Date Filed: October 16, 2026

Witness: Matthew Fallon
Request from: ALLCO

Question:

(Credit metrics and rating thresholds.) (a) State the Company's current long-term issuer and first mortgage bond ratings from Moody's, S&P, and Fitch, the date of each rating action since January 1, 2020, and the outlook. (b) For each calendar year 2020 through 2025 and the Test Year, state the Company's CFO pre-WC/debt, FFO/debt, debt-to-capitalization, and cash-flow-to-interest ratios as calculated by each rating agency (or, if the Company does not have the agency calculation, as calculated by the Company using the agency's published methodology), and produce the calculation. (c) Identify the ratio ranges or thresholds that each rating agency has published or communicated to the Company as consistent with the Company's current rating and with the next rating category below it, and produce each rating-agency report, credit opinion, or communication since January 1, 2023 that states such thresholds for the Company or Eversource Energy. (d) State the share of the Company's cash flow from operations in the Test Year that consists of net income, and the share that consists of depreciation, amortization, deferred income taxes, and other non-cash items. (e) Compute the Company's CFO pre-WC/debt and FFO/debt ratios for the Rate Year at authorized returns on common equity of 10.25%, 9.25%, 8.5%, 7.5%, and 6.5%, holding all other inputs at the Company's proposed levels, and state for each the rating category the Company contends would result and the basis for that contention.

Response:

(a) Please refer to ALLCO-142, Attachment 1, for CL&P's ratings and outlook from S&P Global Ratings since January 1, 2020.

Please refer to ALLCO-142, Attachment 2, for CL&P's ratings and outlook from Moody's Ratings since January 1, 2020.

Please refer to ALLCO-142, Attachment 3, for CL&P's ratings and outlook from Fitch Ratings since January 1, 2020.

(b) Please refer to ALLCO-142, Attachment 4, for the metrics requested.

(c) Please refer to ALLCO-142, Attachment 5, for reports from S&P Global Ratings on CL&P since January 1, 2023. As discussed on page 2 of 109, in ALLCO-142, Attachment 5, S&P expects "CL&P's stand-alone FFO to debt will average 20%-22% over the forecast period".

Please refer to ALLCO-142, Attachment 6, for reports from Moody's Ratings on CL&P since January 1, 2023. As discussed on page 3 of 73, in ALLCO-142 Attachment 6, "CL&P's stable outlook reflects our expectation that the utility will maintain a ratio of CFO pre-WC to debt of at least 17% over the next 12-18 months. At the same time, the stable outlook reflects the company's ongoing effort to rebuild its relationship with key stakeholders including regulators, state leaders and customers and the potential that storm costs could be recovered through pending regulatory proceedings or securitization" and "CL&P could be downgraded if Connecticut regulatory decisions continue to be contentious or unsupportive of credit quality or if CL&P's financial performance deteriorates such that its ratio of CFO pre-WC to debt falls below 17% on a sustained basis".

Please refer to ALLCO-142, Attachment 7, for reports from Fitch Ratings on CL&P since January 1, 2023. As discussed on page 2 of 19 in ALLCO-142, Attachment 7, "Through 2027, Fitch forecast CL&P's FFO leverage to average about 4.0x.". Additionally on page 2 of 19 in ALLCO-142 Attachment 7, factors that could, individually or collectively, lead to a downgrade include "FFO leverage exceeds 4.3x on a sustained basis" and "An adverse implementation of the recent regulatory changes that reduces the stability and predictability of earnings and cash flow and materially weakens CL&P's financial profile".

(d) Please refer to exhibit CLP-REVREQ-2-H-1.2A for the Company's 2025 Form 10K. Per the Company's reported statement of cash flows:

Net Income: $551,329k

Non-Cash Items: $964,867k

Change In Current Assets & Liabilities: $158,970k

Cash from Operations: $1,675,166k

"Non-Cash Items" includes Depreciation, Amortization, Deferred Income Taxes, and Other Non-Cash items, as requested. Note that Test Year Amortization expense includes recovery of substantial under-recovered prior-period costs that built up as the direct result of artificially low RAM rates established over multiple years beginning in 2022. As a result, Test Year Amortization expense may not be indicative of future amortizations, to the extent that reconciling rate adjustments maintain closer alignment with current costs better than they have in the past.

(e) The requested computations would produce unreliable and misleading information regarding the Company's credit ratings because the computations would require broad speculation as to how independent rating agencies will evaluate hypothetical outcomes under circumstances that do not exist.

In particular, the request presumes that credit ratings can be determined solely by recalculating CFO pre-WC/debt and FFO/debt under a series of assumed ROEs and then assigned a corresponding rating category on that basis. Rating agencies do not evaluate utility credit quality in this manner. Moody's expressly states in its methodology that a "scorecard-indicated outcome is not expected to match the actual rating for each company" and further recognizes that there are "various reasons why scorecard-indicated outcomes may not map closely to actual ratings." Thus, Moody's itself cautions against the precise type of exercise requested here, which is the use of a limited set of quantitative measures to infer a specific rating outcome.[1]

More fundamentally, Moody's does not evaluate utility credit quality through financial metrics alone. Moody's identifies the regulatory framework as "a key determinant of the credit quality of a utility" and recognizes that utilities can experience financial stress because of "a breakdown or obstacle in the regulatory framework." Consistent with that view, Moody's methodology focuses on the regulatory environment, the consistency and predictability of regulation, the utility's ability to recover its costs and earn returns, and the sufficiency and timeliness of cost recovery. As Moody's explains, the critical issue is whether rates are sufficient to allow the utility to recover its costs and earn a reasonable return, not whether a particular authorized ROE can be associated with a particular financial ratio.[2]

These facts were proven by the experience of Aquarion Company of Connecticut (“Aquarion”) during and after its general rate case, Docket No. 22-07-01, which is particularly instructive on this point because it involved the precise type of exercise requested here. In that docket, PURA purported to evaluate projected credit metrics under multiple ROE and capital structure scenarios, ultimately concluding that "[Aquarion’s] credit metrics remain in acceptable ranges set by the credit rating agencies" and that "an ROE set within the ranges presented by EOE, OCC, and [Aquarion] (i.e., 7.765% to 10.35%) would not adversely affect [Aquarion’s A3] credit rating."[3] PURA then relied upon that conclusion in establishing the authorized ROE, opining that "[a] key determinant in setting an ROE is whether the ROE will allow the utility to maintain its current financial condition and credit rating."[4]

In its rationale, PURA asserted that it had conducted a "rigorous analysis" of the effect of various ROE levels on the company's credit rating.[5]

In that instance, PURA evaluated alternative ROE scenarios, compared projected metrics against rating-agency benchmarks, concluded that the approved ROE would not adversely

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1 Moody's Ratings, Regulated Electric and Gas Utilities Rating Methodology (Aug. 6, 2024), at 2, 22.
2 Id. at 8.
3 Docket No. 22-07-01, Final Decision dated March 15, 2023, at 31.
4 Id. at 57.
5 Id. at 57.

affect Aquarion's credit rating, and relied upon that conclusion in setting rates. That exercise involved the same basic premise underlying this interrogatory, which is that projected credit metrics and rating-agency thresholds can be used to predict the credit implications of alternative ROE outcomes. This proposition is invalid.

Despite PURA's conclusions that Aquarion's A3 credit rating would not be adversely impacted by the decision in Docket No. 22-07-01, approximately one year later, Moody's downgraded Aquarion Water Company of Connecticut from A3 to Baa1 and specifically attributed the downgrade to the consequences of the rate order. Moody's stated:

> The downgrade of Aquarion Water Company of Connecticut reflects a weakening financial profile resulting from the utility's rate order last year, which included a reduced revenue requirement as well as lower returns. The rate order was another indication that the Connecticut regulatory environment has become more challenging and less credit supportive for the state's regulated utilities."[6]

Moody's further explained that Aquarion's lower rating reflected a Connecticut regulatory environment that had become less consistent and predictable, as evidenced by recent regulatory decisions affecting Connecticut utilities.[7] Notably, the factors Moody's cited as driving the downgrade extended beyond the projected financial metrics on which PURA's analysis principally relied.

The requested computations suffer from the same fundamental flaw. The request assumes that all relevant rating considerations remain unchanged except for the effect of a lower ROE on two financial ratios. In reality, rating agencies do not assess utility credit quality that way. A lower ROE is not merely an input to a ratio calculation. Depending on the circumstances, the ROE may affect a rating agency's assessment of the utility's ability to earn its return, recover its costs, attract capital, maintain cash flow, and operate within a constructive regulatory framework. From a credit perspective, the relevant question is not what ROE appears in a rate order, but whether the utility can actually recover its costs, earn its authorized return, generate sufficient cash flow, and maintain access to capital. Those outcomes depend on numerous features of the regulatory framework and cannot be inferred from the authorized ROE alone.

Accordingly, the Company cannot reasonably assign hypothetical rating categories to the requested ROE scenarios. More importantly, the Aquarion outcome demonstrates that doing so would not provide a reliable indication of how the rating agencies would actually evaluate the Company's credit quality. The requested exercise would therefore create an appearance of

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6 Moody's Ratings, Moody's Ratings Downgrades Aquarion Water Company of Connecticut to Baa1 from A3 (May 23, 2024), at 1.

7 Id. at 2.

precision that is unsupported by the methodology used by the rating agencies in practice and is contradicted by the directly analogous Connecticut experience.