Date Filed: September 03, 2026

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

Question:

Exhibit CLP-ELP-1 Please describe how the proposed process for recovering incremental investments in a subsequent base rate proceeding or successor PBMRP Term if actual capital spending exceeds the forecasted amount will support utility cost containment. Please describe the Company's proposed process for review of excess incremental investments in a subsequent base rate proceeding or successor PBMRP term.

Response:

For clarity, the Company does not expect to recover "actual capital *spending* [that] exceeds the forecasted amount …" (emphasis added). The Company is requesting to recover the costs of actual plant additions that are used and useful for customers, not "capital spending," which the Company views as an important point because this is how ratemaking works, i.e., plant additions that are used and useful and are not yet included in rates, are then recoverable in the next base-rate proceeding. The purpose of a capital cost recovery allowance during the PBMRP is to provide a level of revenue support during a stay-out period as part of the integrated set of incentives inherent in a PBR framework.

Further, a cost-recovery framework that, by design, cuts-off any recovery of the costs of actual plant additions that are necessarily incurred for the purpose of providing electric service and are used and useful for customers (i.e., a flat disallowance without a prudence review) would violate legal principles and would likely have the effect of simply discouraging the overall level of investment to begin with.

The Company's proposal for capital cost recovery is designed to provide revenue support for a set amount of actual plant additions during the PBR term, creating a "stretch" incentive to the extent that actual plant additions exceed the allowance established by the PBR plan. With capped recovery of the cost of actual plant additions, the inherent incentive is to control capital costs rigorously because only plant additions up to the cap will be eligible for recovery during the PBR term. Lagged recovery will apply to the capital additions completed above the cap and recovery will not occur until the next time rates are set (after the stay-out term), creating downward financial pressure on the Company to carry those completed investments until the next rate case. For example, with the stay-out applicable under the PBR plan, plant additions in excess of the capped amount will continue to depreciate, creating real loss for the Company through unrecovered depreciation expense and a lower net book value added to rate base in the next rate case.

In addition, at the time of the next rate case or successor PBMRP term, the Company's plant additions will be subject to a prudence review before being allowed to be included in rate case, consistent with ratemaking practice. There would be no special treatment for those plant additions. The plant additions would be included in rate base, subject to the prudence review, at the net plant (depreciated) value applying at that point.

Thus, the Company is not proposing to change the manner in which those investments are reviewed for prudence as part of a general rate case proceeding or successor PBMRP term, other than the fact that the Company anticipates that if the Company's proposed PBMRP is adopted in this proceeding, PURA may elect to conduct prudence reviews of capital additions during the pendency of the PBMRP term rather than waiting until the next rate case to conduct such a review. However, this does not change the fact that the Company will still be incentivized to contain its costs to the greatest extent possible during the PBMRP.

Please note that the Company's core capital investment forecast provided in this proceeding does not include amounts necessary to support Advanced Metering Infrastructure (AMI). The capital investment supported by the Company's proposed F-Factor would need to be modified to include amounts for AMI, if AMI is ultimately approved.