Date Filed: November 17, 2026

Witness: Douglas P. Horton
Request from: Public Utilities Regulatory Authority

Question:
(TFP Study) Exhibit CLP-PBR-2; Exhibit CLP-ELP-1, p. 65; Interrog. Resp. OCC-560; Interrog. Resp. EOE-156, Att. 1 and Att. 2. Provide a complete, unlocked Excel model, mirroring the structure, transparency, and level of detail provided in the response to Interrogatory EOE-156 and its Attachments 1 and 2, that evaluates the longer term revenue requirement and rate impacts of the Company's proposed capital recovery under three (3) scenarios, each carried through the end of the PBMRP term and through the subsequent proceeding in which capital is incorporated into the Company's rate base.

For each scenario, provide all supporting calculations, formulas, and monthly and annual outputs, and clearly identify all assumptions with citations to the Company's filing.

Scenario 1 — F-Factor Scenario with 5% Over-Forecast Capital Additions
Using the Company's F-Factor methodology described in its response to Interrogatory EOE- 156:

a. Apply a 5% increase to the capital investment forecast underlying the TSP and Figure 7 of Exhibit CLP-ELP-1.
b. Recalculate the monthly and annual F-Factor revenue requirements under the Company's proposed mechanism, including the downward-only reconciliation.
c. Extend the analysis through the subsequent rate case (which the Company assumes to take effect July 1, 2031 in its response to Interrogatory EOE-156), and show:
    i. the rollover of accumulated unrecovered plant into new base rates,
    ii. the rate-year capital included at that point, and
    iii. the resulting revenue requirement in the first-rate year of the subsequent case.
d. Provide the long-run cumulative revenue requirement customers would pay under the F-Factor scenario.

Scenario 2 — Traditional Cost-of-Service (COS) Treatment of the Same Capital Profile Using the *same* capital additions (including the 5% overage):

a. Model recovery under a traditional COS framework with no F-Factor.
b. Assume capital is added to rate base at the next feasible rate-effective date(s) consistent with previous COS practices.
c. Extend the model through the next rate case and show:
    i. rate-base additions and retirements,
    ii. depreciation, ADIT, property taxes, and cost-of-capital components,
    iii. the revenue requirement in the first rate year of the subsequent rate case, and
    iv. the cumulative long-run cost to customers.

Scenario 3 — CT-Bar Scenario Using the Same Capital Inputs
Applying the CT-Bar mechanism as reflected in the July 15, 2025 Proposed Final Decision in Docket No. 21-05-15RE01, PURA Investigation into Revenue Adjustment Mechanisms for a Performance-Based Regulation Framework:

a. Use the same 5% over-forecast capital additions;
b. Calculate the CT-Bar capital revenue requirement (monthly and annual);
c. Model the transition into the subsequent rate case, including how CT-Bar balances are incorporated into new base rates; and
d. Provide the resulting longer term revenue requirement and customer cost trajectory.

For all three scenarios, please also:

a. Provide a side-by-side comparison table showing:
    i. annual and cumulative revenue requirements;
    ii. ROE impacts;
    iii. customer bill impacts; and
    iv. total revenue requirement in the subsequent rate case's first rate year.
b. Identify and explain any assumptions that differ across the scenarios.
c. Provide all linkages, formulas, and internal references in the Excel model, consistent with Attachment 1 of the Company's response to Interrogatory EOE-156.
d. Confirm whether any scenario requires adjustments to the forecasted capital funding requirements (Exhibit CLP-ELP-1, Figure 7) or the TSP, and explain the basis for any adjustment.

Response:

Please refer to UPA-082 Attachments 1 through 12. Attachments 1 through 6 assume that actual capital investment will be five percent above forecasted levels, as requested in UPA-082. Attachments 7 through 12 repeat the analysis, assuming the level of forecasted capital. Within each group, the attachments compare the following scenarios:

- Company's proposed PBMRP, including F Factor,
- Traditional cost-of-service ratemaking without any multi-year plan,
- PFD-RE01 Unmodified, as defined below,
- PFD-RE01 with the X-Factor adjustment reflected in Attachments 5 and 11,
- PFD-RE01 with CT-bar modified to include WACC-related revenue support as reflected in Attachments 6 and 12.

Please refer to the following index of attachments:

Attachment Index

Description	Plant Additions 5% above forecast	Plant Additions as forecast
Summary comparison	Attachment 1	Attachment 7
Company's proposed PBMRP	Attachment 2	Attachment 8
Traditional cost-of-service ratemaking	Attachment 3	Attachment 9
RE01 Unmodified	Attachment 4	Attachment 10
RE01 with a 1.39% X-Factor	Attachment 5	Attachment 11
RE01 with WACC Support Through CT-Bar	Attachment 6	Attachment 12

Ratemaking decisions have a greater impact than simply establishing new rates to take effect at the end of the statutory review period. Rates remain in effect while the utility continues to operate and maintain its system, make necessary capital investments, place new assets in service, depreciate existing assets, incur taxes and other operating costs, and finance those requirements. Traditional cost-of-service ratemaking addresses changes in revenue requirements through periodic rate cases and the regulator′s decisions on cost recovery inherently drive utility decisions on operations, investments and serving customers thereafter. Where the ratemaking framework is not devised with an eye to the future (and incentivizing beneficial utility conduct thereafter), a sequential rate case will be the result.

Similarly, a multi-year rate plan inclusive of a stay-out provision does not eliminate those costs or the need to finance them. Rather, the stay-out seeks to harness financial motives by giving the utility an opportunity to improve its financial results through cost control, productivity and efficiency rather than returning immediately to a general rate case to establish new rates and revenues to support infrastructure investment. A multi-year framework must therefore do at least two things at once. The multi-year framework must be designed to keep revenues reasonably aligned with the costs and investment requirements of the business, while at the same time not distorting or undermining the incentives for the utility to control costs and improve efficiency over the stay-out period. If revenues simply tracked actual costs dollar for dollar, much of the incentive created by the multi-year stay-out would disappear. Conversely, if revenues become too disconnected from costs and investment requirements, and the resulting gap grows beyond what can reasonably be addressed through efficiency gains, then the stay-out becomes penalizing for the utility and self-defeating to the framework. Thus, the benefits to customers of a multi-year

stay-out depend upon a balanced structure within which the Company has an opportunity to sustain itself within the framework.

The scenarios requested in this question are well-designed to provide a useful way to test whether different ratemaking frameworks can keep revenues reasonably aligned with the requirements of the Distribution business, while preserving meaningful efficiency incentives. The Company appreciates this question for that reason. The same system must be operated, the same service obligations met, and the same core investment made and financed whether under traditional cost-of-service rate cycle or under a multi-year rate plan. By holding those requirements constant while changing the ratemaking treatment, the requested comparisons help isolate the consequences of the framework itself. A framework that provides less revenue in a particular year does not mean the underlying cost disappeared. It changes the timing of revenue support and the amount of the underlying requirements the Company must finance during the stay-out. Those differences affect the opportunity to earn the authorized rate of return. They also allow the scenarios to test not simply which framework produces lower rates in a particular year, but how each framework distributes financial pressure and customer impacts over time.

To achieve this objective, the Company therefore applied common assumptions across the scenarios, as follows.

- Except where specifically noted, each scenario assumes approval of the Company's proposed going-in revenue requirement, which means that the results shown will vary (perhaps significantly) as the approved revenue requirement diminishes from the level proposed by the Company.

- Similarly, storm cost recovery is assumed to operate as intended, such that future storm revenues equal future storm costs rather than allowing additional under-recoveries to accumulate.

Attachments 1 through 6 apply the requested assumption that actual capital investment is five percent above forecast, while Attachments 7 through 12 use the forecasted capital investment at levels presented in this proceeding. Comparing the 5% higher-capital and forecast-capital scenarios separates the effect of higher investment from the effect of the ratemaking mechanics. If the relationships among the frameworks persist at forecast capital, they cannot be attributed simply to the five-percent higher-investment assumption.

The financial comparison focuses on the Company's ROE deficit relative to the assumed authorized return on equity rather than the absolute earned ROE. In that regard, the question is not whether any particular ROE is sufficient in isolation. It is how much financial exposure each framework creates, what produces that exposure, and whether management can reasonably affect it through efficiency and performance on a going forward basis. Measuring the deficit from the same assumed authorized return provides a common reference point. Some deficit is neither

surprising nor necessarily undesirable on its own. The objective is not to eliminate financial exposure, but to maintain a reasonable balance between the financial discipline created by that exposure and the revenue support necessary to sustain the stay-out so that management can reasonably influence business results while keeping revenues sufficiently aligned with the underlying requirements of the business. Maintaining that balance is essential to a workable stay-out. As the balance erodes, the stay-out itself becomes increasingly difficult to sustain, since an unbalanced framework will further erode over time, creating a wider gap between authorized and earned ROE.

Customer impacts provide the other side of the comparison. Lower near-term rates achieved by deferring revenue support associated with the costs incurred to provide service may increase both the Company's financing burden during the stay-out and the rate increase customers ultimately face. The two measures (i.e., utility ROE and customer bill impacts) therefore must remain sustainable together over time.

Whether the resulting framework remains financially sustainable over the stay-out also has significance beyond these projected results. Rating agencies are closely following Connecticut regulatory developments and this proceeding. Moody's has described the pending general rate filing as an "important barometer" of progress regarding regulatory support, while S&P includes a constructive outcome in this proceeding and timely recovery through the Company's distribution rate-adjustment mechanism among its base-case assumptions.[1] [2] These observations do not prescribe a particular PBR mechanism. They do, however, show that the timing and predictability of regulatory recovery and the financial sustainability of the resulting framework are relevant to CL&P's prospective credit profile.

Scenario 1: Company's Proposed PBMRP

The Company's proposal recognizes that different components of utility costs change for different reasons. In the Company's proposal, I-X-CD is designed to address operating costs and the corresponding opportunity for productivity and efficiency. The F-Factor addresses necessary core infrastructure investment, subject to a cap and downward-only reconciliation during the PBMRP, while other mechanisms address specific risks not appropriately captured by either. The mechanisms work together without reconciling revenues to the Company's actual cost of service. The Company therefore remains financially exposed to costs or investment above the revenue

[1] Moody's Ratings, Connecticut Light and Power Company: Update to Credit Analysis (June 30, 2026), p. 4;

[2] S&P Global Ratings, Connecticut Light & Power Co. (July 23, 2026), pp. 2, 5.

support provided through the plan, preserving the incentive to outperform rather than simply passing actual experience through to customers.

The projected ROE deficits quantify that financial exposure. By Rate Year 4, the Company's proposed PBMRP produces an ROE deficit of approximately 73 basis points when capital investment is five percent above forecast and approximately 40 basis points at forecast capital. Those deficits demonstrate that the proposal does not simply adjust revenues to preserve the assumed authorized return. Nor should it. Investment above forecast does not increase the F-Factor cap, so the Company will need to make and finance that additional investment without additional F-Factor revenue during the PBMRP. Moreover, in the event that the capital investment is *greater* than five percent, the impact to the Company becomes more severe.

The Company's proposal also produces the smoothest progression of projected customer impacts among the alternatives. Under the requested 5-percent-higher capital assumption, annual total-bill impacts during the four-year plan range from approximately 1.05 percent to 1.52 percent. The Company's proposal does not produce the lowest increase in every year. It produces a more measured progression while leaving meaningful financial pressure on the Company throughout the stay-out. The proposal thus illustrates the balance at the center of the PBR design question: preserving meaningful exposure to performance without allowing the relationship between revenues and the underlying requirements of the business to become unsustainable.

Scenario 2: Traditional Cost-of-Service Ratemaking

Traditional cost-of-service ratemaking addresses the same requirements through periodic rebasing rather than relying on a multi-year revenue formula. As costs and investment move beyond amounts reflected in existing rates, another rate case rebases revenues to a more current cost of service. Under the assumptions used here, doing so requires another rate case every eighteen months. Customer adjustments are less frequent but materially larger, while the ROE deficit increases between proceedings and narrows when rates are reset.

Periodic rebasing also changes the incentive. Comprehensive rate cases require substantial resources from the Company, PURA, OCC, and other parties, but the more fundamental difference is that a rate case resets the financial relationship within which management has been operating. If preparation for the next proceeding begins almost as soon as the prior case concludes, there is little time for a focus on cost control, productivity and performance to formulate and produce results before revenues are rebased again. Traditional ratemaking effectively restores revenues to a current cost of service, but frequent rebasing limits the sustained incentive a multi-year framework is intended to create. That tradeoff provides an important reference point for the remaining scenarios: extending the stay-out creates a greater opportunity for incentives to operate, but only if the framework remains workable long enough for them to do so.

Scenario 3: RE01 Unmodified

Scenario 3 required a different exercise because RE01 was not presented in the PFD as a complete multiyear calculation that could simply be replicated in attachments provided here. The Company therefore has endeavored to translate the framework described in the RE01 PFD into quantitative terms and mechanics. In that respect, the Company's PBMRP is not an attempt to start from scratch. Although RE01 established several concepts also reflected in the Company's proposal, including a multi-year stay-out, annual revenue adjustments, cost-containment incentives, prospective capital planning and a separate capital mechanism, the analysis performed here identifies material differences in how those concepts operate through the stay-out in each scenario.

Turning RE01 into a multiyear calculation necessarily required judgment because the PFD relies on portions of the Revised Straw Proposal, modifies others, and does not always explain how the provisions interact over successive rate years. The Revised Straw Proposal, for example, describes its Revenue Cap Formula as illustrative and includes CT-Bar as a component of that formula, while footnote 18 excludes CT-Bar and several other items from the prior-year revenue requirement used in the following year's calculation. Where the PFD does not expressly revisit an implementation detail, translating RE01 into a multiyear calculation requires determining whether and how the corresponding Revised Straw Proposal provision continues to operate.

For purposes of this response, the Company uses "RE01 Unmodified" to refer to the scenario that applies RE01 using the Company's proposed X-Factor in this proceeding (-0.03%), with CT-Bar otherwise unchanged from the framework outlined in the PFD. Attachments 4 and 10 identify the principal implementation assumptions, including the treatment of I-X and CT-Bar, the CT-Bar cap and downward-only reconciliation, and the use of the Company's proposed going-in revenue requirement. Because the PFD does not fully specify every implementation detail, the Company applied the PFD and Revised Straw Proposal in a manner that permits the framework to be evaluated quantitatively. In several important respects, the resulting assumptions are favorable to RE01. Most notably, again, is the use of the Company's proposed going-in revenue requirement.

Even under those implementation assumptions, the deficits grow substantially over the stay-out. By Rate Year 4, RE01 Unmodified produces an ROE deficit of approximately 273 basis points when capital investment is five percent above forecast and approximately 244 basis points at forecast capital. As referenced previously, the presence of a deficit is not itself inconsistent with PBR. Some financial exposure is necessary to preserve an efficiency incentive. What distinguishes RE01 Unmodified is the magnitude of the deficit and what produces it. As the stay-out progresses, the difference between revenues and the Company's underlying costs and investment requirements grows beyond what can necessarily be addressed through better cost management.

The growing deficit therefore matters not simply because of its size, but because of what management can reasonably do to address it (or not). A PBR framework should place attainment of the authorized return at risk, but efficient performance must leave a reasonable opportunity to earn it. As the deficit becomes increasingly driven by necessary costs and core investment, performance has progressively less ability to determine the outcome. Said differently, a utility operating under a PBR framework should have an opportunity, but not a guarantee, to achieve its authorized return on equity over the course of the PBR plan. If there is an inherent structural flaw in the design that makes that impossible, the utility will not be able to commit to a stay-out for the duration of the plan, and the promised customer benefits of PBR will be lost.

The customer-impact results show the other side of the growing financial deficiency. Under the 5-percent-higher capital assumption, bill impacts during the initial period range from approximately 0.38 percent to 1.08 percent, followed by approximately 3.54 percent at the subsequent rebasing. At forecast capital, the post-MRP impact remains approximately 3.15 percent. The smaller initial increases do not eliminate the underlying costs. They change when customers encounter them. As revenue support is deferred, the resulting difference can accumulate like an approaching wave: initially distant and less visible in customer rates and growing until the underlying costs must be addressed. The same framework that produces greater financial pressure during the stay-out can therefore contribute to a larger customer adjustment when rates are ultimately rebased. It is important to note that, for purposes of this illustrative assumption the Company assumed that it stays out of a rate case for a multi-year period, which is not necessarily a commitment the Company will be in a position to make, as depicted by the results presented herein.

Scenario 4: RE01 With the X-Factor Sensitivity

Attachments 5 and 11 test the effect of increasing the X-Factor to -1.39 percent while leaving the remaining RE01 mechanics generally intact. Increasing the X-Factor to -1.39 percent reduces the Rate Year 4 ROE deficit from approximately 273 to 162 basis points when capital investment is 5 percent above forecast; and from approximately 244 to 130 basis points assuming forecast capital, while also moderating the customer bill impact trajectory.

Additional I-X revenue can materially improve the RE01 Unmodified result. It does so, however, by asking a mechanism principally associated with operating-cost productivity to provide more of the revenue support also needed for capital financing. The Company's proposal instead keeps the operating-cost incentive more closely associated with operating costs and supports core investment through the capital mechanism. Keeping those functions distinct also makes the source and purpose of the revenue more transparent and makes potential overlap or double recovery easier to identify.

Scenario 5: RE01 With WACC Support Through CT-Bar

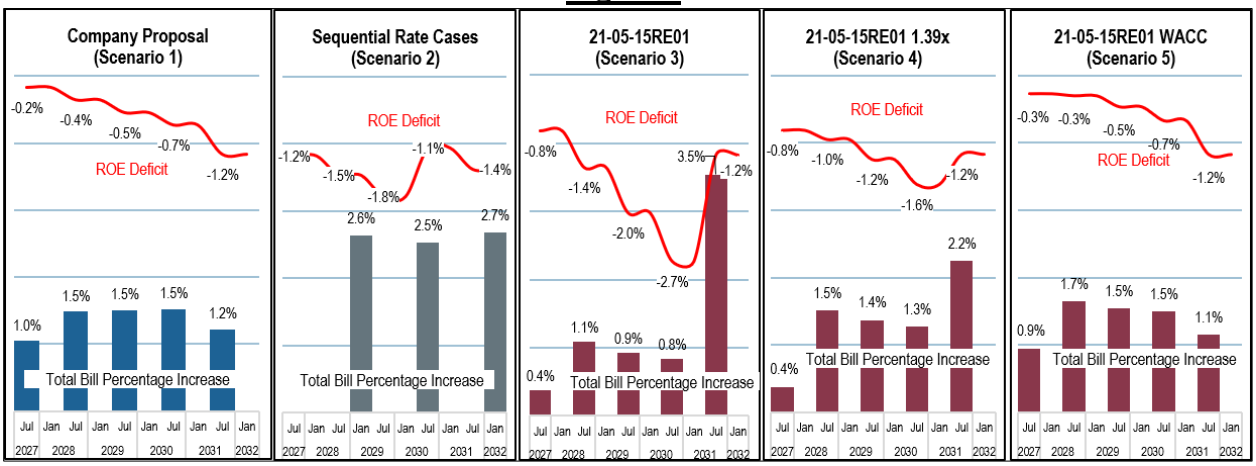
Attachments 6 and 12 test whether providing WACC-related revenue support through CT-Bar materially reduces the deficiency produced by RE01 Unmodified without increasing revenue through I-X (using the X factor of 0.03%). The financing requirement is not separate from the cost of making core investment. Capital has a cost, just as the labor, materials and equipment used to construct the investment have costs, and that cost exists while the capital is committed. CT-Bar (as modified) would support the financing requirements associated with that core investment while preserving the reconciliation and prudence review contemplated by the framework.

With that change, the Rate Year 4 deficit falls to approximately 67 basis points when capital investment is 5 percent above forecast and 34 basis points at forecast capital, close to the 73- and 40-basis-point deficits under the Company's proposal. The similarity of those results demonstrates that capital-financing support accounts for a substantial part of the larger RE01 Unmodified deficiency without eliminating financial exposure. As core investment accumulates, leaving that financing requirement unsupported does not create an ever-stronger efficiency incentive. The financial pressure instead becomes increasingly disconnected from something management can improve through performance, making the stay-out itself progressively less achievable.

What the Comparisons Demonstrate

The individual scenarios show how each framework operates. Their broader significance becomes clearer when the customer and Company outcomes are brought together. Figure 1 presents the customer total-bill impacts and Company ROE deficits when capital investment is 5 percent above forecast. The underlying costs and investment requirements are the same in each framework. What changes is how those requirements translate into customer rates and financial pressure on the Company over course of the stay-out period.

Figure 1

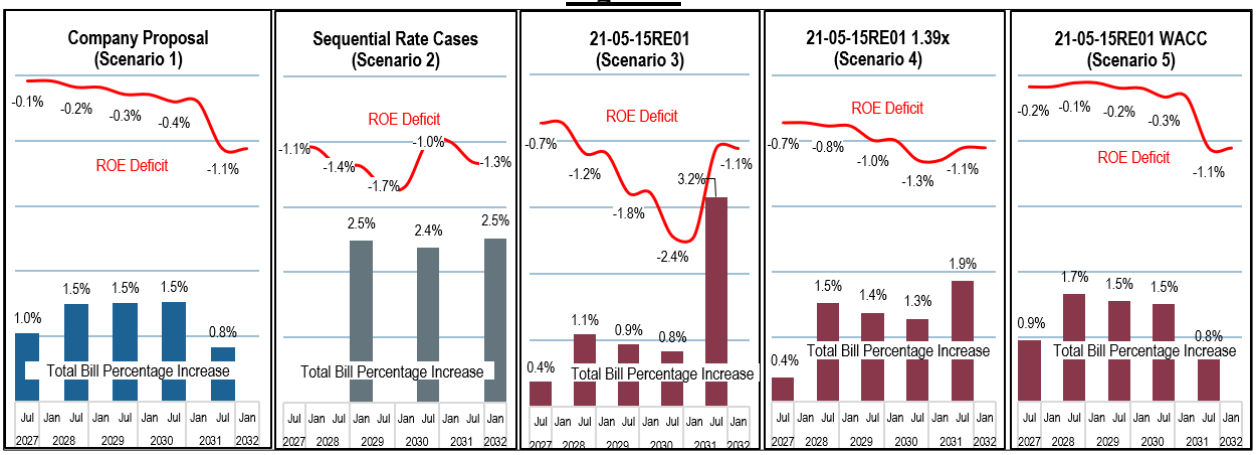


Under the higher-capital assumption, the Company's proposal produces the smoothest progression of customer impacts and a Rate Year 4 ROE deficit of approximately 73 basis points. Traditional ratemaking produces larger and less frequent customer adjustments and requires repeated rate proceedings. RE01 Unmodified produces a Rate Year 4 deficit of approximately 273 basis points while customer impacts become increasingly uneven. Increasing the X-Factor reduces the deficit to approximately 162 basis points through additional I-X revenue, while WACC-related support through CT-Bar reduces it to approximately 67 basis points. Greater financial pressure on the Company does not necessarily translate into a more stable customer outcome.

The additional investment must be made and financed under every framework. Yet materially reducing the RE01 Unmodified deficiency does not require eliminating financial exposure. Figure 1 therefore sharpens the distinction that runs through the individual scenarios. The question is not simply how much financial pressure a PBR framework imposes, but whether that pressure arises from matters management can reasonably influence through performance, and whether greater pressure actually produces a better customer outcome.

If the differences in customer impacts and projected ROE deficits were principally the result of assuming capital investment five percent above forecast, returning investment to forecast should materially change the relationship among the frameworks. Figure 2, below, shows that it does not.

Figure 2



At the forecast capital level, the Company's proposal produces a Rate Year 4 deficit of approximately 40 basis points. RE01 Unmodified produces a deficit of approximately 244 basis points, the -1.39 percent X-Factor reduces it to approximately 130 basis points, and WACC-related support through CT-Bar reduces it to approximately 34 basis points. The relative results across the frameworks do not materially change whether the capital plan is as forecast or 5 percent higher. That persistence matters. Higher investment magnifies the differences, rather than creating them.

Financial pressure associated with cost changes can create an incentive to perform better through cost management strategies. As more of the deficiency instead arises from financing necessary core investment, better performance has progressively less ability to change the outcome. A PBR framework should place attainment of the authorized return at risk, but efficient performance must leave a reasonable opportunity to earn it. Once that relationship breaks down, additional financial pressure does not strengthen the incentive. It makes the stay-out less achievable and eliminates the customer benefits enabled and promised by PBR.

Customer impacts complete that picture. Rate stability cannot be measured only during the stay-out. Deferring revenue support can reduce the immediate customer impact without reducing the underlying cost, leaving a larger adjustment when rates are ultimately rebased. Pushing costs forward in time does not itself create affordability. Connecticut customers experienced that dynamic during the 2022–2024 RAM period, when prior under-recoveries contributed materially to the large 2024 RAM rate change. A durable PBR, therefore, should create rate stability through *sustainable* design, not principally by building a larger adjustment for customers later.

The durability of the framework also matters outside these calculations. Moody's has stated that more predictable decisions that "enhance the timeliness of the recovery of costs and investments" could support an upgrade, while Fitch has indicated that the recent storm decision "may signal improving regulatory conditions in Connecticut."[3][4] Neither selects a PBR design for PURA. Both reinforce why a framework intended to govern the Company for several years must remain financially credible as those years unfold.

The benefits of a multi-year stay-out depend, fundamentally, on the Company's ability to remain in it. The stay-out is not merely the period between rate cases. It is the period in which the incentive operates. A framework that makes the stay-out progressively unachievable does not create a stronger incentive. *It shortens the period in which the incentive can work.*

The Company's PBMRP is designed to preserve the incentive over the full stay-out. It preserves consequences for performance without making efficient performance beside the point, supports the core investment customers require without converting the plan into a cost true-up, and avoids creating the appearance of near-term rate stability by simply moving an accumulating cost obligation into the future. The test of a four-year framework is not simply whether the Company can enter the stay-out. It is whether the framework can preserve the incentives, financial integrity

---

[3] Moody's Ratings, Connecticut Light and Power Company: Update to Credit Analysis (June 30, 2026), p. 2.

[4] Fitch Ratings, The Connecticut Light and Power Company (Sept. 15, 2026), p. 2

and customer benefits necessary for the Company and its customers to successfully reach the end of it and to realize the benefits promised by PBR as a framework.