Date Filed: October 07, 2026

Witness: Douglas P. Horton
Request from: CLF and Acadia Center

Question:

(Performance-based Regulation) Refer to Exhibit CLP-PBR-1, pages 69-71.

(a) Please confirm whether or not the Company's proposed capital funding mechanism includes any return on investment (i.e., weighted average cost of capital) on capital additions during the PBMRP term prior to a prudency determination in a subsequent rate case.
(b) If the answer to CLF-AC-4(a), is yes, quantify the amount of return on investment included in the Company's requested revenue requirement for each Rate Year attributable to capital additions that have not yet been found prudent. Please provide all workpapers used to determine this amount.
(c) Explain whether this treatment in CLF-AC-4 (a), and (b), is consistent with the RE01 2025 PFD's declaration that the CT-Bar "does not include any return on investment ... on the incremental CT-Bar plant additions (as stated in Docket No. 21-05-15RE01, Proposed Final Decision, July 2025, at pages 36-37)" until a prudency finding.

Response:

(a) The Company's proposed F-Factor mechanism provides a revenue allowance that is appropriately calibrated to support the Company's cost directly resulting from the system investments necessary to achieve the performance and clean energy objectives for the state of Connecticut. The allowance does include revenue to cover the costs of capital, which are real costs of service, the same as any other. The Company's proposed F-Factor provides a revenue allowance based on the calculated revenue requirement established initially based on the projected capital expenditures for each year of the F-Factor mechanism established in this proceeding. Under the Company's proposal, the PBMRP (inclusive of the F-Factor adjustment) will go into effect annually on July 1 of each year based on the forecast described above, subject to a downward only reconciliation of capital investments to the forecasted investment provided in this proceeding. To the extent the Company does not place into service the level of system investment supported by the F-Factor allowance, or in the event that PURA determines any of the actual capital additions are not prudently incurred and appropriate for recovery, the F-Factor proposal incorporates a downward-only adjustment to reduce the authorized revenue requirement (i.e., to reflect the revenue requirement that would have been reflected in the F-Factor, had the reduced plant in service been reflected in the F-Factor initially) such that any funds owed to

customers would be returned thus ensuring that customers ultimately pay only for the costs of the capital that enabled the system investment actually in-service. This downward-only adjustment is in place to ensure that if the Company invests less capital than is initially reflected in the F-Factor allowance for a given period, or if PURA subsequently disallows recovery of a project (or projects) such that the actual plant in service is less than that assumed in the initial F-Factor allowance, customers will not pay more than what is actually in service and prudently incurred to serve them. Conversely, if the Company invests more than assumed in the F-Factor allowance, no such upward adjustment is contemplated to reflect the higher revenue requirement incurred by the Company. No aspect of the Company's proposal circumvents prudence reviews or accountability, rather the Company's proposal aligns the system investments outlined in the TSP with the revenues necessary to support those investments, including the cost of capital.

(b) As noted above, the Company does not view the F-Factor as providing a return on investment prior to PURA's prudency review of the underlying capital additions, since any amounts initially included in the F-Factor allowance will ultimately be reconciled to the customer's benefit if those costs are ultimately found to be imprudently incurred and thus not recoverable from customers.

Saying that, the calculation of the F-Factor allowance does include the cost of capital, including return on equity investment, as described above and elsewhere in this proceeding. The Company has summarized the return necessary for incremental system investment in Table 1 below, taken from CLF-AC-004, Attachment 1, Lines 12-14.

Table 1

Return on Incremental Rate Base	Rate Year 1 7/1/2027	Rate Year 2 7/1/2028	Rate Year 3 7/1/2029	Rate Year 4 7/1/2030
Incremental Average Rate Base, $ Millions	$346	$353	$376	$400
Pretax Percentage Return on Rate Base	9.04%	9.04%	9.04%	9.04%
Pretax Return on Rate Base, $ Millions	$31	$32	$34	$36

(c) No. As described above, the Company's proposal is intentionally inconsistent on this point with the CT-Bar approach described in the Docket No. 21-05-15RE01 proposed final decision.

The CT-Bar construct described in the RE01-PFD excluded recovery of financing costs associated with incremental system investment, which are essential in the provision of electric service to customers, until a subsequent prudence determination. The Company's proposed F-Factor does not adopt that approach because the CT-bar did not reflect the economic reality that financing costs are incurred when investments are made and placed in service, not when a future prudence review occurs.

The fundamental flaw in the CT-Bar approach is that it would require the Company to undertake significant capital investments on behalf of customers while barring recovery of the financing costs necessary to support those investments. In effect, the utility would be expected to provide capital for an extended period of time without any underlying means of sustainably covering the cost of that capital. Such a construct is inconsistent with basic regulated ratemaking principles, regardless of the framework, and creates a structural inability to finance sustained investment during a multi-year rate plan.

The Company's proposal recognizes this reality while preserving all customer protections. The F-Factor includes a downward-only reconciliation mechanism that returns revenues to customers, with carrying charges, if the Company is unable to place into service the level of investment forecasted today. PURA also retains its full ability to review the prudence of utility investments and disallow costs upon a finding of imprudence. Accordingly, the Company's proposal neither circumvents prudence review nor does it shift risk inappropriately to customers. Rather, it provides a reasonable mechanism for aligning revenues with the financing requirements associated with the investments the Company is expected to make during the PBMRP term.

The distinction between the two approaches is therefore straightforward. The CT-Bar construct outlined in the RE01-PFD intentionally ignores the unavoidable financing costs of the system investment necessary to achieve the performance objects of the PBR plan, whereas the F-Factor recognizes that financing costs are incurred contemporaneously with the investment activity they support while preserving subsequent prudence review and customer protections.