Date Filed: September 03, 2026

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

Question:

Exhibit CLP-REVREQ-1 Please explain in detail why the Company proposes to include forecasted capital additions through the end of the Rate Year in going-in rates rather than establishing plant-in-service and accumulated depreciation for inclusion in base rates as of the close of the evidentiary record, with pro forma additions, retirements, and adjustments through that date, as included in the Docket No. 21-05-15RE01 Proposed Final Decision. Please also explain what mechanisms the Company will use to ensure that the same capital investment is not recovered through both going-in rates and the F Factor. Please explain how the Company's proposal affects customer affordability and rate stability compared with limiting going-in rates to plant-in-service as of the evidentiary record cutoff and recovering subsequent incremental capital through the F Factor.

Response:

Please note that the Company has included alternative proposals for the treatment of plant additions from the cut-off date adopted by PURA in this proceeding for inclusion in rate base, through the end of the first Rate Year. One alternative would include those plant additions in base rates as forecasted Rate Year plant additions, and the other alternative would address these plant additions through the F-Factor in the identical manner that PURA's (draft) CT-Bar addressed rate year plant additions.

Thus, as filed by the Company, the Company's proposed forecasted capital additions align with the end of the Rate Year for going-in rates. By forecasting capital additions through the end of the Rate Year, the Company's rates and resulting revenues will be set at an appropriate level providing the Company with an opportunity, but not a guarantee, to earn its allowed rate of return in the Rate Year.

Alternatively, to the extent that capital additions are cutoff as of the close of the evidentiary record, the Company's Performance Based Mult-year Rate Plan ("PBMRP") framework would provide for continuing revenue support by including the capital additions starting from the first day after the cutoff date through the first year of the PBMRP term with the reconciliation through PURA's annual RAM proceedings.

These are not meant to be duplicative adjustments. The Company has included these two alternative so that PURA has an evidentiary record to support its policy decision one way or the

other. The Company is neutral to whether Rate Year capital is included as an adjustment to base rates or is contemplated by operation of the F-Factor, as it was under the CT-Bar construct. However, for evidentiary purposes, the Company needed to include both potential outcomes in its filing in this proceeding.

Ultimately, the Company's PBMRP proposal is a revenue framework that, when used in conjunction with the Company's going-in rates as filed, balances the revenue necessary to support the system investments needs for the next several years with cost containment and rate stability. If PURA declines to incorporate rate-year capital additions into base rates in this proceeding, the F-Factor taking effect on July 1, 2027, would reflect the revenue requirement for the period July 1, 2027 through June 30, 2028 on capital additions placed in service (or estimated to be placed in service) from the point in time where PURA cuts off capital for inclusion in base rates and through June 30, 2028.

The PBMRP framework more effectively aligns regulatory objectives with incentives for operational efficiency than traditional cost-of-service regulation. There are tangible benefits that customers gained from this type of rate structure, stabilizing rates for customers so that rate changes are smaller and easier to adopt to, as compared to a base rate change that would have to incorporate all of the capital investment all at once. The inflationary component of the proposed PBMRP mechanism applies only to the Company's O&M costs, while the Company is proposing a separate funding mechanism for capital investments. The capital support mechanism (or "F" Factor) is based on a fixed annual capital investment level for each year of the PBMRP term. The fixed annual investment level will be set at the Company's capital forecast, as approved in this proceeding.

During the Company's annual PBMRP compliance filing, actual plant additions placed in service during the applicable plan year will be reconciled against the approved forecast to ensure that the Company has placed plant in service at least to the level forecasted in this proceeding and established in the F-Factor the prior year. If the Company has lower plant additions than the budget (established as a cap in this proceeding) the subsequent F-Factor will reflect a downward-only reconciliation for this purpose. In the event the Company's actual capital spend exceeds the forecasted amount approved in this proceeding, the Company will be limited to the forecasted capital approved. The Company's proposed capital funding mechanism sets a defined cap on revenue support for capital investment during the plan term, providing customers with greater rate certainty. At the same time, the hard cap on capital investment supported by the F-Factor incentivizes the Company to deploy its capital resources in the most efficient manner possible because any investment over the cap would have no means of recovery until the next multi-year rate plan. Considering the Company has proposed a four-year term, any capital investment in excess of the hard cap (excluding capital investments specifically required or mandated that would be treated outside operation of the F-Factor) would not begin recovery until July 1, 2031 at earliest. In the meantime, the Company would bear the costs of those capital investments.

The Company's proposed F-Factor ultimately relies on actual plant placed into service that has undergone the scrutiny of a prudence review. The Company's proposed F-Factor includes the cumulative investment the Company has made since the cutoff date for investment reflected in base rates resulting from this proceeding. Thus, whether plant additions allowed into base rates is cutoff at December 31, 2026, March 12, 2027, or as reflected in the Company's filed cost of service, the F-Factor inherently accounts for that change.

The Company's filed cost of service represents the cost of providing electric service to customers during the rate year, inclusive of the investments necessary to be made during the rate year. Those investments made during the rate year are part of the cost of providing service during the rate year, regardless of whether those investments have yet been deemed prudent. That is, a finding of prudence does not mark the start of the cost incurrence. Therefore, the Company's filing in this proceeding for revenues effective July 1, 2027 is aligned with the Company's cost of providing electric service over the same period. However, with any PBR plan there is a transition from or to alternative ratemaking constructs, as is the case in Connecticut. The Company's proposed F-Factor reflects cumulative investment back to the cutoff date for investment in base rates, subject to the cap described above. To the extent those rate year investments are excluded from base rates, the F-Factor's allowance would adjust accordingly. Therefore, the net impact, both to the Company as well as to customers, is the same whether rate year capital is supported in base rates or the Company's proposed F-Factor. However, as stated above, the Company's base rate filing in this docket is intended to reflect the cost of service during Rate Year 1, which necessarily reflects investments during the rate year. This formed the basis for including those investments in the Company's base rate filing.