Date Filed: October 28, 2026

Witness: Ann Bulkley
Request from: ALLCO

Question:

(Follow-up to ALLCO-136, ALLCO-138, ALLCO-139, ALLCO-140, ALLCO-141, ALLCO-144, and ALLCO-146 — cost of equity.) State or produce: (a) the calculation of the Company's earned return on common equity for the Test Year and for each of calendar years 2023, 2024, and 2025, in native format, showing net income, average common equity, and each normalization, exclusion, or adjustment made (ALLCO-136, subpart (a), which was answered only by reference to the EOE-062 attachments); (b) the inputs necessary to perform the calculations the Company declined to perform in ALLCO-139, subpart (f) and ALLCO-140, subpart (d) — the 30-year United States Treasury yield on the date of Ms. Bulkley's analysis and on the date of the response, the Value Line reports from which each Proxy Group beta was taken, and the price and dividend data underlying each dividend yield — in native format; (c) the weight given to each of the DCF, CAPM, ECAPM, and bond-yield-risk-premium results in arriving at the recommended 10.25 percent, and the recommendation that results from the DCF, CAPM, and ECAPM results alone (ALLCO-141, subparts (a) and (d)); (d) the complete workpapers underlying Exhibits CLP-ROE-1 through CLP-ROE-12 in native Excel format with formulas intact (ALLCO-141, subpart (e)); (e) whether the Company contends that the relationship M/B = (ROE − g) ÷ (COE − g) is inapplicable to Eversource Energy and, if so, each reason (ALLCO-138, subpart (d)); (f) for each issuance of common stock by Eversource Energy since January 1, 2020, including under any at-the-market program, forward sale agreement, or equity-unit settlement, the date or period, number of shares, average price, net proceeds, and book value per share immediately before the issuance, with the page citation to the Form 10-K or 10-Q on which the Company relies for its statement that the information is "publicly available" (ALLCO-146, subpart (a)); and (g) the amount of dividends the Company expects to pay to Eversource Energy in the Rate Year and in each subsequent year of the proposed term, and whether the $430 million paid in 2025 exceeded the Company's net income for that year (ALLCO-144, Attachment 1).

Response:

a. The Company has provided sufficient data in EOE-062[i] to answer this repeat question.

b. Please refer to the Company's response provided to OCC-365[ii] for the workpapers used in Ms. Bulkley's analysis.

c. Ms. Bulkley did not assign any specific weights to the results of the individual models in establishing her range. Rather, Ms. Bukley considered the analytical results, as well as the

other factors noted on Exhibit CLP-ROE-1 at page 71, in the determination of the appropriate ROE range. Ultimately, the Company's requested ROE of 10.25 percent represents the low end of the range identified by Ms. Bulkley.

d. Please refer to OCC-365, Attachment 10.

e. Please refer to the Company's response to ALLCO-137[iii] subparts (a) to (e).

f. The prospectus for any public equity issuance is available in the public domain at the SEC, in the Edgar database. Other equity issuances would be required to be disclosed in SEC form 8-K documents, also available on the SEC site previously noted. The market data that is requested on the date prior to any issuance is also publicly available.

g. Consistent with other investor-owned regulated utilities in the United States, including the Company's Eversource affiliates, the Company expects to reinvest (that is, retain) approximately 40% of earnings annually while paying approximately 60% of earnings as dividends to Eversource Parent. That expectation is reflected in the Company's historical experience. Over the eight-year period 2018 through 2025, CL&P retained approximately 41.6% of earnings and paid 58.4% of earnings as dividends to Eversource Parent, on average. The Company expects to continue this practice during the Rate Year and subsequent years of the PBMRP term. The amount paid in each year will depend on the earnings expected to be realized in that year, and, therefore, will be affected by the revenue requirement authorized for Rate Year 1 in this proceeding, as well as the ratemaking framework approved for subsequent years. Note that, over the same historical period, Eversource Parent contributed nearly $1.6 billion in capital to the Company to support its capital investment program and performance objectives.

No, the Company's 2025 common dividends did not exceed the Company's 2025 net income.

Prior Referenced Response:

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[i] EOE-062 Question

(EARNINGS SHARING MECHANISM-ESM) Provide an unlocked Excel spreadsheet detailing the Company's annual ESM results (i.e., calculated return on equity-ROE) in comparison to the Company's authorized ROE each annual ESM filing since the Company's last rate case. Separately, provide a similar comparison of the Company's "hypothetical" annual ROE results to the Company's authorized ROE whereby the "hypothetical" ROE results are capped at the equity ratio authorized in the last rate case.

EOE-062 Response:

In accordance with Section 10(a) of the 2018 Rate Settlement approved by PURA in Docket No. 17-10-46, earnings at the end of each calendar year above the authorized return on equity ("ROE") of 9.25% shall be shared between customers and the Company on a 50/50 basis. The Company reports its ROE at the end of each calendar year in Docket No. 76-03-07 (2018 – 2020) or Docket No. 76-03-07RE01 (2021 – 2025) as the basis for any earnings sharing.1 The Company did not earn above the authorized 9.25% at the end of any calendar year between 2018 and 2025.

Please refer to Exhibit 1(C)(1) of Attachments 1a through 5a for each actual ROE for the period 2018 through 2022. Please refer to Exhibit 1(C)(1a) of Attachments 6 through 8 for each actual ROE for the period 2023 through 2025.

Please refer to Exhibit 1(C)(1) of Attachments 1b through 5b for each illustrative ROE for 2018 through 2022 utilizing the Company's authorized equity ratio from Docket No. 17-10-46. The Company began reporting an illustrative ROE utilizing the Company's authorized equity ratio from Docket No. 17-10-46, beginning with its year-end 2023 results. Please refer to Exhibit 1(C)(1b) of Attachments 6 through 8 for each illustrative ROE for 2023 through 2025 utilizing the Company's authorized equity ratio from Docket No. 17-10-46.

A table summarizing the results is presented below:

Year	Earned ROE w/ Actual Capital Structure	Illustrative ROE Using Authorized Capital Structure	Reference
2018	8.98%	9.00%	Attachments 1a and 1b
2019	8.70%	8.85%	Attachments 2a and 2b
2020	9.03%	9.26%	Attachments 3a and 3b
2021	9.09%	9.26%	Attachments 4a and 4b
2022	8.33%	8.60%	Attachments 5a and 5b
2023	7.35%	7.57%	Attachment 6
2024	6.13%	6.23%	Attachment 7
2025	6.51%	6.57%	Attachment 8

[ii] OCC-365 Question

Workpapers. Please provide all workpapers the Company utilized in preparing its schedules, if not previously filed with PURA. Provide the workpapers in electronic format, with all formulas and calculations intact.

OCC-365 Response

Please refer to the Attachments listed below for the requested workpapers:

- OCC-365, Attachment 1, for workpapers used in the preparation of Exhibit CLP-RATES-2.
- OCC-365, Attachment 2 through OCC-365, Attachment 9, for workpapers used in the preparation of Exhibit CLP-DEPRECIATION-3 and CLP-DEPRECIATION-4.
- OCC-365, Attachment 10, for excel versions of Exhibit CLP-ROE-2 through CLP-ROE-12 with formulas and calculations intact. For all supporting workpapers to Exhibit CLP-ROE-2 through CLP-ROE-12, refer to OCC-365, Attachment 10 through 24.

- OCC-365, Attachments 25 and 26, for the workpapers to Exhibit CLP-ACOS-2.
- OCC-365, Attachment 27, through OCC-365, Attachment 37, for the workpapers to Exhibit CLP-MCOS-2.

[iii] ALLCO-137 Question

(Market-to-book evidence.) (a) For each year-end 2015 through 2025 and for the most recent practicable date, state for Eversource Energy: the closing market price of its common shares; common shares outstanding; total common shareholders' equity per the consolidated balance sheet; book value per common share; and the resulting market-to-book ratio. (b) For the same dates, state the Company's common shareholder's equity as reported in its FERC Form 1 (or the equivalent PURA annual report), and the Company's share of Eversource Energy's consolidated common equity and of its consolidated net income. (c) For each company in each Proxy Group, state the market-to-book ratio at the date the ROE Witness's analysis was performed and at each year-end 2020 through 2025, and the average and median for the group. State whether the ROE Witness considered the market-to-book ratio of Eversource Energy or of the Proxy Group in arriving at the recommended return, and if not, why not. (e) State whether the Company agrees that, when a utility's authorized return on book equity equals its market cost of equity, the market value of its common equity would be expected to approximate its book value, and if the Company disagrees, state each reason and produce every analysis supporting its position.

ALLCO-137 Response

a. Please refer to ALLCO-137, Attachment 1, for the requested information.
b. Please refer to ALLCO-137, Attachment 1, for the requested information.
c. Ms. Bulkley did not find the market-to-book ratios of the proxy group relevant in the determination of the cost of equity for the subject company.

d. - e. Not necessarily. The foundation of the conclusion that a market-to-book ratio equal to 1.0 is indicative of regulatory returns equaling the cost of equity is the Efficient Market Hypothesis (EMH). The EMH theory contends that all information currently known by investors is already reflected in current stock prices. For example, the theory of the DCF model is that the current share price is equal to the present value of all expected future dividends. Therefore, if markets were fully efficient changes in share prices could only be explained by new information that results in a change to the expected dividends. However, as Dr. Lawrence Kolbe and Dr. Michael Vilbert outlined in a 2016 presentation (see ALLCO-137, Attachment 2) to the California Public Utilities Commission, there is no consensus among economists regarding whether the theory of the EMH holds true and share prices are rationally priced, and even assuming for the sake of argument that the EMH does in fact hold true, there is also no consensus regarding which model produces reasonable estimates of the cost of equity.

Nobel Prize-winning economist Dr. Robert Shiller and others have provided compelling evidence against the EMH, concluding that share prices are not rationally priced and that the DCF model does not fully explain changes in share prices and thus will not accurately estimate the required return of investors. For example, in his 1981 study titled "Do Stock Prices Move Too Much to be Justified by Subsequent Changes in Dividends?," (See ALLCO-137, Attachment 3), Dr. Shiller examined whether the volatility in share prices could be fully explained by new information regarding future dividends. Dr. Shiller found that the historical volatility of share prices has been far too high to be fully explained by changes in expectations for future dividends. There are numerous practical examples supporting this position (e.g., large sudden declines in the market such as Black Monday in 1987, the Great Recession of 2008/09, the COVID-19 crash in March 2020, and the "tech bubble" of the late 1990s) that cannot be explained by new information regarding dividends.

While the examples discussed above provide evidence of market inefficiencies that could very well prove that the EMH does not hold and stocks are not rationally priced, it could also be that the correct asset pricing

model to determine expected returns is not known by economists. For example, in the text Corporate Finance, finance professor Ivo Welch states (See ALLCO-137, Attachment 4):

> Of course, few people doubt that big U.S. financial markets are, to such a first approximation, efficient – we all know that you just can't earn that much. But there is a large gray zone where it is difficult to distinguish between model error and market inefficiency. Because no one knows for sure what the correct model of expected returns is, no one can tell you affirmatively whether the stock market set the price of ABC stock so as to offer investors an expected rate of return on ABC of, say, 10 percent a year or 12 percent a year.

Welch further noted that "we are not sure and cannot agree whether ABC should earn 10 percent, 20 percent, or 30 percent a year." Similarly, In the text *Behavioral Finance: The Second Generation*, Meir Statman noted (Please refer to ALLCO-137, Attachment 5):

> The CAPM was accepted as the correct asset pricing model as long as it served to show that markets are hard to beat and value efficient. But the CAPM was largely replaced by the three factor model when the former indicated that markets are not efficient, yielding abnormal returns to investors in small capitalization and value stocks.
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> The three factor model was judged as faulty when it failed to account for abnormal returns yielded by the momentum factor. And the four factor model was declared faulty when it failed to account for abnormal returns associated with investment and profitability, idiosyncratic volatility, and net stock issues, among many others.

This is important because it shows that existing asset pricing models are continually being adjusted to better predict prices in the market and explain deficiencies and that currently there is not one correct asset pricing model.

Since academic research demonstrates that markets are not fully efficient and the correct asset pricing model is not known, it is unreasonable rely on the market to book ratio as an indicator for whether the authorized return is equivalent to the cost of equity.