reflect in the updated schedules. Sept. 22 Tr. 38–39. This addresses OCC's concerns without treating the close of evidence as the date on which customers' need for modern billing and customer-service infrastructure ends.

The Company submits that the absence of final invoices or even in-service designations at the close of the record need not preclude inclusion of otherwise supported forecasted plant additions. Approval of a reasonable forecast is distinct from final verification of actual costs and in-service dates. The Authority can require subsequent compliance filings documenting those amounts and dates, supported by invoices and other project records, with reconciliation of the associated revenue requirement and appropriate customer credits for unsupported costs or delayed additions. This approach would preserve prudency review and protect customers without categorically excluding investment expected to serve them during the Rate Year.

B. OCC's Proposed Revenue Requirement Does Not Reflect Supported Rate-Year Costs

OCC's surrebuttal schedules support a revenue increase of $5,463,024, using a 6.37% overall rate of return. Surrebuttal Schs. GNK-1, GNK-35. The deficiency is not simply that this amount is less than one-quarter of the Company's updated request; it is that the disputed

adjustments do not reliably measure the cost of providing service during the Rate Year. Mr. Dixon's rebuttal explains that many substitute backward-looking averages for known and measurable costs, assume that supported obligations will be delayed or will not occur, or characterize necessary utility functions as shareholder-only activities without sufficient support. Dixon Rebuttal, Sections I–II. The Company's acceptance of discrete corrections does not validate those broader reductions. *Id*., Section III.B. LFE-1 already incorporates updates reducing the Company's request by approximately $3.8 million; the remaining contested items must be decided on their own evidence, not by extrapolating from acknowledged errors.

OCC's selective use of historical results illustrates the problem. Its 64.77-month rate-expense amortization relies on a 132-month interval between the 2010 and 2021 filings, despite the two most recent intervals of 32.58 and 29.33 months, combined with the statutory requirement to file a rate case at least every four years. Surrebuttal Sch. GNK-16; Section X.F, infra. It also replaces current allocated board expense with a three-year average before imposing a further 75% shareholder allocation, without independently calculating whether that percentage is appropriate on this record. Surrebuttal Sch. GNK-18; Sept. 22 Tr. 188:13–15; Section IX.C.1, infra. Historical averaging can reasonably normalize volatile expenses, but it is not a substitute for evidence that the selected period predicts Rate-Year conditions. Selecting older or lower results while disregarding supported changes amounts to cherry-picking rather than consistent normalization.

The Company retains the burden to support its request, but OCC's recommendations must be weighed against the full record rather than treated as established merely because they reduce the increase. The Authority should therefore determine supported plant, expenses and financing inputs first, recalculate their related tax and working-capital effects consistently, and reject reductions lacking a reasoned connection to Rate-Year conditions. As addressed in the following

sections, the cumulative result also matters: unsupported exclusions weaken recurring cash flow, credit metrics and the ability to finance necessary investment, potentially increasing customers' long-term costs. Dixon Rebuttal, Section II. The Company accordingly requests adoption of its updated $25,004,395 revenue increase, with only those further adjustments substantiated by the record.

V. COST OF CAPITAL

The Company requests a 10.00% return on equity ("ROE") and a capital structure of 54.00% common equity and 46.00% long-term debt, producing an overall rate of return of 7.48% as filed. LFE-01, Att. 1, Schedule A-1.0; Exhibit A.6, D'Ascendis Direct Testimony at 5. OCC witness Garrett recommends an 8.30% return on equity and a 49% equity ratio, and EOE witness Rothschild recommends an 8.33% return on equity and a 51% equity ratio. Refer to Garrett Direct Testimony at 6 (Figure 2) and Rothschild Direct Testimony at 12 (lines 4-6).

A. The Requested 10% ROE

Mr. D'Ascendis applied the discounted cash flow model, risk premium model and capital asset pricing model to a group of five water utilities and, as a check, to a group of eleven water and natural gas utilities, and applied the same models to comparable-risk non-price-regulated companies. Exhibit A.6, D'Ascendis Direct Testimony at 5–6, 18. Those models produced indicated ranges of 9.76% to 11.85% for the water group and 10.08% to 11.33% for the combined group. *Id.* at 6. After a 0.06% credit risk adjustment and flotation cost adjustments of 0.15% and 0.16%, the adjusted ranges are 9.91% to 12.00% and 10.24% to 11.49%; Mr. D'Ascendis made no size adjustment. *Id.* at 6–7. His 10.00% recommendation sits near the bottom of those ranges. *Id.*

Mr. D'Ascendis agreed that recovery mechanisms reduce risk, other things being equal, while explaining that comparable mechanisms and risks are already reflected in the proxy group data. Sept. 23 Tr. 41:7–44:24. On redirect, the Company addressed the water-specific risks,

including water quality and PFAS, that distinguish the Company's risk profile. Sept. 23 Tr. 87–90. Water utilities face substantial capital requirements driven by Safe Drinking Water Act compliance and aging infrastructure and generally cannot defer those investments, and therefore must regularly access external capital. Exhibit A.6, D'Ascendis Direct Testimony at 11–13.

The analysis should therefore focus on the risks that remain after those protections are considered. WICA, WQTA, decoupling, balancing accounts and deferrals address specified investments, revenues or expenses; they do not ensure contemporaneous recovery of all prudent costs or eliminate a rate-base cutoff. Their risk-reducing effects should be evaluated consistently with the comparable mechanisms already reflected in the proxy group, rather than counted again as an independent basis for reducing the return without a demonstrated difference in residual risk. Sept. 23 Tr. 41:7–44:24; Exhibit A.4, Dixon Direct Testimony at 4–6.

B. The Requested 54% Equity Capital Structure

The proposed 54.00% equity ratio reflects the capital structure the Company has maintained; its 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. Exhibit A.6, D'Ascendis Direct Testimony at 18–19. It falls within the 37.75% to 60.32% range of equity ratios maintained by the proxy companies in 2025. *Id.* at 19. A ratemaking capital structure below the Company's actual structure would reduce the effective return on the equity actually invested in utility plant.

C. The Requested Return and Capital Structure Support Financial Integrity

S&P's December 2024 revision of its assessment of Connecticut's regulatory construct cited regulatory lag, below-average authorized returns and an inconsistent ability to earn authorized returns, and S&P's April 2026 credit opinion reflects a standalone bbb rating for the Company while maintaining an A- rating at the parent. Exhibit A.4, Dixon Direct Testimony at 6. That two-notch differential has a measurable cost. In a contemporaneous financing, an affiliate

obtained a lower rate on comparable long-term borrowing, and a 25-basis-point differential represents $125,000 in annual cost on a $50 million issuance. *Id.* at 7–8. The Company's achieved return has averaged approximately 214 basis points below its authorized return over the last eleven years, and its 2025 funds-from-operations-to-debt ratio was 10.48%. *Id.* at 8, 11. A reasonable return and equity ratio would strengthen funds from operations and credit metrics, reduce reliance on higher-cost short-term borrowing and support access to long-term capital on favorable terms—outcomes that lower the cost of service for customers. *Id.* at 10–11.

Credit quality is therefore an affordability issue, not merely an investor concern. The borrowing-cost differential described in Mr. Dixon's testimony shows that access to financing alone does not establish that customers are receiving capital at reasonable cost. Nor does the parent's stronger credit position eliminate the significance of the Company's weaker standalone profile: the record identifies a financing premium notwithstanding the affiliate relationship. Exhibit A.4, Dixon Direct Testimony at 6–8. The Authority should accordingly evaluate the immediate effect of a lower ROE or equity ratio together with its implications for cash flow and future financing costs, rather than assume that the lowest current capital allowance necessarily produces the lowest long-term cost of service. Id. at 10–11, 28.

The eleven-year earned-return shortfall is significant because it places the Company's financial position in a longer-term context rather than treating under-earning as an isolated test-year result. Exhibit A.4, Dixon Direct Testimony at 8. It does not establish that every year's shortfall has the same cause, or that an authorized return is guaranteed. It does show why the opportunity to earn must be assessed against the combined effect of investment recovery, expense allowances and financing assumptions. Mr. Dixon's discussion links that issue to S&P's concerns regarding regulatory lag and the inconsistent ability to earn authorized returns. Id. at 6–11.

Prospective rates should address the supported causes of continuing earnings erosion rather than perpetuate the mismatch while authorizing a nominal ROE that the overall revenue requirement does not reasonably support.

FFO/debt measures recurring cash generation relative to debt obligations, making the relationship between rate relief and capital structure particularly important. Mr. Dixon explained that timely recovery strengthens funds from operations and helps offset the additional debt required for continued capital investment, while an appropriate equity component limits excessive reliance on leverage. Exhibit A.4, Dixon Direct Testimony at 10–11, 28. Thus, the requested 10.00% ROE and 54% equity ratio work together: reducing either affects the cash-flow support available for the investment program, and increasing reliance on debt places additional pressure on FFO/debt. Sept. 23 Tr. 7:7–17. The customer benefit is stronger liquidity and financial flexibility, less reliance on higher-cost short-term borrowing, and access to long-term financing on more favorable terms. Exhibit A.4, Dixon Direct Testimony at 10–11. The Company's 10.48% actual 2025 ratio is a starting point for that analysis, not a projected post-case ratio or a guarantee of any particular rating outcome.

The Company does not contend that capital is presently unavailable, nor should an inability to borrow or an imminent financial crisis be the threshold for considering credit support. Maintaining financial integrity and access to capital is preventive: existing rating pressure, demonstrated borrowing-cost differences and cash-flow metrics are relevant before further deterioration increases financing costs. The Authority should evaluate the requested return and equity ratio against those indicators and the Company's ongoing investment obligations, rather than require evidence of financial failure. Exhibit A.4, Dixon Direct Testimony at 6–11; *Hope*, 320 U.S. at 603; *Bluefield*, 262 U.S. at 692–93.

The Company's continuing need for external capital makes financial resilience particularly important. The proposed five-year capital plan in Schedule F-7.0 underscores the substantial need for both debt and equity financing to fund continued infrastructure investment. Maintaining credit quality supports access to reasonably priced debt, while a reasonable opportunity to earn the authorized return supports the equity investment needed to finance the program without excessive reliance on leverage. Schedule F-7.0; Exhibit A.4, Dixon Direct Testimony at 10–11, 28. Necessary compliance and infrastructure investments generally cannot be deferred until financing conditions improve. Exhibit A.6, D'Ascendis Direct Testimony at 11–13. Preserving liquidity and access to reasonably priced capital before financial pressure intensifies protects the ability to carry out those obligations; waiting for an inability to borrow would address the problem only after service investment and financing flexibility were at risk. The Company does not assert that a downgrade, market closure or quantified offset between ROE and borrowing costs is inevitable. Its request rests on the credit, earnings and cash-flow evidence already in this record and the need for prospective rates that support prudent investment at reasonable long-term customer cost. Exhibit A.4, Dixon Direct Testimony at 6–11.

The Authority should adopt the Company's requested 10.00% return on equity and 54/46 capital structure.

VI. RATE DESIGN

The Company's rate design is informed by the allocated cost of service ("COS") study performed by ScottMadden and is intended to align class revenues more closely with class cost responsibility while continuing incremental progress toward rate equalization. Exhibit A.4, Dixon Direct Testimony at 30–31; Exhibit TAS-2. The COS study showed that relative cost responsibility among classes has remained largely consistent with the prior study; that the residential, fire protection and sewer classes are recovering more than their allocated share; and that the

commercial, industrial, public authority and seasonal classes are recovering less. Exhibit A.4, Dixon Direct Testimony at 31. Following prior consolidations, the Company's operations are organized into eight rate groups, with the first two representing approximately 90% of the revenue requirement. *Id.* at 30.

Rate design was developed with the guardrail that no customer class or rate division would receive an increase larger than 1.5 times the overall increase and none would receive a decrease. *Id.* at 32. Public fire protection was designed to produce a 5% increase; private fire protection received no increase other than the WICA and WQTA fold-in; basic service charges were increased by 5% net of the fold-in; flat-rate customers were adjusted in line with the overall average; and volumetric charges were used to move the metered classes toward their cost-of-service results. *Id.* at 32–33. Under the proposed design, the residential class would bear approximately 64.44% of revenue. *Id.* at 33; Oct. 1 Tr. 11:21–12:15.

The Company and OCC largely agree on the study's methodology and proposed fixed charges. OCC witness Geiger did not reject the study's demand factors, agreed that reasonable experts can differ about the pace of movement toward cost, and agreed with the Company's proposed fixed charges. He disagreed, however, with the Company's proposed residential allocation because it moves that class farther from its allocated cost. Oct. 1 Tr. 25:18–30:5, 33:8–17. The principal differences concern the pace and direction of movement toward cost; Mr. Geiger would apply 1.75 times the average increase to the commercial, industrial, seasonal and public authority classes, reducing the residential share to approximately 63.6%. Oct. 1 Tr. 11:21–12:15. At the Authority's request, the Company provided alternatives using a 1.75 multiplier and Mr. Geiger's recommendations. LFE-53; Sept. 24 Tr. 31–33. The Company's 1.5 multiplier is

consistent with the Authority's prior practice of limiting class increases in water rate cases to no more than 1.5 times the overall increase. Docket No. 23-08-32, Decision at 124.

VII. BALANCING ACCOUNTS AND DEFERRALS

The Company requests continuation of the tank painting and well maintenance balancing accounts, new medical and dental and carbon filter O&M balancing accounts, and expansion of the lead service line cost deferral. Application at 2. LFE-35 also addresses performance-based recovery of at-risk executive and officer compensation through the RAM, reconciliation of PFAS settlement proceeds, and deferral of uninsured PFAS defense costs. These targeted proposals address cost variability, compliance obligations and uncertain recoveries while preserving prudency review, performance accountability and customer protections. LFE-35 at 1–5; Sept. 22 Tr. 148:2–150:23.

Medical and dental. The self-insured program is projected to remain less costly than fully insured coverage, with 2027 increases of approximately 9.3% for medical and 3.3% for dental, compared with 12.5% and 4.0% for fully insured alternatives. LFE-11. The proposed balancing account addresses claims volatility while preserving those savings, protecting customers and the Company against over- or under-recovery. Differences between authorized and actual costs would be reviewed in the next rate case, without carrying charges and subject to annual reporting and prudency review. Exhibit A.4, Dixon Direct Testimony at 21; LFE-35 at 1; Interrog. Resp. RRU-320.

Tank painting and well maintenance. The Company proposes to continue these accounts with revised annual allowances of $158,381 for tank painting and $307,402 for well maintenance and redevelopment, based on actual activity from July 1, 2024 through December 31, 2025. Necessary work varies with inspections, well performance, water quality and source needs, making a single year's expense an imperfect predictor of future costs. The accounts accommodate that

variability while limiting ultimate recovery to prudent actual expense, with annual reporting, no carrying charges and reconciliation in the next rate case. LFE-35 at 1–2, 5; Att. 1.

Carbon filter O&M. WQTA addresses PFAS treatment capital, not associated operating costs. The proposed balancing account, with an annual allowance of $214,333, addresses variable granular activated carbon media replacement costs as treatment facilities enter service and replacement needs increase. It does not duplicate WQTA recovery. Actual prudent costs would be reconciled in the next rate case, with annual reporting and no carrying charges. LFE-35 at 3; Interrog. Resp. RRU-374(f).

Lead service lines. The Company seeks expanded deferral authority to support lead service line identification, replacement and compliance with the Lead and Copper Rule Revisions/Improvements. Existing authority permits deferral of up to $5.8 million through June 28, 2029, while the identified program estimate is approximately $25.85 million before all potential subsidies. Deferral would preserve future review of prudent costs, net of grants, loan forgiveness, reimbursements and other offsets; it would not predetermine recovery or its terms. LFE-35 at 3; Application at 2.

At-risk executive and officer compensation. The Company proposes to continue the existing performance-based framework, excluding $1,156,750 from base-rate expense. Customers would fund that amount only to the extent the Company satisfies approved performance measures and the Authority authorizes recovery through the RAM. This preserves accountability rather than guaranteeing compensation recovery. LFE-35 at 3–4; RRU-005, Att. 1. Section IX.E.4 discusses the performance framework in greater detail.

PFAS settlement proceeds. The Company proposes to return the settlement proceeds reflected in rates to customers over six years and reconcile differences in actual proceeds and

timing, including additional receipts. The proposal ensures that customers receive the full benefit of the settlements rather than treating the forecast refund as final. LFE-35 at 4–5.

PFAS litigation defense. The Company seeks to defer incremental legal and related costs of defending the pending PFAS class action, limited to amounts not paid or reimbursed by insurance. Its insurer has accepted the defense, but ultimate costs and recoveries remain uncertain. The proposal preserves future prudency review and determination of recovery while protecting customers from paying insured or reimbursed costs. LFE-35 at 5.

VIII. COLLECTIONS AND RULES AND REGULATIONS

The Company proposes to reduce the lien threshold for residential customers from $3,000 to $1,000 more than 180 days past due, matching the existing non-residential threshold. Exhibit A.2, Williams Direct Testimony at 28–30. Liens are used only for accounts that cannot be terminated for nonpayment—such as landlord-responsible multi-family properties, unmetered accounts and medical hardship customers—and only after the customer has received all collection notices and offers of assistance and payment plans. *Id.* at 27–29. At an average annual residential bill of $840.72, a customer would take approximately 3.5 years to reach the current $3,000 threshold, during which a change in ownership could leave other customers to bear the unpaid balance. *Id.* at 30. At the end of the test year, 686 customers had balances over $1,000 more than 180 days past due. LFE-74.

Connecticut law expressly provides this collection security. Section 49-72 grants a private water company a lien for unpaid water rates or charges against the property served, provided the owner when the lien is recorded is the party owing those charges. The lien expires one year after the charges become due unless the Company timely files a certificate of continuation; a properly continued lien remains valid for fourteen years thereafter. Conn. Gen. Stat. § 49-72. The $3,000 threshold is therefore not a statutory prerequisite, and delaying eligibility until several years of

bills accumulate can prevent preservation of lien security for earlier charges. The Company explained that consequence in EOE-144 and EOE-178: an account may meet the arrearage threshold while only its more recent charges remain eligible for inclusion in a lien. Losing that security does not extinguish the underlying debt, but it removes a collection protection the legislature expressly supplied. The Company submits that the threshold should permit meaningful use of that remedy, with appropriate customer safeguards, rather than allow it to expire before the account qualifies.

Chairman Wiehl appropriately questioned whether recording a lien could affect a customer's mortgage obligations and whether delayed collection, absent a write-off, produces an immediate bad-debt cost for other customers. Oct. 1 Tr. 76:12–79:20. Ms. Williams did not establish that liens could have no collateral consequences; she testified that the Company had no history of seeking foreclosure and does not write off accounts subject to an active lien. *Id*. at 76:12–77:24; *see also id*. at 45:22–46:8. The Company's request does not depend on treating every unpaid active account as a current bad-debt expense. It seeks to preserve eventual collection before statutory lien rights lapse, thereby reducing the risk of ultimate noncollection. That purpose supports a reasonable threshold coupled with notice, assistance and payment-plan opportunities—not a conclusion that lien protection is unnecessary merely because recovery may occur later. Exhibit A.2, Williams Direct Testimony at 27–30; Interrog. Resps. EOE-144, EOE-178.

The Company also requests adoption of its revised Rules and Regulations, which clarify access, liability and meter requirements, add provisions for missed appointments and landlord-responsible billing, confirm that customers on payment plans or assistance programs will not be charged late payment charges, and incorporate the customer assistance programs approved in the last case. Application at 2; Exhibit A.2, Williams Direct Testimony at 40; Schedule H-2.6.

IX. ALLOCATION OF COSTS BETWEEN SHAREHOLDERS AND RATEPAYERS

Item 3 of the Notice observes that, in the Company's last rate case, the Authority determined that particular expenses—audit expenses, Board of Directors expense, and D&O liability insurance—do not entirely benefit ratepayers, and allocated those expenses between ratepayers and shareholders based upon proportional benefit, including a determination that 25% of Board of Directors expense was recoverable upon a finding that 75% of the cost benefitted shareholders. Notice at 2. The Notice asks: "To the extent that the Authority determines that some, but not all, of a proposed service to be furnished by the Company is in excess of public necessity and convenience, how should the Authority determine the portion of the associated expense that should be recovered pursuant to General Statutes § 16-19(a) and § 16-19e?" Notice at 3.

The Company's answer is straightforward. The Authority should first determine whether the service in question is a legitimate function of operating the regulated utility and whether the cost was prudently incurred and reasonable in amount. If so, the cost is presumptively a cost of providing utility service. Only where the record identifies a component of the service that is genuinely separable from regulated operations—that is, a function undertaken for investors rather than a benefit that flows to investors because the utility is well run—should that component be assigned to shareholders in an amount derived from evidence on *this* record.

A. The Prior Decision and This Proceeding's Record

In the prior rate case in Docket No. 23-08-32, the Authority disallowed 75%, or $362,686, of the Company's requested $483,581 in Board of Directors expense, finding that the board "has a fiduciary duty to and primarily serves the interests of shareholders," that ratepayers "likely only incidentally benefit" from board activities, and that allowing 25% was consistent with the Authority's 2023 decision in the United Illuminating rate case. Docket No. 23-08-32, *Application of The Connecticut Water Company to Amend Its Rate Schedules*, Decision (June 28, 2024) ("2024

Decision") at 108–09. The Authority adopted the 25% figure from OCC's recommendation, which in turn rested on prior Authority decisions. *Id.* at 109. The Authority also stated that "these costs should be substantiated and detailed by the Company going forward in future rate cases." *Id.* The Authority then disallowed 75% of the Company's D&O insurance expense "[f]or the same reasons articulated in the preceding section," without separate analysis of the coverage or its purpose. *Id.*

With respect to audit expense, the Authority disallowed the full amount of internal audit expense because the internal audit expenses "were excessive and not reasonable or prudent expenses necessary to provide efficient and adequate service to customers" and due to the Company not providing a competitive proposal for its auditor; and the Authority allowed 50% of external audit expense on the ground that some audit services relate to Sarbanes-Oxley and other investor-related obligations and that shareholders vote annually on the parent's auditor. *Id.* at 92–94.

That prior decision to disallow a majority of BoD and audit expenses was made on a different record, coupled with subjective determinations. In contrast, the Authority here has contemplated and requested from the Company supplementation of detailed work product on the record; and the Company has done so.

The record now includes the composition, residency and meeting history of each board and committee from 2023 through 2026, LFE-2; a complete reconciliation of the Board of Directors expense included in the revenue requirement, LFE-18; a detailed breakout of board and corporate expenses for 2023 through 2025 with explanatory footnotes, LFE-19; an explanation of how audit services are invoiced between the Company and its parent, LFE-40; and the Company's explanation of the purpose and benefits of D&O coverage, Interrog. Resp. RRU-167. Thus, the question presented by the Notice should be answered on this fulsome record.

By contrast, the OCC has carried forward the prior decision percentages. Ms. Koenig based her recommendation to allocate 75% of Board of Directors expense and 75% of executive liability (D&O) insurance expense to shareholders, in part, because the 75% figure "is consistent with the Authority's treatment" of these costs in the prior case. Koenig Surrebuttal at 15–17; Surrebuttal Schs. GNK-18 (BoD Fees), GNK-19 (Executive Liability). Ms. Koenig acknowledges that "certain activities performed by the Board may provide benefits to ratepayers" and that executive liability insurance "may provide benefits to ratepayers," but she does not quantify those benefits or explain how 25% measures them. Koenig Surrebuttal at 15 (lines 14-15), 17 (lines 6-7). When asked at hearing whether she had independently calculated whether 75% was appropriate, she answered, "I did not." Sept. 22 Tr. 188:13–15.

OCC also proposes to remove the entirety of $874,106 in "shareholder Expenses," on the ground that they "do not directly contribute to the provision of safe and reliable service" with disregard of the fact that these types of expenses support corporate governance, which in turn supports the Company's ability to provide such service. Koenig Surrebuttal at 9–10; Surrebuttal Sch. GNK-13. And Ms. Koenig proposed no adjustment to audit expenses.

B. A Shared Benefit Does not Justify an Automatic Disallowance

The statutory standard does not ask whether shareholders can benefit from an expense. It asks whether rates are sufficient, but no more than sufficient, to cover the utility's operating costs, including appropriate staffing levels, and its capital costs, to attract needed capital and to maintain financial integrity, while protecting the public interest, and whether rates reflect prudent and efficient management of the franchise operation. Conn. Gen. Stat. § 16-19e(a)(4)–(5). Nothing in that language suggests that an operating cost ceases to be a cost of service because investors also benefit from it. To the contrary, Section 16-19e(a)(4) expressly ties the cost of service to the

utility's financial integrity and its ability to attract capital, outcomes that by definition serve both customers and investors.

The interests of customers and shareholders in a regulated utility substantially overlap. Customers benefit when the utility is managed competently, when its financial statements are reliable, when its risks are identified and mitigated, when its credit quality supports low-cost borrowing, and when it can recruit and retain skilled employees and qualified directors. Shareholders benefit from exactly the same things. The overlap is not a coincidence; it is the premise of investor-owned utility regulation, which relies on private capital to fund public service and on regulation to align the utility's financial incentives with good service. An analytical approach that treats every shareholder benefit as a reason to reduce recovery would, taken to its logical end, call into question nearly every cost of running a business, because nearly every prudent expenditure that improves the utility's operations also improves its financial condition.

This proceeding's record illustrates why the Company's financial condition matters to customers. Over the last eleven years, the Company's achieved return has averaged approximately 214 basis points below its authorized return, and its 2025 funds-from-operations-to-debt ratio was 10.48%. Exhibit A.4, Dixon Direct Testimony at 8, 11. As previously mentioned, S&P's April 2026 credit opinion reflects a standalone rating of bbb for the Company while maintaining an A- rating for its parent. *Id.* at 6. In effect, CWC takes advantage of its parent's superior rating to the benefit of CWC customers. Mr. Dixon explained that a contemporaneous financing by an affiliate obtained a lower interest rate than the Company on comparable long-term borrowing, and that a 25-basis-point differential represents $125,000 in additional annual cost on a $50 million issuance, a cost that ultimately flows into rates. *Id.* at 7–8. Every disallowance of a prudently incurred operating cost contributes to that dynamic.

The Notice frames the question in terms of whether *some* of a proposed service is "in excess of public necessity and convenience." Notice at 3. That framing is significant. The relevant question is not whether a service also benefits investors, but whether the service, or some identifiable part of it, exceeds what is necessary and convenient for the provision of utility service to the public. A board meeting devoted to approving the utility's capital and operating budgets, a financial audit required to issue debt and satisfy regulatory reporting obligations, and insurance that allows the utility to attract qualified directors and officers are not services in excess of public necessity merely because investors value them too.

The Company recognizes that a general assertion of customer benefit does not, by itself, establish that the full amount of an expense is recoverable. In discussing the wellness program, Commissioner Beecher clarified that OCC's position was that the record had not demonstrated a net benefit or a net reduction in costs to ratepayers. Sept. 21 Tr. 232:14–20. The Company accepts that distinction and has supplied evidence of the functions and benefits at issue. But the inverse is also true: the absence of a separately quantified customer benefit is not evidence that a function primarily benefits shareholders. Therefore, where the record shows that a service is a necessary function of a regulated utility, a decision to assign most of its cost to shareholders requires an affirmative evidentiary basis for that assignment. The Company respectfully submits this evidentiary record contains no such basis.

C. The Record Supports Recovery of Board, Audit and D&O Expenses

1. Board of Directors

The Board of Directors expense in the revenue requirement is not the full cost of the parent's board; it is the Company's allocated share. In 2025, total H2O America board costs (director fees, restricted stock expense, and deferral and interest) were $2,029,760, of which 25%, or $507,440, was allocated to the Company under the Massachusetts formula. LFE-19, Att. 1 at 3.

Director compensation comprises both cash and stock awards, each part of the compensation for governance and oversight services rather than separate or duplicative payments. Sept. 21 Tr. 106:2–10; Interrog. Resp. RRU-379(a)–(c). Aon's independent 2026 review, provided in LFE-3, Confidential Attachment 1, found that average total director compensation was approaching the peer-group median, the cash-and-equity mix was consistent with peer practice, and both retainers were within 10% of their applicable market medians. As described in the public discovery responses, those findings support the reasonableness of the overall program, including its stock component. Interrog. Resps. RRU-231(e), RRU-379(c).

The record, furthermore, demonstrates that these boards perform core utility functions. The Company and its affiliate CTWS have separate boards of directors, a majority of whose members are independent directors who reside in New England. Exhibit A.1, Patla Direct Testimony at 8. Each board has sole responsibility to select officers best able to serve local interests, support continued achievement of target levels in the annual customer satisfaction survey, approve dividends, and review and approve the annual capital and operating budgets of the Connecticut utility. *Id.* The Company's board maintains full authority to establish priorities and develop, approve and implement annual capital budgets, and a formal Delegation of Authority vests extensive authority in the CTWS and CWC boards to assure local control and compliance with the ring-fencing requirements established in Docket No. 19-04-02. *Id.* at 8–9. The CTWS/CWC board met seven times in 2023, six in 2024, five in 2025, and four times in 2026. LFE-2.

Oversight of the capital program is particularly significant in this case, which is driven primarily by infrastructure investment. Application at 1; Exhibit A.4, Dixon Direct Testimony at 4. The boards that approve those capital budgets are the governance mechanism through which the

Company's investment decisions are tested. It is customers who pay for imprudent investment if oversight fails and customers who receive reliable service when it succeeds.

The prior decision's premise that a board owes fiduciary duties to shareholders is correct as a matter of corporate law, but it does not answer the ratemaking question. Directors of a regulated utility discharge their duties to shareholders principally by ensuring that the utility complies with its legal obligations to serve, invests prudently, manages risk and maintains the confidence of its regulator and its customers. For a regulated utility, those are the means by which shareholder value is created. The existence of a fiduciary duty to shareholders therefore does not show that board activities "largely focus on protecting and enhancing shareholder value rather than directly improving service quality or reliability," 2024 Decision at 109; the record in this case actually shows the opposite. To the extent the Authority concludes that a particular component of director compensation is attributable solely to shareholder interests, that component can be identified and addressed specifically, rather than through a blanket percentage applied to all board expenses.

OCC's proposal compounds three separate reductions. The Massachusetts formula has already limited the Company's customers to 25% of the parent's board costs. LFE-19, Att. 1 at 3; RRU-297. Ms. Koenig then replaces the Company's 2025 allocated expense of $507,440 with a three-year average of $443,818, and finally applies a 25% ratepayer share to that average, producing an allowance of $110,955 and an adjustment of ($396,486). Surrebuttal Sch. GNK-18 (Board of Director Fees). The result is that Connecticut customers would bear an amount equivalent to approximately 5.5% of H2O America's 2025 board costs.[4] Averaging addresses the level of expense; the Massachusetts formula addresses the share attributable to the Company; and

[4] This is the percentage resulting from $110,955 (OCC Proposed BoD expense, based on a three year average) ÷ $2,029,760 (2025 BoD expense total, of which the Company's proposed $507,440 is 25%).

the 75% overlay purports to address the proportion that benefits customers. The Company submits that applying all three reductions is not justified. Ms. Koenig did not independently calculate whether the 75% figure is appropriate in this case. Sept. 22 Tr. 188:13–15. Chairman Wiehl and Commissioner Beecher both questioned whether historical averaging is appropriate when costs are changing. Sept. 22 Tr. 195–203.

The record also shows that the Company's structure has reduced, not inflated, these governance costs. The most recent merger-commitment savings report compares the Company's 2019 pre-merger costs, restated in 2024 dollars, with its 2024 costs. Directors' fees fell from $613,516 to $429,341, a savings of $184,175 attributed to reducing the number of outside directors, and D&O insurance fell from $448,417 to $244,704, a savings of $203,713 from eliminating the separate CTWS director liability policy. LFE-38, Att. 1 (App. B - Summary of 2024 CWC Synergies) at 1. Total corporate governance savings were $691,389, and total synergies were $1,197,665. *Id.* at 2. Customers are already receiving the benefit of a governance structure that costs less than the structure it replaced. Imposing a 75% shareholder allocation on top of those savings would treat a cost the Company has demonstrably reduced as though it were presumptively excessive.

2. Audit Expense

The Authority should allow the Company's audit expense in full. The Company's pro forma audit expense is $935,984, consisting of the Deloitte & Touche external audit ($648,702), the Grant Thornton internal audit ($325,553), and the CohnReznick benefit plan financial statements audit ($48,791), less an 8.51% allocation to capital ($87,061). Schedule C-3.14 at 2. The pro forma amount is $56,887 lower than the test year. *Id.* OCC does not propose any adjustment to audit expense. *See* Koenig Surrebuttal Sch. GNK-3.

Independent audits serve customers directly. Audited financial statements are necessary to access debt markets and to provide the Authority with reliable financial information for ratemaking and compliance purposes. The record also shows that audit services attributable to investor transactions are already kept out of the Company's costs. Deloitte separately invoices each subsidiary for the integrated audit services performed on its behalf, while services outside the scope of the integrated audit in connection with H2O America's equity offerings are invoiced directly to H2O America. LFE-40. The equity offer audit work is precisely the type of investor-specific service that should be excluded, while the integrated audit of the Company's own financial statements should not.

The Company has addressed the concerns that led to the prior decision's disallowance of internal audit expense. In the last case, the Authority cited missing evidence of a competitive solicitation for an internal audit vendor as reason to disallow the associated audit expense. 2024 Decision at 92–93. H2O America has since conducted a request for proposal process in which five firms (Grant Thornton, PwC, BDO, Withum and Accel) were invited to bid, and the contract was awarded to Grant Thornton based on the RFP criteria. Accordingly, the audit expense should be allowed in full.

3. Directors and Officers Liability Insurance

The Company's pro forma executive liability (D&O) insurance expense is $160,367, before the 8.51% allocation to capital. Schedule C-3.13 at 2. OCC applies its 75% shareholder share to the capital-adjusted amount of $146,720, allowing $40,092 and proposing an adjustment of $106,628. Koenig Surrebuttal Sch. GNK-19.

The Company explained the purpose of this coverage in response to RRU-167:

> Directors and Officers (D&O) insurance is a prudent and necessary risk management tool that supports the Company's ability to provide safe and reliable water service. Although ratepayers are not direct beneficiaries of

> the policy, they benefit indirectly because D&O coverage helps protect the utility's financial resources from covered claims alleging wrongful acts by directors or officers, including related defense costs, settlements, or judgments. Without such coverage, significant uninsured management liability claims could place pressure on operating funds that otherwise support utility operations, infrastructure investment, and service reliability.

The Company further explained that the coverage supports sound governance controls, risk management and compliance oversight, and helps the Company attract and retain qualified directors and officers responsible for overseeing the utility's operations, financial health and regulatory obligations. *Id.* D&O insurance protects the enterprise's financial resources—the same resources that fund operations and infrastructure—from the cost of potential management liability claims. It is not a service purchased for shareholders to the exclusion of customers.

In the prior case, the Authority allocated D&O expense "[f]or the same reasons" it allocated board expense, without separate findings regarding the coverage. 2024 Decision at 109. The record here supplies the explanation that was absent then, and it does not justify assigning 75% of the cost to shareholders. Ms. Koenig's contrary view rests on her assertion that the coverage's "primary purpose is to protect the Company's directors, officers, and shareholders" and characterizes executive liability insurance as "[a]n incidental ratepayer benefit." Koenig Surrebuttal at 17 (lines 8-10). But D&O coverage that protects the utility from management liability claims protects the funds that pay for operations and infrastructure, and the record shows the Company has already reduced this cost by more than $200,000 annually by eliminating duplicative coverage. LFE-38, Att. 1 at 1.

The Company's broader approach to insurance further demonstrates its attention to cost. Effective January 1, 2026, the Company began operating under a captive insurance program for certain corporate coverages, and the pro forma insurance request reflects savings of almost $115,000 compared to the test year. Exhibit A.4, Dixon Direct Testimony at 24–25; Schedule C-

3.13 at 1. The $35,000 cost of the captive feasibility study is not included in the revenue requirement. LFE-45. Although savings between rate cases initially accrue to the Company under an arrangement involving a transfer of risk, the pro forma premiums used to set rates in this proceeding pass those savings to customers. Refer to Sept. 22 Tr. 216:2–24. The OCC's recommended adjustment should be rejected.

4. Corporate Expenses

OCC's proposal to remove $874,106 in "Shareholder Expenses" in its entirety (Surrebuttal Sch. GNK-13) presents the Notice's question in its starkest form. Those costs are the Company's 25% Massachusetts formula share of $3,496,423 in corporate expenses incurred at H2O America in 2025. LFE-19, Att. 1 at 3; RRU-026, Att. 1. The Company has identified each vendor above $10,000 and the service it provides. LFE-19, Att. 1 at 3. Ms. Koenig does not address any individual vendor; she concludes that the category "primarily benefits the Company's owners by supporting corporate governance and other shareholder-related activities." Koenig Surrebuttal at 10.

Yet, the vendor detail shows that the category is not uniform. A substantial portion supports the workforce, shared services, credit quality and compliance functions on which utility service depends: Korn Ferry leadership coaching, training and development for senior officers, including the President of CTWS ($1,290,790); Siegfried Group contractors supporting the shared-services organization ($758,548); Mercer support for the Executive Compensation Committee ($185,153); Diligent board-collaboration software ($93,290); Attolon executive recruiting ($90,000); S&P analytical services relating to the corporate credit rating ($73,833); Elevate legal software and services ($67,271); and NAVEX conflict-of-interest compliance services ($19,214). *Id.* These items total $2,578,100 at the H2O America level, or $644,525 at the Company's 25% share. Other items relate more closely to the parent's status as a public company—for example, Nasdaq market

services, transfer agent and escheatment services, shareholder meeting voting, SEC filing support, annual report distribution, and public relations—and total $918,323 at the H2O America level, or $229,581 at the Company's share. *Id.*

The vendor detail permits the analysis contemplated in the Notice: identify what each expense purchases and assign it accordingly. The Company does not seek to recover investor relations costs barred by Conn. Gen. Stat. § 16-243gg(b). *See* 2024 Decision at 108. But leadership development for the officers who run the utility, contractors who staff its shared services, and analysis supporting the credit rating that determines its borrowing costs are not "shareholder" costs simply because they are recorded at the parent. A wholesale disallowance of the category, without examining its contents, is not supported by the record in this proceeding.

D. Any Allocation Must Rest on a Reasoned, Record-Based Methodology

If the Authority concludes that some portion of a shared-benefit expense should be borne by shareholders, the allocation must reflect the actual nature of the services, functions or benefits at issue as demonstrated by the record in this proceeding. A percentage allocation is a factual finding about the proportion of a service that exceeds public necessity and convenience. Like other findings, it must be supported by substantial evidence and explained. *See GenConn* at 551.

An allocation adopted in another proceeding should not control the present proceeding for several reasons. First, each rate case is decided on its own record, and the record here contains the board, audit and D&O evidence described above that was not before the Authority in Docket No. 23-08-32. Second, a fixed percentage that is not tied to the activities it purports to measure provides no principled end and gives the utility no means of knowing what evidence could alter the result. Third, the 25% figure itself was adopted from OCC's recommendation, which was based on prior decisions rather than an analysis of the Company's boards. 2024 Decision at 109. Ms. Koenig's testimony in this case confirms that she had not undertaken that analysis. Sept. 22 Tr. 188:13–15.

Corporate service charges are allocated using the Massachusetts formula, which is a simple average of employee, gross utility plant and revenue factors; and the Company provided a comparison substituting gross payroll dollars for employee counts at the Authority's request, LFE-31. Costs attributable to particular activities are directly charged; acquisition-related legal work, for example, is charged separately to acquisition work orders rather than to the utility. Sept. 22 Tr. 7–15. The Company did not propose to adopt a Massachusetts formula rate reflecting the pending Quadvest acquisition because the incremental allocated costs are not yet known and measurable. LFE-17. And investor-specific audit services associated with equity offerings are billed to the parent. LFE-40. Thus, the Company's cost allocation practices provide a model for this analysis by identifying the activity, determining its purpose, and assigning its cost accordingly.

1. Direct Assignment and the Massachusetts Formula

The Company's methodology for allocating these costs is documented in the record. The Company applies a direct-charge-first approach: costs are directly assigned to the appropriate entity whenever the underlying service or activity can be specifically identified, and allocation methodologies, including the Massachusetts formula, are used only when costs support multiple entities and cannot reasonably be charged directly to a single company. RRU-026 at 2. Non-labor costs incurred at the H2O America level, including board of director fees and costs, legal costs and other public-company-related costs, are allocated to the Company using the Massachusetts formula. *Id.* at 1–2. Affiliate charges are allocated in accordance with the H2O America Cost Allocation Manual and recorded monthly by journal entry; because the charges at issue benefit all subsidiaries, they are allocated 25% to the Company. RRU-297; *see* RRU-026, Att. 3 (Cost Allocation Manual).

The Massachusetts formula is a simple average of three factors: employees, gross utility plant and revenue. RRU-026 at 2; Sept. 21 Tr. 174–178. For 2026, the Company accounts for

29.7% of enterprise employees, 27.52% of gross utility plant and 16.61% of revenue, producing a Massachusetts formula percentage of 24.61%. RRU-026, Att. 2. At the Authority's request, the Company also provided an alternative calculation substituting gross payroll dollars for employee counts, which resulted in a difference of 3.35% between the all entities MA Formula values.[5] LFE-31 Att. 1. The Company did not propose to update the formula for the pending Quadvest acquisition because the incremental allocated costs are not yet known and measurable. LFE-17.

This methodology answers the Notice's question with respect to parent-level governance and corporate costs. The Massachusetts formula ensures that the Company's customers pay only the share of enterprise-wide board, audit and corporate costs attributable to the Company's operations, measured by objective factors rather than judgment. Costs that can be traced to a particular entity or activity—such as acquisition-related legal work, which is charged to work orders,[6] Sept. 22 Tr. 7–16, or audit services associated with the parent's equity offerings, which are billed to the parent, LFE-40—are directly assigned. And costs that are statutorily barred, such as investor relations and lobbying costs under Conn. Gen. Stat. § 16-243gg, are excluded. Within that framework, the remaining question is whether any identifiable portion of the Company's allocated share purchases services in excess of public necessity and convenience. That question should be answered by examining the services, as the Company has done for each category above, not by applying an undifferentiated 75% reduction to a share that has already been allocated.

Applying that approach here, the evidence shows that the boards approve the Company's capital and operating budgets, oversee customer satisfaction and service performance, and

[5] Using the detailed 2026 MA formula with 2025 results.

[6] Commissioner Smith specifically inquired about acquisition-related legal fees. Sept. 22 Tr. 16:7–12. Mr. Dixon confirmed that acquisition-related work is excluded from the two firms' charges discussed and assigned to separate acquisition work orders.

maintain local governance and ring-fencing protections; that integrated audit services relate to the Company's own financial statements while equity-offering services are billed to the parent; and that D&O coverage protects the utility's financial resources and its ability to attract qualified leadership. Nothing in the record supports a finding that three-quarters of these costs purchase services in excess of public necessity and convenience. The Authority should therefore decline to adopt OCC's 75% shareholder allocations and should allow recovery of these expenses in full or, at minimum, in proportions tied to specific, identified shareholder-specific activities.

E. The Company Controls Costs While Maintaining Reliable Customer Service

The Company's request should be evaluated in light of its overall record of balancing affordability, operational responsibility and financial stability.

Expense management. The Company updated its major cost categories during the proceeding, and its corrections reduced the revenue requirement by approximately $3.8 million. LFE-1. The new four-year power supply contract beginning January 1, 2027 was competitively bid through an energy broker and reflects a supply-price increase of approximately 3%. LFE-23; Sept. 23 Tr. 235–238. Carbon media pricing was updated to reflect negotiated best-and-final pricing, and carbon charges for the Hopkins and Egypt Road facilities were reclassified to capital. LFE-26. The captive insurance program reduced pro forma insurance expense by almost $115,000. Exhibit A.4, Dixon Direct Testimony at 24–25.

Shared services. H2O America's four utility operating companies provide shared resources in information technology, cybersecurity, legal, finance and accounting, communications and human resources, allowing the Company to access enterprise-level systems that would be cost prohibitive for a standalone utility. Exhibit A.1, Patla Direct Testimony at 6. The Company acknowledges that the hearing record did not quantify total enterprise-wide savings across all H2O America holdings. Sept. 21 Tr. 132:1–140:3. However, the Company's most recent merger-

commitment savings report identifies total 2024 synergies of $1,197,665 relative to pre-merger costs, including $235,932 in cybersecurity and license savings, $129,201 in supply-chain and procurement savings, and $691,389 in corporate governance savings. LFE-38, Att. 1 at 2. The Company does not ask the Authority to assume savings that have not been demonstrated, but the absence of a comprehensive enterprise-wide study does not mean that shared services provide no value.

Customer assistance and affordability. As of September 30, 2026, 1,661 customers were enrolled in WRAP: 420 at the 10% discount level, 823 at the 40% level and 418 at the 80% level. LFE-72. In 2025, 2,320 customers participated in one or more financial assistance programs, receiving $453,705.83 in WRAP discounts, $156,886.97 in Generation Power CT grants and $71,740.19 through the H2O program. Exhibit A.2, Williams Direct Testimony at 17. Test-year bills averaged 0.83% of service-area median household income, and 1.14% in the lowest-income 20% of service-area zip codes. *Id.* at 11–12. The Company has sought access to Department of Social Services data for automatic WRAP enrollment, but technical and resource constraints at DSS have made that impossible to date. *Id.* at 18.[7]

Service quality. The Company's customer satisfaction index was 93.5% in 2025. Exhibit A.2, Williams Direct Testimony at 5. The Company investigated all 253 water quality inquiries in 2025 and found no violations of state or federal drinking water standards. *Id.* at 9. Its 2025 OSHA recordable injury rate was 1.2, and employee satisfaction exceeded 81%. Exhibit A.1, Patla Direct Testimony at 10. The Company continues to replace at least 1% of its water mains each year. *Id.* at 9.

[7] The Company has stated that it remains open to considering a Company-funded assistance program, subject to a regulatory framework that allows timely recovery of prudently incurred costs. LFE-76.

Taken together, this record shows a utility that has made meaningful efforts to manage its costs and support vulnerable customers while maintaining its service obligations. Those efforts are relevant to the allocation question because the governance, management and workforce whose costs are at issue are the means by which these results are achieved.

F. Performance Accountability and Fair Cost Recovery Are Complementary

The Company supports reasonable, measurable performance accountability. In Docket No. 23-08-32, the Authority established four customer-focused metrics: the nonpayment disconnection rate, the monthly average number of customers in arrears of 30 or more days, average monthly residential arrears of 30 days or more, and the percentage of failed payment plans; and tied a portion of the Company's revenue requirement to achieving an average 110% annual improvement. Exhibit A.2, Williams Direct Testimony at 19–20. The Company achieved total average improvement of 166% for 2024 and 262% for 2025. *Id.* at 20. The Company requests approval to continue the performance metrics, Application at 2, and would welcome further collaborative discussion if changes in customer behavior or Company programs warrant revised metrics, Exhibit A.2, Williams Direct Testimony at 20–21.

Performance metrics provide the Authority and customers with an objective means of evaluating whether the utility is delivering the outcomes that its management, governance and workforce are paid to achieve. They are a better tool for aligning utility costs with customer benefit than ad hoc disallowance of costs whose benefits are difficult to quantify. The Authority already uses them to condition recovery of executive compensation. 2024 Decision at 73–74. The Company therefore submits that the Authority can and should hold the Company accountable for measurable performance, while allowing recovery of the prudent expenses necessary to achieve that performance.

G. Proposed Framework for Determining the Recoverable Portion of Shared-Benefit Expenses

In response to the question posed in Item 3 of the Notice, the Company respectfully proposes that the Authority determine the recoverable portion of an expense that serves both customers and shareholders through the following sequence of inquiries, each of which applies the existing standards of Sections 16-19 and 16-19e rather than creating a new legal test:

First, identify the specific service or expense being evaluated and the functions it performs—for example, the activities of a particular board, the scope of a particular audit engagement, or the coverage provided by a particular insurance policy.

Second, determine whether the expense was prudently incurred and is reasonable in amount, applying the good-faith and reasonableness standard judged at the time the decision was made. *Connecticut Light & Power Co.*, 216 Conn. at 645; Conn. Gen. Stat. § 16-19e(a)(5).

Third, consider both direct and indirect customer benefits, including benefits that are preventative or long-term, such as oversight of capital investment, financial controls, risk management, regulatory compliance, workforce stability and access to capital on reasonable terms. Conn. Gen. Stat. § 16-19e(a)(4).

Fourth, examine whether any identifiable component of the service is genuinely attributable to shareholder-specific functions (i.e. activities undertaken for investors and not required for, or incidental to, the management of the regulated utility). Examples in this record include audit procedures related to the parent's equity offerings, which are billed to the parent, LFE-40, and investor relations costs barred by Conn. Gen. Stat. § 16-243gg(b), 2024 Decision at 108.

Fifth, where a component is found to be shareholder-specific, allocate cost to that component using a reasonable, method supported by the record, such as direct assignment, time or

agenda-item analysis, or engagement-scope analysis, rather than a percentage applied to the entire expense.

Sixth, explain the basis for the allocation selected, so that the finding is supported by substantial evidence and the utility understands the evidence that would support a different result in a future proceeding.

This framework is consistent with the Company's cost allocation practices and with the Authority's statutory obligation to set rates that are sufficient but no more than sufficient. It allows the Authority to exclude costs that genuinely exceed public necessity and convenience, while avoiding unsupported reductions that, over time, would impair the utility's ability to attract capital, retain qualified personnel and maintain its financial integrity.

Applying this framework to the record, the Authority should decline to adopt OCC's proposed 75% shareholder allocations of Board of Directors and D&O expense and its wholesale removal of corporate expenses, and should apply this framework to individual expenses.

X. RECOVERY OF RATE CASE EXPENSES

Item 2 of the Notice observes that Conn. Gen. Stat. § 16-243p(b) prohibits the recovery through rates of "direct or indirect costs associated with [the] attendance in, participation in, [preparation for], or appeal of [a] rate proceeding" for a water company with more than seventy-five thousand customers, and asks (a) whether the statute's prohibition includes expenses incurred pursuant to the Authority's specific orders, such as the requirement in the Docket No. 23-08-32 decision that the Company perform and provide a cost-of-service study, and (b) if not, which specific costs are not statutorily barred, together with record support. Notice at 2.

The Company acknowledges that it is subject to § 16-243p(b). The statute's nonexclusive list of covered costs includes attorneys' fees, fees for expert witnesses or consultants, the portion of employee salaries attributable to the specified activities, and related costs identified by the

Authority. However, the Company respectfully submits that costs of complying with regulatory obligations imposed by the Authority or for the public's benefit should be recoverable.

A. Statutory Framework

This is the first Company rate case to which Section 16-243p(b) applies. The provision was added by Senate Bill 7 (2023), Public Act 23-102, and by its terms applies to rate proceedings commenced on or after January 1, 2024; it therefore did not govern the Company's last rate case in Docket No. 23-08-32, in which the Authority evaluated rate case expense under its pre-existing two-step prudence and balancing analysis. *See* 2024 Decision at 99–102.

The Authority has applied the statute in recent electric and gas rate cases to disallow legal fees, expert and consultant fees, and incremental personnel costs associated with company-initiated rate proceedings. *See* Docket No. 24-12-01, *Application of Yankee Gas Services Company d/b/a Eversource Energy to Amend Its Rate Schedules*, Decision on Reconsideration (Mar. 11, 2026) at 134 (barring from recovery appellate expenses) and at 158 (barring from recovery legal fees, expert witness and consultant fees, and costs associated with incremental supporting personnel related to the current proceeding; Docket No. 24-10-04, *Application of The United Illuminating Company to Amend Its Rate Schedule*, Decision (March 3, 2026) at 178 (barring from recovery legal fees, consultant fees, and "people and organization" fees related to the current proceeding but allowing for recovery of certain consultant fees incurred by the Authority and parties in this proceeding that are billed and paid for by the Company).

B. Conn. Gen. Stat. § 16-243p(b) Causes an Inequitable and Unconstitutional Taking

The prohibitions set forth in § 16-243p(b) upend decades of utility cost recovery. For years there was no question as to the prudence of such costs in the context of utility ratemaking. As

discussed below, the reversal of policy, which overlooks precedent, is unwarranted, unjust, and constitutes a "taking" prohibited by the Fifth Amendment of the Constitution.[8]

Notwithstanding, the statute should not be read to bar recovery of every expense presented in a rate proceeding merely because the expense bears some connection to that proceeding. In particular, costs incurred to fulfill an independent obligation imposed by a specific Authority order should be distinguished from costs incurred to prepare and prosecute a rate application. The Company should not be required to absorb necessary costs of complying with regulatory directives imposed for the public's benefit solely because the resulting work is submitted in a rate case.

The categorical denial of reasonable and prudent rate proceeding costs places an inequitable burden on utilities that must use the regulatory process to obtain lawful rates. Unless and until the legislature revises that prohibition, the Authority should apply it within its statutory and constitutional bounds, without extending it to independently required regulatory work. This construction respects the statute's purpose while avoiding an unnecessarily broad application that would raise serious concerns about the Company's ability to recover the costs of fulfilling its regulatory obligations.

Accordingly, in response to Item 2(a), the Company submits that a specific Authority directive may give rise to recoverable compliance costs whose purpose and function are distinct from participation in a rate proceeding. In response to Item 2(b), the Company identifies the cost-of-service study required by the Authority's decision in Docket No. 23-08-32 as such an expense. And as discussed below, the basis for recovery rests on that directive and the record evidence

[8] Although disallowance of an individual expense does not itself establish a "taking," the resulting rates must satisfy the constitutional requirement that the Company have a reasonable opportunity to maintain its financial integrity and attract capital. See Hope at 602–03 (1944); *Duquesne Light Co. v. Barasch*, 488 U.S. 299, 310–15 (1989).

concerning the study's required scope, regulatory purpose and associated costs, rather than its inclusion in this Application.

The Company's Schedule C-3.18 identifies $917,000 in costs associated with this proceeding, to be amortized over three years ($305,667 annually): legal fees ($300,000), OCC consultants ($200,000), PURA consultants ($150,000), a cost of capital consultant ($132,000), an Allocated Cost of Service Study (ACOSS) consultant, postage and printing for customer notices ($65,000), and miscellaneous costs ($10,000). Schedule C-3.18 at 2; Exhibit A.4, Dixon Direct Testimony at 26. OCC proposes to allow $350,000 (the OCC and PURA consultant costs) amortized over 64.77 months, for an annual expense of $64,848 and an adjustment of ($220,819). Surrebuttal Sch. GNK-16. Ms. Koenig reads the statute as prohibiting recovery of rate case costs "outside of OCC consultant and PURA consultant expenses." Koenig Surrebuttal at 12–13.

By allowing the OCC and PURA consultant costs, OCC recognizes that Section 16-243p(b) does not bar every cost connected with a rate proceeding. Koenig Surrebuttal at 12–13; Surrebuttal Sch. GNK-16. Those costs are recoverable not because the statute's text excepts them, but because another statute, Section 16-18a, treats them as proper business expenses and the two statutes must be read together. The Authority took a similar position in the Company's last rate case, finding that OCC and PURA consultant fees "were incurred primarily for the benefit of ratepayers and are fully recoverable," while sharing the Company's remaining rate case costs on the ground that those costs were connected with an adversarial process. 2024 Decision at 100–02 (citing Conn. Gen. Stat. § 16-18a(a)).

C. Section 16-243p(b) Must Be Construed Narrowly and Does Not Reach Costs Specifically Compelled by The Authority

Section 16-243p(b) addresses costs "associated with" a utility's attendance, participation in, preparation, or appeal of a rate proceeding. Conn. Gen. Stat. Ann. § 16-243p. The prohibition

originated in 2020 as a restriction on electric distribution companies' recovery of costs associated with attending or participating in rate-making hearings. The legislature expanded it in 2023 to cover additional utilities and costs, including preparation and appeals. *See* Sept. Spec. Sess. P.A. 20-5, § 8; P.A. 23-102, § 2; P.A. 23-204, § 115; Substitute Senate Bill 7, File No. 338, as amended §§ 2–3 (2023). That history establishes a legislative decision to shift covered proceeding costs away from customers. It does not, however, resolve the distinct question presented by Item 2: whether a particular expense constitutes a cost of preparing for or participating in a rate proceeding, or instead fulfills an independent regulatory obligation imposed by a prior Authority order.

Costs that the Authority itself compels a utility to incur, to produce information the Authority has determined it needs to discharge its regulatory responsibilities, are different. They are not incurred to advance the utility's position; they are incurred because the regulator has ordered them, and the utility has no discretion to decline.

The cost-of-service study is the principal example. In Docket No. 23-08-32, the Authority found that the Company's prior allocated cost of service study could be used as guidance in that case, noting the Company's witness's testimony that such studies should be updated approximately every five years and the Company's statement that it would prepare an updated study if ordered, and directed that "at the time of its next rate case, the Company shall prepare a new ACOSS to include in its rate application." 2024 Decision at 125. The decision explicitly requires that the Company's next rate application include "[a] new ACOSS as prescribed herein." *Id.* at 172 (Order No. 22.c). The Company complied: the study was performed by Talha Sheikh of ScottMadden and is presented in his testimony. Exhibit A.4, Dixon Direct Testimony at 31; Exhibit A.1, Patla Direct Testimony at 19, 21.

The study serves the Authority's regulatory functions. A cost-of-service study allocates the revenue requirement among customer classes; it informs the Authority's determination of class revenue responsibility, fire protection charges, and cost-based rates, matters the Authority must address regardless of the level of the overall revenue requirement. The updated study showed that relative cost responsibility among classes has remained largely consistent with the prior study and that residential, fire protection and sewer classes are recovering more than their allocated share, which informed the Company's proposed allocation of increases among classes. Exhibit A.4, Dixon Direct Testimony at 31. OCC's rate design witness did not reject the study's demand factors and agreed that reasonable experts can differ about the pace of movement toward cost, though he nevertheless maintained the Company's proposed residential allocation moves that class farther from its allocated cost. Oct. 1 Tr. 26:4–16, 27:17–28:3; 29:4–12. The study allocates the Company's total revenue requirement of $163,260,275 among the residential, commercial, industrial, seasonal, public authority, private fire, public fire and sewer classes, and among base, maximum-day, peak-hour, meter, service, customer-account and fire-service functions. Application Exh. TAS-2. The study is thus a regulatory work product ordered by, and used by, the Authority.

Reading Section 16-243p(b) to bar recovery of such compelled costs would produce results the General Assembly is unlikely to have intended. The Authority's exercise of its regulatory powers to require studies, analyses or reports from a utility would impose a cost that the utility is forbidden to recover from anyone other than its shareholders, regardless of the prudence of the expenditure or the public benefit of the work. The more information the Authority requires to protect customers, the greater the unrecoverable burden. Nothing in the statute's text or purpose suggests that the legislature intended to penalize compliance with the Authority's orders. The

statute's text and purpose support barring recovery of the Company's advocacy costs while permitting recovery of costs specifically required by Authority order or regulation for regulatory purposes.

The same reasoning applies to the cost of statutorily required customer notices. Conn. Gen. Stat. § 16-19(a) requires the Company to notify affected customers by mail of its proposed rate amendment and their opportunity to participate in the proceeding. The Company's requested rate case expenses include $65,000 for postage and printing of customer notices. Schedule C-3.18 at 2. These notices fulfill a mandatory public participation requirement. The Company therefore submits that their reasonable costs should be recoverable as regulatory compliance expenses.

The Company recognizes that the phrase "direct or indirect costs associated with" is both vague and broad, and that the Authority may conclude that a study submitted in a rate proceeding is "associated with" participation in that proceeding. The Company respectfully submits that breadth of language is a reason for careful application, not a reason to extend the prohibition to every cost with any connection to a rate case. Read literally and without limitation, "indirect costs associated with" participation could reach the very agency consultant costs that OCC itself proposes to allow, Surrebuttal Sch. GNK-16, and that the Authority found fully recoverable in the Company's last case, 2024 Decision at 102.

D. The Statutory Scheme Should Be Read as a Harmonious Whole

Statutes addressing the same subject matter are read together, where possible, to create a consistent body of law, and a later-enacted statute is not construed to impliedly repeal or nullify an existing statute unless the conflict is clear and irreconcilable. *See McCullough v. Swan Engraving, Inc.*, 320 Conn. 299, 311-312 (2016) ("[T]he legislature is always presumed to have created a harmonious and consistent body of law....[T]his tenet of statutory construction ... requires [this court] to read statutes together when they relate to the same subject matter....Accordingly,

[i]n determining the meaning of a statute...we look not only at the provision at issue, but also to the broader statutory scheme to ensure the coherency of our construction.); *see also* Conn. Gen. Stat. § 1-2z ("The meaning of a statute shall, in the first instance, be ascertained from the text of the statute itself and its relationship to other statutes."). Several provisions of Title 16 bear on the question presented.

First, Conn. Gen. Stat. § 16-18a authorizes the Authority, DEEP and OCC to retain consultants in proceedings and provides that "[a]ll reasonable and proper costs and expenses, as defined in subdivision (3) of this section, shall be recognized by the authority for all purposes as proper business expenses of the affected company." The Authority has continued to permit recovery of such costs after the enactment of Section 16-243p(b). *See* Docket No. 24-12-01, Decision at 157 (Mar. 11, 2026) (allowing recovery of $206,424 in OCC consultant fees). A cost-of-service study ordered by the Authority is functionally analogous to consultant work commissioned by the Authority; in each case, the work product is produced for the regulator's use.

Second, Conn. Gen. Stat. § 16-19a authorizes the Authority to conduct periodic reviews of a utility's rates and mandates a full general rate case every four years or sooner. Section 16-243p(b) is most naturally read as addressing the costs of the utility's own advocacy in those proceedings, rather than costs the Authority imposes through its own orders. Where the Authority directs the utility to perform specific work, the source of the cost is the Authority's regulatory directive, not the utility's decision to seek a rate change.

Read together, these provisions support a construction of Section 16-243p(b) under which the prohibition applies to the costs of the utility's own participation and advocacy in a rate proceeding, while costs that the Authority specifically compels for regulatory purposes remain

subject to the ordinary standards of prudence and reasonableness under Sections 16-19 and 16-19e.

E. A Broader Reading Raises Serious Constitutional Concerns

The Company respectfully submits that construing Section 16-243p(b) to bar recovery of costs the Authority itself compels would raise substantial constitutional questions, and that the statute should be construed to avoid them. Where a statute reasonably permits an interpretation that accomplishes the legislature's purpose without raising serious constitutional questions, courts adopt that construction. *See Sassone v. Lepore*, 226 Conn. 773, 785 (1993).

The Takings Clause of the Fifth Amendment, applicable to the states through the Fourteenth Amendment and the corresponding provision of the Connecticut Constitution, prohibit rates that are confiscatory. *See Hope*, 320 U.S. at 601–603; *Bluefield*, 262 U.S. at 683, 688; Conn. Const. Art. I, § 11.

A regulator that compels a utility to perform work for the regulator's purposes, while a statute forbids the utility to recover that cost from the customers on whose behalf the work is performed, effectively requires the utility's investors to fund a public regulatory function. When combined with a bar on recovery of all ordinary rate proceeding costs, the result is a category of necessary, prudently incurred costs of providing regulated service that can never be recovered. A construction producing that result, as applied to costs specifically compelled by the Authority, would be patently unfair and difficult to reconcile with the principle that a utility must be afforded a reasonable opportunity to recover its prudent costs of providing service and to earn a fair return on its investment.

The record reveals that these costs are not trivial and that the Company already absorbs substantial unrecovered costs. In the Company's last rate case, albeit decided before Section 16-243p(b) applied, the Company incurred $1,296,528 in rate case costs, Interrog. Resp. OCC-235,

Att. 1, of which the Authority allowed $630,000 to be recovered amortized over three years—$350,000 (50% of rate expenses) plus $280,000 in agency consultant fees. 2024 Decision at 102. The Company's achieved return has averaged approximately 214 basis points below its authorized return over the last eleven years. Exhibit A.4, Dixon Direct Testimony at 8. Mr. Patla testified that although the Company was authorized a 9.30% return on equity in Docket No. 23-08-32, other decisions and directives in that docket constrained the return to a range of approximately 6% to 7%. Exhibit A.1, Patla Direct Testimony at 4–5.

The Company recognizes the limits of this argument. Under *Hope*, the constitutional question is whether the end result of the rate order as a whole is just and reasonable, not whether each individual cost is recovered. *Hope* at 602. The Connecticut Supreme Court has rejected a claim that the Authority's disallowance of certain capital and operating costs effected a confiscatory taking by reducing the utility's effective return, relying on its earlier decision in GenConn. *See Aquarion Water Co. of Connecticut v. Pub. Utilities Regul. Auth.*, 352 Conn. 381, 417–18 (2025); GenConn at 548–50. The Company does not contend that disallowance of a single study would, standing alone, render the rates in this proceeding confiscatory. The Company does, however, submit that the cumulative effect of statutory disallowances, together with the other adjustments proposed in this proceeding, must be considered in determining whether the end result affords the Company a reasonable opportunity to earn its authorized return and maintain its financial integrity.

The Company also notes that Section 16-243p(b) applies only to water companies with more than seventy-five thousand customers, while smaller water companies, and intervenors and other parties with Authority approval, may recover comparable costs. The Company raises this point not as an independent ground for relief in this proceeding, but because a classification that

bars the largest water utilities from recovering even Authority-compelled regulatory costs reinforces the reasons to construe the statute narrowly.

The Company recognizes that the Authority may not declare a statute unconstitutional, and it does not ask the Authority to do so. It asks the Authority to adopt the construction of Section 16-243p(b) that avoids constitutional doubt, and it respectfully preserves its position that any broader application of the statute to costs specifically compelled by the Authority, alone or in combination with the other disallowances in this proceeding, would violate the Company's rights under the United States and Connecticut Constitutions and the just-and-reasonable requirements of Sections 16-19 and 16-19e.

F. The Amortization Period Should Reflect the Company's Filing Cadence

The amortization period should reflect the period during which rates will likely be in effect for the costs that the Authority finds recoverable. The Company proposes a 36-month (3 year) amortization, consistent with its anticipated filing cadence. Schedule C-3.18 at 2; Sept. 22 Tr. 174:1–25. The Company anticipates its next rate case filing in 2029, consistent with its three-year cycle. Interrog. Resp. OCC-38. Yet, OCC proposes 64.77 months, the average interval among the Company's last three filings. Surrebuttal Sch. GNK-16; Sept. 22 Tr. 200:1–201:6 ("65-month amortization"). Ms. Koenig contends that using "the historical filing frequency of recent cases" ensures that amortization is based on actual data. Koenig Surrebuttal at 13. But OCC's average is not based on recent cases, it is a single 132-month interval between the Company's 2010 and 2021 filings.[9] OCC's schedule shows that the two most recent intervals were 32.58 months and 29.33 months. Surrebuttal Sch. GNK-16. Applying Ms. Koenig's stated principle to the Company's recent cases supports an amortization period of roughly three years, not 65 months. A decade-old

[9] This substantially increases the average relative to the two most recent intervals.

gap from a different regulatory era is not a reasonable predictor of the Company's future cadence, particularly given the investment needs and regulatory lag described in the record. Exhibit A.4, Dixon Direct Testimony at 4–9.

The Authority has also already addressed the risk that a shorter amortization could result in over-recovery. In the last case, the Authority approved three-year amortizations and directed that, if the Company did not file a new rate application by July 1, 2027, it account for any over-collection resulting from the expiration of the amortization period and file amended rates through the RAM. 2024 Decision at 94–95, 102; *id.* at 172 (Order No. 20). The same protection can be applied here. A 36-month amortization is reasonable.

G. Compelled and Otherwise Recoverable Costs

In response to Item 2(b) of the Notice, the Company specifically identifies the following costs as not barred by Section 16-243p(b), together with their record support:

First, OCC and PURA consultant costs of $350,000 ($200,000 and $150,000, respectively). Schedule C-3.18 at 2. These costs are recoverable under Conn. Gen. Stat. § 16-18a, as the Authority held in the last case, 2024 Decision at 102, and OCC agrees they should be allowed, Surrebuttal Sch. GNK-16.

Second, the cost of the allocated cost of service study the Authority directed in Order No. 22.c of the 2024 Decision, $60,000. 2024 Decision at 125, 172; Exhibit A.4, Dixon Direct Testimony at 31. The study results are presented in Exhibit TAS-2.

Third, the cost of customer notices required by regulation, $65,000. Schedule C-3.18 at 2. *See* Conn. Gen. Stat. § 16-19(a).

Fourth, the remaining amounts in Schedule C-3.18—legal fees ($300,000), the cost of capital consultant ($132,000) and miscellaneous costs ($10,000)—for which the Company preserves its position that Section 16-243p(b), construed narrowly and in harmony with Sections

16-19 and 16-19e, does not permit a result that denies recovery of necessary regulatory costs. Schedule C-3.18 at 2.

For these reasons, the Company respectfully requests that the Authority determine that Section 16-243p(b) does not bar recovery of costs specifically compelled by Authority order or for regulatory purposes, including the cost-of-service study directed in Docket No. 23-08-32 and mandated customer notices; allow recovery of those costs and the Section 16-18a consultant costs, subject to the ordinary standards of prudence and reasonableness; and amortize recoverable costs over 36 months. Whatever construction the Authority adopts, its decision should identify the specific costs it finds barred and the specific costs it finds recoverable, and explain the basis for each determination.

XI. CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)

The Company submits this section in response to Item 1 of the Notice concerning contributions in aid of construction ("CIAC"). Specifically, the Notice asks parties to address the prospective accounting treatment of CIAC amortization credited to Account 272, the disposition of the existing Account 272 balance, and continued depreciation of plant funded by pre-1989 CIAC remaining in Account 271. Notice at 1–2.

A. Company's Position

The record supports maintaining the Company's existing prospective accounting and ratemaking treatment while addressing the historical Account 272 balance, and any potential change to the treatment of pre-1989 contributed plant, in a separate technical process or docket. That approach respects the Authority's prior decisions, avoids retroactive ratemaking and unintended revenue effects, and permits the accounting, tax, capital-structure, and customer consequences to be developed with the Company's auditors and all parties.

The central point is that Account 272 is the cumulative counterpart to amortization of pre-1989 CIAC under a treatment deliberately adopted when Connecticut permitted water utilities to recover depreciation on contributed plant. The depreciation recovered in rates generated cash from a non-cash expense; over time, that cash became a source of financing for replacement and other utility plant. Late-Filed Exhibit 58 demonstrates this sequence and explains why Account 272 is economically closer to a historical source of capitalization than to an amount that can now be returned to customers without consequence.

Accordingly, the Authority should: (1) allow the existing amortization of pre-1989 CIAC into Account 272 to continue pending a separate review; (2) decline to require that annual amortization be credited to current depreciation expense in this rate case; (3) make no immediate write-off or rate adjustment associated with the approximately $29.14 million Account 272 balance; (4) continue the existing treatment of pre-1989 CIAC-funded plant pending a developed record; and (5) direct a technical meeting process or separate proceeding to evaluate reclassification or other prospective treatment, with any action designed to be revenue neutral and non-retroactive.

B. Background

CIAC is property or funding contributed to a utility, commonly by developers, rather than financed by the utility's investors. For post-1988 contributed plant, the Company records the plant in utility plant in service and records an equal credit to Account 271, CIAC. The plant and related CIAC are neither depreciated nor amortized for ratemaking purposes, leaving rate base neutral over the life of the asset. Refer to Interrog. Responses RRU-048, RRU-077, RRU-078, RRU-080, and RRU-210.

The treatment is different for contributed plant placed in service before 1989. Connecticut historically permitted water utilities to recover depreciation expense on that contributed plant. The

combination of accumulated depreciation and unamortized CIAC would produce negative rate base. To reverse this impact, the associated CIAC is amortized by debiting Account 271 and crediting Account 272, Amortized CIAC. Account 272 is excluded from rate base and does not affect operating expense. Only pre-1989 CIAC is subject to this amortization. Refer to Interrog. Responses RRU-048, RRU-049, RRU-078, RRU-080, RRU-210, RRU-211, and RRU-212; Sept. 24 Tr. 129–136.

As of December 31, 2025, Account 272 had a balance of $29,139,928. That balance consists entirely of cumulative amortization related to pre-1989 CIAC, including legacy CWC and former Avon Water Company amounts. It was not included in the Application for ratemaking purposes. Under existing schedules, annual amortization of pre-1989 CIAC is expected to continue through 2061. Interrog Response RRU-212; Schedule G-1.2; Sept. 24 Tr.130–133.

OCC's discovery responses confirm the historical context and the consistency of the Company's treatment. OCC explained that it advocated in the late 1980s for ending depreciation on all CIAC-funded plant, but the Authority adopted a transition: depreciation would be disallowed for post-1988 contributed plant while continuing for older contributed plant to avoid placing water utilities in financial jeopardy. OCC further stated that the Company's accounting for CIAC and amortized CIAC has been consistent with the Authority's Uniform System of Accounts ("USOA"), the 1989 decision, and subsequent rate proceedings. OCC Responses to RRU-207 and RRU-208.

C. The Existing Prospective Treatment Should Continue Pending a Separate Review

1. Continued accumulation in Account 272 is appropriate under the existing historical treatment.

The annual amortization of pre-1989 CIAC should continue to be recorded in Account 272 unless and until the Authority adopts a different prospective treatment on a fully developed record. The current entries are not an accounting anomaly created by the Company; they implement the

transition adopted in the late 1980s. Depreciation of pre-1989 contributed plant reduces rate base through accumulated depreciation. Amortization of the corresponding CIAC reduces the Account 271 rate-base deduction by the same general amount, preventing negative rate base. The offset is recorded in Account 272, which remains outside rate base. LFE-58 and LFE-58 Att. 1.

The fact that Account 272 accumulates does not create a current revenue requirement or return. It neither increases rate base nor produces operating income. Stopping the entry without addressing the corresponding depreciation and capitalization history would break one side of an integrated treatment and could recreate the negative-rate-base result that the amortization was designed to avoid.

2. Account 272 reflects a historical financing source, not a new capital instrument requiring an immediate capital-structure adjustment.

LFE Exh. 58 explains the economic substance of the balance. Depreciation expense is a non-cash expense recovered in rates. When customers paid rates that included depreciation on pre-1989 contributed plant, the Company received cash even though the original plant investment had been made by contributors. That cash was then available to fund future utility investment. LFE-58 Attachment 1 illustrates that, after the contributed asset was depreciated and CIAC was amortized, the cash recovered through depreciation could be reinvested in later plant. Account 272 therefore reflects the historical accumulation of a source of utility capitalization.

The Company does not contend that Account 272 is debt or common equity in a formal capital-structure sense. Rather, it is economically analogous to permanent capitalization because the underlying depreciation collections have been invested in utility plant and are not represented by a segregated cash balance available for distribution. Any decision to treat Account 272 as a distinct financing layer would therefore require analysis of accounting classification, tax effects, credit metrics, cost of capital, and the relationship to the plant financed with those funds. No

adjustment to the authorized capital structure or cost of capital should be made in this case without that analysis.

3. The annual amortization should not be used to reduce current depreciation expense.

Crediting annual Account 272 amortization to depreciation expense would effectively reverse depreciation recovery that the Authority intentionally allowed for pre-1989 contributed plant. OCC's historical materials show that the Authority understood the issue and chose a transition rather than the complete disallowance OCC requested. The Authority found that water utilities had relied on the cash flow from depreciation on contributed plant and that an abrupt change could place utilities in financial jeopardy. Refer to OCC Response to RRU-207 and Atts. 1–4; Decisions in Docket Nos. 88-09-24, 89-02-16, 89-11-19, and 90-03-03.

Using current amortization to reduce current depreciation expense would also mismatch periods and assets. Account 272 reflects decades of depreciation collections associated with pre-1989 contributed property, while current depreciation expense includes a broad portfolio of plant serving present customers. The Company's records do not isolate the depreciation associated with the remaining pre-1989 CIAC-funded assets because those assets are depreciated with other utility plant and do not carry the post-1988 "non-depr" designation. Interrog. Res. RRU-211. A current expense credit therefore would not be a clean matching entry; it would be a new ratemaking adjustment applied to today's customers based on historical collections and historical plant.

4. A separate technical process is the appropriate forum for prospective alternatives.

The Company agrees that a common understanding of Account 272's long-term treatment is desirable. The appropriate next step is a technical meeting process or separate docket that includes the Company, OCC, other parties, and the Company's independent accounting firm. That process should evaluate: (1) continued use of Account 272 under the current method; (2)

reclassification of Account 272 as another component of capitalization while preserving its exclusion from rate base; (3) treatment of the balance upon retirement of the last related pre-1989 plant; (4) any prospective change to the USOA entries; (5) tax, financial-reporting, credit, and cost-of-capital effects; and (6) safeguards against duplicate recovery or duplicate credits.

D. The Existing Account 272 Balance Should Not Be Written Off or Refunded in This Proceeding

1. The approximately $29.14 million balance is outside rate base and does not itself burden current customers.

The starting point is the balance's present ratemaking treatment: Account 272 is excluded from rate base and operating expense. Eliminating it from the balance sheet would not, by itself, reduce the Company's current revenue requirement. Any customer credit would require an additional income-statement or rate-base adjustment that would change prior ratemaking treatment rather than merely clean up an accounting presentation.

2. A retroactive giveback would raise substantial retroactive-ratemaking and intergenerational-equity concerns.

The Account 272 balance arose because prior rates included depreciation expense that the Authority expressly allowed. Those rates were final and applied to customers in prior periods. A present requirement to refund or offset the cumulative balance would effectively revisit those final revenue requirements and recapture amounts recovered under then-lawful rates. That raises classic retroactive-ratemaking concerns and should not be undertaken in a general rate case without focused legal briefing and a complete record.

It would also shift benefits across generations. The customers who paid depreciation on pre-1989 contributed plant are not necessarily the customers who would receive a credit today, and the cash generated by those historical charges has supported plant that continues to serve

current and future customers. A one-time refund or current expense credit could therefore provide a windfall to one group while impairing the financing of assets used by another.

3. Any revenue-neutral approach must preserve both sides of the historical accounting.

A revenue-neutral approach is possible only if it changes classification without changing the Company's revenue requirement, rate base, accumulated depreciation, or authorized capitalization. The most promising option is a balance-sheet reclassification, developed with the Company's auditors, that recognizes Account 272 as a historical source of financing for utility plant while continuing to exclude it from rate base. Such a reclassification could improve transparency without imposing a retrospective charge or credit.

By contrast, offsetting the balance against depreciation expense, retained earnings, or rate base would not necessarily be revenue neutral. Each could affect earnings, capitalization, taxes, credit metrics, or future rates. Those consequences must be quantified before any entry is ordered.

E. The Authority Should Not Change the Treatment of Pre-1989 CIAC-Funded Plant in This Case

The Authority deliberately grandfathered depreciation on pre-1989 contributed plant when it ended the practice for post-1988 additions. OCC had urged a complete disallowance, but the Authority selected a middle ground to avoid financial harm to water utilities that had relied on the existing treatment. The resulting distinction has been applied for more than three decades. OCC acknowledges that the Company's accounting has been consistent with the USOA and the Authority's directives. (OCC Responses to RRU-207 and RRU-208.)

The existence today of WICA, WQTA, and other recovery mechanisms does not justify undoing that transition in this rate case. Those mechanisms apply prospectively to defined categories of investment and do not establish that the Company has fully recovered, or will recover, the capital needs historically supported by depreciation cash flow. Nor do they eliminate all

regulatory lag or supply the unrestricted cash represented by depreciation recovery. The historical reason for the transition may inform a prospective policy review, but it does not convert prior lawful recovery into an amount now owed back to customers.

Changing the treatment now would also present practical problems. The Company cannot isolate depreciation associated with the remaining pre-1989 CIAC-funded assets from depreciation on other depreciable plant. Asset retirements, replacements, acquisitions, system conversions, and the passage of time complicate the linkage between an original contribution, a surviving asset, and current depreciation. Any change therefore requires a verified asset-level analysis and a defined prospective effective date.

For the same reasons, an immediate disallowance could raise retroactive-ratemaking, reliance, confiscation, and intergenerational-equity concerns. At minimum, the Authority should not alter the treatment without determining the affected plant, the associated annual depreciation, the remaining Account 271 amortization, the effect on rate base and capitalization, and whether a transition mechanism is required.

F. Requested Findings and Orders Pertaining to CIAC

1. The Company's accounting for post-1988 contributed plant—no depreciation of the plant and no amortization of the related CIAC—should continue.

2. The Company's existing accounting for pre-1989 contributed plant and related CIAC should continue pending completion of a separate technical review.

3. Annual amortization of pre-1989 CIAC should continue to be debited to Account 271 and credited to Account 272; it should not be credited to current depreciation expense in this proceeding.

4. The approximately $29,139,928 balance in Account 272 should not be refunded, written off through current rates, or used to reduce rate base or depreciation expense in this proceeding.

5. No capital-structure or cost-of-capital adjustment should be made based on Account 272 in this case.

6. The Authority should direct technical meetings or open a separate proceeding to consider the prospective classification and ultimate disposition of Account 272, with participation by the Company's independent accountants and all parties.

7. Any future change should be prospective, supported by quantified accounting and ratemaking impacts, avoid duplicate recovery or duplicate credits, preserve final prior rates, and be revenue neutral unless the Authority determines otherwise on a complete record.

The CIAC record reflects a deliberate historical transition, not an inadvertent accumulation. Account 272 is outside rate base and expense, and its balance represents depreciation cash historically authorized and reinvested in utility plant. The Authority should preserve the existing treatment in this case and use a separate, technically supported process to determine whether a prospective reclassification or other revenue-neutral treatment is appropriate.

XII. CONCLUSION

For the foregoing reasons, the Company respectfully requests approval of its updated annual revenue increase of $25,004,395, or 18.6%, its proposed rate design, 10.00% ROE and 54% common-equity capital structure, revised Rules and Regulations, and the mechanisms described in LFE-35. The Authority should resolve the shared-cost, rate-expense and CIAC issues as requested in Sections IX–XI, preserving prudency review, performance accountability and appropriate customer protections. The ultimate inquiry is the combined effect of the rate order: whether it affords an efficiently managed utility a genuine opportunity to recover prudent costs, maintain financial integrity and credit, attract necessary capital and earn a return commensurate with comparable risk while providing safe, reliable service. The Company asks the Authority to apply that standard without treating persistent under-recovery as a customer benefit, requiring a

financing crisis before addressing credit pressure, or treating documentation questions as automatic proof of imprudence.

Respectfully Submitted,

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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 22nd day of October 2026. A copy has also been filed with the Authority as an electronic web filing and is complete.



David W. Bogan, Esq.