Date Filed: October 06, 2026

Witness: Douglas P. Horton
Request from: Office of Consumer Counsel

Question:

(Capital support mechanism) PURA defined six calculation steps for the CT-Bar as outlined in the 2021-05-15RE01 Proposed Final Decision. Compare the Company's proposed F-factor with each of the six steps of the CT-Bar calculation methodology, indicating where and when the proposed step has or will occur in the Company's approach to the present proceeding. For each of the six CT-Bar calculation steps, explicitly name the different approach that the Company plans to employ in calculating going-in rates and the proposed F-Factor. In the response, specifically include the following:

a. Identify when and how the amount of total depreciation expense associated with capital projects placed in service as of the end of the evidentiary record will be included in going-in rates (i.e., step 3);

b. Identify when and how the forecasted capital additions will be reduced by the value of the depreciation expense in Step 3; and,

c. Identify all CT-Bar calculation steps that are absent from or inconsistent with the Company's proposed F-factor approach.

Response:

Please refer to the Company's performance-based revenue formula filed in its response to interrogatory EOE-156 as Attachment 1. For the F-Factor calculations, specifically, please refer to worksheets "PBR-4 F-Factor," which includes the development of F-Factor rate base as well as the corresponding calculations of depreciation expense and required pre-tax return on rate base, and "PBR-5 F-Factor Property Tax."

As an initial matter, the Company notes that, aside from *its own* analyses and models filed throughout the technical sessions of Docket No. 21-05-15RE01, there is no publicly available working CT-bar model with which the Company, or any other party, can estimate CT-bar outputs with precision. Put differently, no publicly available working model demonstrates the calculations contemplated for the CT-bar other than those developed by the Company. Specifically, the only calculations available are those developed by the Company to advance discussion in Docket No. 21-05-15RE01, as well as the highly simplified, non-working "Hypothetical Representation" presented in Table 2 of the proposed final decision ("RE01-PFD"), at pages 38-39. Accordingly,

the Company's response to this interrogatory is based on its extensive involvement in Docket No. 21-05-15RE01, including the Company's K-bar calculations that preceded the CT-bar, and the Company's good-faith efforts to translate the narrative description of CT-bar in the Revised Straw Proposal dated February 27, 2025 into working calculations, such as those filed in response to interrogatory UPA-076 in that proceeding. The Company genuinely evaluated the CT-bar as initially outlined in the Revised Straw Proposal and provided a baseline model (UPA-076 in that proceeding) that captured CT-bar concepts and served as the foundation for discussion during subsequent technical sessions.

In the discussion below, "Steps 1-6" refer to the CT-bar methodology as outlined in the PFD. Step 1 also encompasses the broader discussion of the "Capital Plan" and "Non-Capital Plan" distinction described in the PFD.

Step 1

Step 1 of CT-bar is a historical review of actual investment placed in service, separated into two categories: "Capital Plan" and "Non-Capital Plan." The purpose of this step is to establish an average level of plant additions that were not anticipated in the Capital Plan for possible inclusion in subsequent revenue-requirement calculations. The example provided in the RE01-PFD for "Non-Capital Plan" additions is "unplanned storm." Because the "Capital Plan" contemplated by CT-bar is a project-by-project listing of anticipated capital investment, "Non-Capital Plan" additions necessarily relate to investments not identified by project.

The Company's F-Factor proposal does not make this distinction. As the Company explained in Docket No. 21-05-15RE01, some projects cannot be planned with precision. For example, it would be impossible for the Company to perfectly predict Emergent Failures. The Company cannot predict which specific pole or cross-arm will fail. The Company can, however, reasonably forecast a volume and severity of such failures based on system conditions and recent experience. The Company views the distinction between "Capital Plan" and "Non-Capital Plan" as unnecessary for two reasons.

→ All capital investments, whether planned, unplanned, "Capital Plan," or "Non-Capital Plan," ultimately must pass a prudence review. This critical gate -- successfully demonstrating prudence -- is and should remain the ultimate determinant of recovery regardless of whether a particular investment was forecast in advance.

→ The Company is proposing a hard cap on core capital investment eligible for the F-Factor based on the capital forecast presented in this proceeding. By doing so, the Company can provide up front, during this proceeding, indicative revenue-support levels necessary to conduct the capital plan, while committing to cap the resulting

revenue increases during the PBMRP, even if actual capital investment exceeds the forecast. This approach reflects the reality that system needs are dynamic. Rather than distinguishing between "Capital Plan" and "Non-Capital Plan," the Company's F-Factor considers capital investment in the aggregate, allowing the Company to deploy resources as efficiently as possible and to respond to emergent system conditions that are inevitable for any utility operation, while balancing affordability and other considerations for customers.

Step 2

Step 2 of CT-bar is to determine the amount of capital investment expected to be placed in service during a given period. The Company's model filed in response to EOE-156 utilizes the capital investment forecast presented in this proceeding. For purposes of this response, the Company refers to its discussion of the TSP for details regarding those investments. Here, the Company is addressing the mechanics of the capital forecast rather than the forecast itself.

Specifically, in EOE-156, Attachment 1, worksheet "COS-2 Capital," the sum of Lines 19 and 26 for a given calendar year equals the total capital investment shown in Exhibit CLP-ELP-1, Figure 7.

Whether or not these steps are similar to CT-bar, three points are important.

→ The capital investment forecast used for the F-Factor is the same forecast discussed elsewhere in this proceeding as necessary to achieve the objectives described in the TSP.

→ Each annual F-Factor filing includes a reconciliation of cumulative capital investment placed in service through the calendar year-end preceding the filing, including a prudence review. Thus, regardless of any differences in methodology, customers ultimately pay only for investment found prudent through that review.

→ Because the F-Factor includes a hard cap based on the current capital investment forecast, the annual reconciliation is necessarily downward-only. Accordingly, if the Company places more plant in service than currently forecast, the reconciliation will not adjust revenues upward even if those additional investments are ultimately found prudent.

Mechanically, the flow of eligible capital investment through the F-Factor is shown in EOE-156, Attachment 1, worksheet "PBR-4 F-Factor," as the sum of Lines 28 and 36.

Step 3

Step 3 of CT-bar reduces the level of capital investment eligible for revenue support by depreciation expense reflected in base rates. CT-bar incorporates this effect as a reduction to gross plant, which is the amount of new depreciable plant. The net effect of this treatment is understated incremental depreciation expense.

The Company's F-Factor incorporates the effect of depreciation on capital-driven revenue requirements consistent with standard accounting treatment, as shown in EOE-156, Attachment 1, worksheet "PBR-4 F-Factor," Lines 33 and 34. Line 33 specifically reflects the amount of depreciation accumulating in rate base and is responsive to subpart (b) of this interrogatory. This is where ongoing depreciation expense appropriately influences the cost of service, consistent with subpart (a) of this interrogatory. By contrast, the CT-bar approach effectively reduces incremental gross plant additions (i.e., the amounts shown on Line 28), which understates the resulting depreciation expense.

Stated differently, the Company's F-Factor proposal does not mirror CT-bar's application of depreciation expense because CT-bar applies depreciation as a reduction to gross plant, which is an improper order of computation. However, the Company's F-Factor proposal remains consistent with the *intent* underlying CT-bar Step 3, namely the incorporation of depreciation into capital-related revenue requirements. Although different from the CT-bar, the F-Factor is more accurate and results in lower rate base and return than what was contemplated in the CT-bar.

Step 4

As described above, the Company makes no distinction between "Capital Plan" and "Non-Capital Plan" investments and already incorporates a downward-only annual reconciliation of plant placed in service. Accordingly, CT-bar Step 4 is not applicable to the F-Factor.

Step 5

Step 5 of CT-bar contains certain reconciliation concepts that also exist within the Company's F-Factor proposal, including downward-only adjustments. However, the F-Factor is conceptually simpler because it does not distinguish between "Capital Plan" and "Non-Capital Plan" investments.

Under the F-Factor, the downward-only reconciliation is based on a prudence review (or the reality that the Company were to spend less than forecasted, such that actual plant additions are lower than the amount initially included in setting the F Factor) and consists of a straightforward comparison between: (1) cumulative capital investment determined to have been prudently incurred; and (2) cumulative capital investment reflected in this proceeding. Accordingly, the reconciliation reaches two straightforward conclusions, which are: (1) whether the capital

investment was prudently incurred; and (2) whether that prudent investment exceeds, in aggregate, the investment forecast presented in this docket. If prudent investment exceeds the forecast, the F-Factor remains capped at the forecast level even though the investment was determined to be prudent.

By contrast, CT-bar Step 5 requires comparison of "Capital Plan" and "Non-Capital Plan" investments, a distinction that does not fully reflect the dynamic nature of distribution system needs. Moreover, Step 5 includes vague references to downward-only adjustments for capital investment PURA may deem "non-essential" (as opposed to *imprudent*) or capital additions that "can be delayed." The Company's F-Factor proposal includes no comparable adjustments. Instead, it relies on the prudence review process and the hard cap discussed above. See also the Company's response to OCC-423 for additional discussion of the relationship between CT-bar and the F-Factor.

Step 6

Step 6 of CT-bar is the calculation of the resulting revenue requirement. Under the Company's proposal, these calculations are performed in EOE-156, Attachment 1, worksheet "PBR-4 F-Factor," Lines 48-53, and worksheet "PBR-5 F-Factor Property Tax," Line 42. The summarized results are presented in worksheet "PBR-3 F-Factor Summary," Lines 17-23.

With respect to subpart (c), as demonstrated in the model filed in EOE-156, the Company's F-Factor proposal provides a truer calculation of the revenue requirements associated with capital investment, that is, one more closely aligned with actual capital-driven costs of service. Unlike CT-bar, the F-Factor explicitly incorporates the effects of plant retirements, cost of removal, and accumulated deferred income taxes ("ADIT").

CT-Bar Step	F-Factor Treatment
Step 1	The F-Factor makes no distinction between Capital Plan and Non-Capital Plan investments.
Step 2	The CT-bar and F-Factor use a comparable forecast of capital additions.
Step 3	For the F-Factor, depreciation is not applied as a reduction to plant additions; instead, depreciation is correctly captured by deducting accumulated depreciation from rate base
Step 4	N/A (the F-Factor does not distinguish between Capital Plan and Non-Capital Plan additions).

Step 5	Modified. F-Factor reconciliation is based on a prudence review and hard cap rather than Capital Plan/Non-Capital Plan comparisons and "non-essential" investment determinations.
Step 6	The CT-bar and F-Factor have a comparable revenue requirement calculation, although the F-Factor properly incorporates plant retirements, cost of removal and ADIT.