Date Filed: October 02, 2026

Witness: Douglas P. Horton, Edward A. Davis and Kimberly R. Parsons
Request from: UCONN

Question:

(Performance Based Rates) Refer to Exhibit CLP-RATES-3 at p. 192 indicating that the Performance-Based Multi-Year Rate Plan ("PBMRP") Rider is authorized for a four-year term starting July 1, 2027.

a. For each of Rates 55-58, please provide the annual projected billing impact of the PBMRP Rider for each year of the proposed four-year PBMRP term. If no such projected annual rate impact analysis was conducted, please explain why.
b. provide the projected annual and cumulative percentage change in total delivery rates for each of Rates 55, 56, 57, and 58 for each year of the PBMRP term, attributable to the combined PBMRP adjustments (I-X, F-Factor, Consumer Dividend, earnings sharing mechanism, and any other anticipated adjustments).
c. State all assumptions used in preparing the projections.

Response:

Please refer to AMTRAK-012, Attachment 1. Each tab provides illustrative incremental distribution increases for the rate-year specified, based on the Company's proposed PBMRP. Lines 42, 44, 46, and 48 provide Rate 55, 56, 57, and 58, respectively. Column L provides the incremental distribution revenues, while column AU provides the annual percentage increase presented on a total bill basis. For ease of reference, the Company has summarized the requested amounts in UCONN-19, Attachment 1.

a. Per UCONN-19, Attachment 1, Lines 5-8 provides incremental revenues and annual percentage changes for each of the requested rates. Column F provides the incremental distribution revenue for Rate Year 2, while Column G provides the corresponding annual percentage total change. Column I and Column J provide the incremental distribution revenue increase and percentage increase in total, respectively, for Rate Year 3. Column L and Column M provide the incremental distribution revenue increase and percentage total increase, respectively, for Rate Year 4.

b. Lines 15-18 provide the corresponding cumulative amounts for each of the rate years. Finally, Column O provides the annual average percentage increase, which is approximately 1.2% for each of Rate 55 and Rate 56, and 1.0% per year for each of Rate 57 and Rate 58.

c. Please refer to the Company's response to data request EOE-156[i], which provides the model and discussion related to the increases referenced in parts a and b above.

Prior Referenced Response:

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[i] EOE-156 Question:

(PBMRP CAPITAL SUPPORT MECHANISM) Refer to Exhibit CLP-ELP-1, pp. 101-103. Provide a working, unlocked Excel spreadsheet that would serve as a representative tool used to calculate the Company's incremental revenue requirements resulting from the proposed capital support mechanism (F-Factor) for each year of the MRP. As part of the submission, discuss the calculations and separately identify and explain all critical assumptions, using cited information from the Company's rate case submission where relevant (e.g., depreciation rate from the Company's depreciation study). In support of the request, please use the Company's proposed 5-Year Targeted System Performance (TSP) Plan within the spreadsheet's initial inputs and apply an initial assumption that the Company incurred actual plant-in-service additions of 5% more than the proposed annual TSP funding. Additionally, please configure the spreadsheet to allow for the weighted average carrying costs (WACC) to be individually adjusted for both ROE and Cost of Debt.

EOE-156 Response:

The Company appreciates the opportunity to respond to EOE's thoughtful question regarding the operation of the PBMRP proposed in this proceeding, which the Company views as key to reaching a long-term reliability and resiliency plan for Connecticut, while meeting affordability needs for customers.

The Company's response to this request is organized as follows:

A. Overview and Results

B. F-Factor Discussion

C. Impact of 5% Additional Capital Investment

D. Model overview

Attachments referenced in this response:

EOE-156, Attachment 1, provides the Company's working model, with projected capital investment as filed in this proceeding. See, e.g., Exhibit CLP-ELP-1, Figure 7.
EOE-156, Attachment 2, provides a second model that is identical in every respect to Attachment 1 except that capital investments are 5% greater than the forecast submitted to this proceeding in Exhibit CLP-ELP-1, Figure 7, as stipulated by EOE's data request.

A. Overview and Results

Ultimately, the Company's goal in this proceeding is to establish a sustainable, cohesive ratemaking framework that supports electric utility service in the State of Connecticut in an affordable manner for

customers, over a long term. This is the Company's goal because the CL&P system needs investment for reliability, resiliency and modernization. For this infrastructure investment to be affordable for customers, a coherent ratemaking plan needs to be instituted that will consider the interests of customers over a longer term than just the next rate case. That framework needs to balance: (1) the reliability and performance requirements of the Company's customers and the broader State of Connecticut; (2) customer rate stability and affordability;
(3) incentives for cost efficiency in utility operations; and (4) implementation of a revenue support mechanism sufficient to cover the cost of delivering these objectives to customers, including the cost of capital.

The Company's PBMRP is designed to address these objectives in a holistic, balanced way. To do this, the Company started with the ratemaking framework under discussion in PURA's PBR docket (Docket No. 21-05-15RE01), while also introducing certain new elements to remediate the flaws that would ultimately hinder PURA's (draft) PBR model from supporting the necessary stay-out terms. As discussed below, the stay-out term is the critical element of the PBMRP that creates the cost-efficiency incentive inherent in a performance based ratemaking plan.

This context is vital to understand both the design and mechanics of the Company's proposed PBMRP, including both the F-Factor and "I-X" components. To augment understanding of how the plan would work over the stay-out period, the Company has incorporated the projected costs of service set forth in EOE-156, Attachment 1, Worksheet, entitled "COS-1 Total," which is the Company's cost of service, as filed. The Company does not intend to imply that these dollar amounts are certain for the future and there will undoubtedly be changes in a litigated result. However, these figures serve as a reasonable basis for presenting this analysis to reflect the Company's PBMRP proposal. Moreover, assuming that there will be changes to the underlying cost of service that serves as the "going in revenue requirement," all of the projections made herein become highly optimistic, as discussed below.

Increasing capital investment on the Connecticut distribution system is a given for the reasons described in the testimony of the Company's Leadership Panel and Targeted System Plan ("TSP") Panel – the Connecticut distribution system needs additional investment to maintain service reliability to customers and even more investment to achieve a level of modernization. The Company will need to make this investment to meet the interests of customers, with or without a multi-year plan. However, *without a multi-year rate plan*, whether in the form of the Company's proposed PBMRP or another reasonable model, the Company's only viable course of action to support this level of needed investment will be to file traditional cost-of-service rate cases, as closely to annually as possible. Effectively, these sequential cases will "roll in" unrecovered capital investment into base rates to maintain a nexus between what the Company needs to invest in the system and what rates are reflecting for recovery of costs.

In a world in which system investment needs are relatively flat, economy-wide inflation is modest and predictable at 2% annually, and rates are fully coupled with growing sales revenues (and no revenue decoupling mechanism), it is conceivable that a utility *could* offset the cost increases it incurs with organic sales growth, as electric utilities could do in past decades. However, that is not the reality of today's operating environment. The distribution system investment needs are extensive and growing and the financial consequences of these circumstances are factors that need to be considered in determining a reasonable and workable regulatory plan. Establishment of a reasonable multi-year, performance-based ratemaking plan is the mechanism that can support the system needs in a manner that is wholly transparent and stable for customers, allowing for a smoother trajectory of rate changes than would otherwise occur.

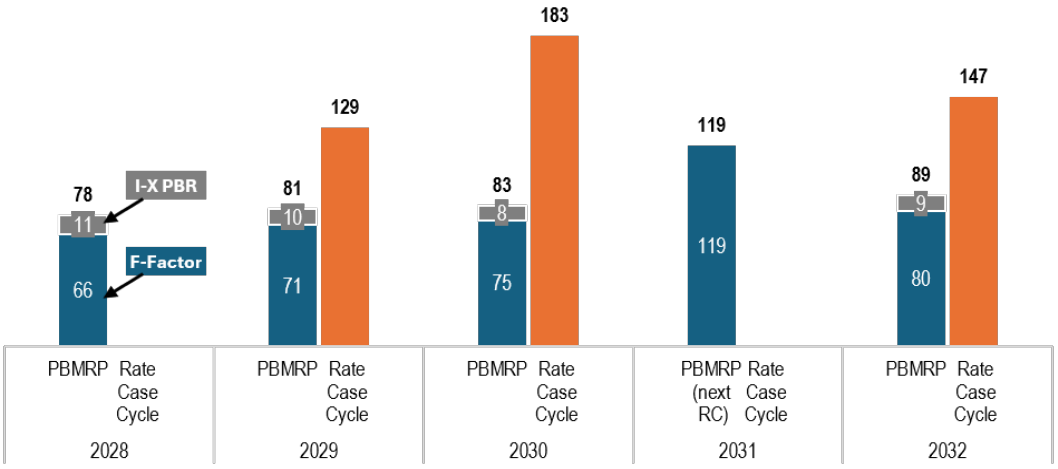
<u>Results of F-Factor Implementation Assuming Capped Forecast Investment</u>

EOE-156, Chart 1, below, provides illustrative rate increases comparing circumstances where the Company is pursuing a traditional rate-case cycle with filings as close to annually as possible under Connecticut law, as compared to the proposed PBMRP. These amounts assume the Company's revenue requirement proposed in this docket is authorized *without modification*, except that the Company has used its existing weighted average cost of capital to perform the analysis, in order to isolate the functioning of the F-Factor operation - apart from changes in the cost of capital (i.e., the analysis uses a 9.25% return on equity and 47%/53% debt to equity capital structure). As noted above, the cost-of-service projections are shown in EOE-156, Attachment 1, Worksheet "COS-1 Total," Line 35.

In the absence of a multi-year rate plan, the Company anticipates filing rate cases on a rolling basis, with base rate changes effective January 1, 2029, July 1, 2030, and January 1, 2032. Chart 1, below, also spans the time period covering one year beyond the Company's proposed four-year plan. 2032 is shown for illustrative purposes

EOE-156, Chart 1

Annual Incremental Revenue Increase, $ Millions



Note: Chart 1 assumes base-rate amendments effective 1/1/2029, 7/1/2030 and 1/1/2032.

In Chart 1, a rolling rate-case cycle is depicted as the orange series, with the Company estimating new rates effective January 1, 2029 (18 months after the present docket concludes), with additional revenues of $129 million; followed by another $183 million rate change effective July 1, 2030, and a further $147 million effective January 1, 2032. These rate adjustments arise primarily as a result of capital investment rather than O&M changes, which means that the associated rate changes are reasonably foreseeable and ultimately predictable.

In contrast, the Company's proposed PBMRP would yield revenue increases of $77.6 million for rates effect July 1, 2028, $81.1 million July 1, 2029, and $83 million July 1, 2030 (EOE-156, Attachment 1, worksheet "PBR-1 Total PBRA", Line 41). For purposes of discussion, the Company estimates that the subsequent rate case taking effect after the proposed PBMRP would be $119 million in 2031, followed by $89 million in 2032 assuming continuation of the proposed framework. Uncertainty grows as the timeframe of projections extends, as the Company will inevitably experience cost increases in relation to both operating expenses and capital investment, as time passes. Therefore, the later years (particularly 2031 and 2032)

should be interpreted as illustrative for purposes of discussing the principles and conceptual impacts of the PBMRP and traditional rate case frameworks.

As Chart 1 illustrates, whether through a multi-year rate plan or sequential rate cases, ongoing revenue support is essential to the electric system. Revenue increases for the Company are rate increases for customers, so that a smoother and more predictable customer impact occurs through the Company's PBMRP, which is the fundamental purpose of the PBMRP.

The Company's proposal results in rate increases amounting to approximately 1.5-2.1% on a total bill basis, annually (Line 3). In contrast, a rolling rate-case cycle yields rate increases nearly double at 3.4% (Line 4). Essential to this discussion is that *both* frameworks are designed to roughly track with the cost of service, although the stay-out feature of the PBMRP forces the Company to absorb the risk of deviation from the cost of service given the likelihood that operating and investment costs will increase over the period. The difference is the gradualism of the Company's PBMRP, which results in smoother, more predictable bill changes for customers.

EOE-156, Table 1

Line	Description	2028	2029	2030	2031	2032
	Incremental Revenues ($ Millions)					
1	Company Proposal	77.6	81.1	83.0	118.6	89.0
2	Rate Case Cycle	0.0	129.0	183.0	0.0	147.0
	Annual Increase, % Total Bill					
3	Company Proposal	1.5%	1.5%	1.5%	2.1%	1.6%
4	Rate Case Cycle	0.0%	2.4%	3.4%	0.0%	2.6%

The rolling rate-case cycle is characterized by larger changes that are more disruptive to customers, in addition to being administratively burdensome for all Connecticut stakeholders. Importantly, the Company's PBMRP does not undermine the applicability or efficacy of prudence reviews in terms of establishing a strong incentive for cost control. Under the Company's proposal, prudence reviews can occur annually, preserving accountability and cost-control incentives with increased transparency, as well.

B. F-Factor Operation

At its core, the Company's proposed F-Factor mechanism is designed to provide a revenue allowance sufficient to support the level of capital investment needed by the system, including the cost of capital. Several essential characteristics of the F-Factor mechanism mutually contribute to its viability and potential longevity:

1. **Like the CT-Bar the Company's F-Factor would take effect the first day of the first Rate Year coming out of the rate case, which eliminates the need for Rate Year capital to be embedded in base rates, subject to later downward-only reconciliation**. To the extent capital investment currently factored into the Company's proposed revenue requirement for Rate Year 1 is "rolled back" to an earlier date (for example, to a capital investment cutoff date of February 28, 2027 for inclusion in base rates), the F-Factor revenue-requirement calculation would inherently adjust to reflect capital investment as of that cutoff date.

2. **Like the CT-Bar, the Company's F-Factor does not pre-emptively or categorically exclude any type of capital investment**. The Company regularly makes capital investments that do not directly affect the performance of the electric grid the way utility poles, transformers, lines,

substations, etc. clearly do, but are nonetheless essential capital investments in the provision of service to customers. Capital investments for facilities safeguarding equipment, information technology enabling self-service customer portals, and vehicles needed for transporting materials to work sites are but a few examples of core capital investments that are necessary and, therefore, inform the F-Factor allowance.

3. **Like the CT-Bar, the Company's F-Factor aligns the capital investment necessary for the target performance of the electric grid outlined in the Company's Targeted System Plan, with the revenues required to support those investments.** In developing the F-Factor the Company sought to establish a means of tying the F-Factor revenue allowances to the capital investment forecast that would be discussed extensively in this docket. This allows the focus of the TSP to remain on the system needs and plan objectives while simultaneously acknowledging that those needs and objectives, whatever they may be, require some measure of revenue support. The F-Factor serves as a necessary link between the system needs evaluated in *this* docket and necessary revenues.

4. **The Company's F-Factor properly includes the cost of capital**. If CT-bar is evaluated separately from going-in revenue requirements, no single design factor would guarantee its failure more so than the absence of the cost of capital from its revenue requirement calculations. Though the cost of capital is not visible the way other costs of service are, such as the maintenance cost that keeps an older piece of equipment online or the cost of gasoline in a line truck, it is just as real a cost of service.

   The Company regularly operates with a cash deficit. That is, the cash necessary to support *ongoing* operations exceeds the cash received from customers through bills. The direct result is the Company must secure funds through some other means. Those other means are debt and equity investors: the individuals, banks, corporations and other institutions supplying funds to capital markets. Those entities have choice in terms of the entities to whom they provide their funds, choices that weigh other utility companies, industries, countries and continents, type of security, duration, expected return, the presence (or absence) of dividends, environmental, social, and governance characteristics, and countless other variables against the investor's tolerance for risk. Not surprisingly, the Company cannot expect that investors, facing the choice between the Company and essentially all other investment opportunities, would or should accept zero return in exchange for their funds. Thus, the cost to acquire the funds necessary to perform the ongoing capital investments *required* of the system is real, fundamentally non-zero, and more specifically the Company's cost of capital filed in this proceeding.

5. **The Company's F-Factor captures all elements of the Company's capital investment base, including plant additions, plant retirements, accumulated depreciation, cost of removal, and accumulated deferred income taxes.** The Company's F-Factor calculation fundamentally captures the impact of ongoing depreciation accumulating in rate base, which has the effect of reducing overall revenue requirements. Additionally, the Company's F-Factor calculation inherently captures the reduced revenue requirement resulting from plant retirements and accumulated deferred income taxes, while also incorporating the effect of cost of removal on rate base.

6. **Like the CT-Bar, annual reconciliation of the revenue requirement ensures customers ultimately pay only for prudent capital investment while balancing the utility's need to cover the *ongoing* costs of providing ongoing service.** Critically, the Company's F-Factor

proposal does not circumvent prudence reviews – essential pillars of properly-functioning regulatory frameworks – nor undermine the value that effective prudence reviews bring customers. Ultimately, the Company is acutely aware that any capital investment must successfully withstand the scrutiny of a prudence review. Whether that review happens next year, three years from now, or at any other interval, the Company knows the decisions made today must withstand a prudence examination. Any eventual findings of imprudence regarding capital investments made today have significant, negative financial implications, regardless of when those findings are made. Thus, the very expectation of future prudence reviews reinforces the prudence ingrained in decision-making today. Further, the risk of a future finding of imprudence and the negative financial implications thereof eliminates any perceived financial benefit for the Company to "over invest" today.

Annual reconciliation, including the prudence reviews involved, is a critical element of the Company's PBMRP proposal. As part of each annual PBMRP adjustment effective July 1 each year of the PBMRP[2], the Company's actual capital additions for the Prior Year are allowed for inclusion in the calculation of the F factor to the extent that the actual capital additions do not exceed the Forecasted Budget (referred to as the F-factor allowance). To the extent that the cumulative actual capital costs in-service through the Prior Year, in aggregate, exceeds the Forecasted Budget through the Prior Year, then the F Factor allowance is capped at the cumulative Forecasted Budget. This downward-only reconciliation will ensure that, in the end upon reconciliation, customer bills reflect the costs associated only with projects that are in service to customers and no more, and that if the Company invests more than the Forecasted Budget, customer bills will not reflect amounts above the Forecasted Budget, until such time as those capital investments are allowed into rates at the time of the Company's next rate case. The prior-period reconciliation will be reflected in the F-Factor, in addition to the revenue requirement associated with the Forecasted Budget for the upcoming rate year, effective July 1 annually. The F Factor allowance will be calculated to determine the revenue requirement (inclusive of depreciation expense, property tax expense, return on rate base, and income tax) on actual plant additions (including plant additions, cost of removal, plant retirements, accumulated depreciation, and plant-related accumulated deferred income taxes ("ADIT")) up to the Forecasted Budget amount, and to reflect the revenue requirement for the Prior Year and through the Rate Year on in service capital additions placed in service in the Prior Year, provided that those in service capital additions are not reflected in base rates or in another rate mechanism. In addition, the F Factor allowance will reflect the revenue requirement for rate year capital, established at the Forecasted Budget, subject to downward-only reconciliation in the subsequent F Factor filing.

As noted above, annual reconciliation will consider plant-related ADIT on the Company's books through the end of the calendar year, prior to a given annual filing. To the extent the Company has recorded cumulative plant additions in excess of the capital expenditure forecast provided in this docket or supported by a mechanism other than the F-Factor, the plant-related ADIT will be adjusted in the Company's annual reconciliation to avoid overstating the ADIT relevant to the F-Factor.

In total, the Company's proposed F-Factor will provide revenue support for, and ultimately reconcile, the capital investment placed into service from the cutoff date for inclusion in base rates through the effective date of the Company's subsequent rate case at the conclusion of the proposed PBMRP term. Per the Company's proposal, and as depicted in the illustrative attachments for this response, the F-Factor would ultimately reconcile capital investments made

up to July 1, 2031 (the effective date of the subsequent rate case). Should the subsequent rate case be effective later than the July 1, 2031 illustrative date, the F-Factor would continue to reconcile capital investments placed into service until such time as that rate case does take effect.

C. Impact of 5% additional capital investment

EOE-156, Attachment 2 is the same working model as Attachment 1, except that the Company's actual capital investments are assumed to be 5% greater than the current forecast. These increases are reflected on the worksheet "COS-2 Capital," at Lines 19 and 26.

As shown in EOE-156, Table 2, below, in the event that the Company's actual capital investments over the period 2027-2031 were 5% greater than current projections, which is a realistic scenario, the Company's proposed F-Factor revenue would ***not increase***, highlighting two crucial design characteristics.
First, the core capital investment forecast provided in this docket is proposed to be a hard cap on the capital plant additions eligible for recovery through the F-Factor. That means the Company, PURA and stakeholders will be adequately informed of the *maximum* future revenues as calculated *today*.

Second, where core plant additions greater than forecast will not be supported through the F-Factor mechanism, there is pressure on the Company to stretch to find efficiencies to maintain a viable rate of return. As Table 1 demonstrates, investing beyond the current forecast provides no benefit in the form of greater revenue during the PBMRP, while putting downward pressure on the Company's earned rate of return. Consequently, over the term of the PBMRP, the Company's financial interest is to operate within its budgets and with a high rate of efficiency in order to achieve a viable rate of return.

EOE-156, Table 2

	Rate Year 1	Rate Year 2	Rate Year 3	Rate Year 4
Base Capital Investment Forecast				
(As Filed, Docket No. 26-05-10)				
Annual Incremental F-Factor Revenue ($ millions)		$66.2	$71.4	$74.5
Return on Equity	9.10%	8.98%	8.87%	8.75%
Savings required to earn allowed ROE ($ millions)	**$7.6**	**$14.3**	**$21.2**	**$29.0**
5% Additional Capital Investment				
Annual Incremental F-Factor Revenue ($ millions)		$66.2	$71.4	$74.5
Return on Equity	9.01%	8.80%	8.61%	8.42%
Savings required to earn allowed ROE ($ millions)	**$11.9**	**$23.8**	**$36.1**	**$49.3**

As shown in Chart 1 and discussed previously the sequential rate cases have a larger impact for customers and are more disruptive, while also creating administrative burden for all Connecticut regulatory stakeholders. Conversely, the Company's PBMRP produces smoother changes in revenues/rates without undermining the importance or efficacy of prudence reviews that would occur in the traditional cost-of-service ratemaking context. Under the Company's proposal, prudence reviews would happen annually. Thus, accountability and cost-control incentives are preserved in the Company's proposal, with an improvement in ratemaking transparency.

However, the larger point illustrated in Table 2 is the powerful impact of the stay-out term.

Under PBR, a benefit for the Company is the line of sight it has on a predictable revenue stream that will replace the loss of sales growth associated with the revenue decoupling mechanism, while providing a level of support for the ongoing operation of the system, including needed investment. However, a significant risk for the Company is that its costs will deviate from the "going in revenue requirement" from the minute rates are set through

the end of the stay-out term. These cost changes will impact operating expenses, as well as the drivers of investment costs.

The power of the stay-out term, therefore, arises in relation to the Company's impetus to offset the earnings attrition it will inevitably experience as a result of these cost changes, through efficiency initiatives that will reduce costs on a going forward basis, to the benefit of customers. That is, to maintain a viable rate of return, the Company will be pressed to seek out and achieve cost efficiencies somewhere in the business. Those efficiencies achieved during the stay-out period unavoidably inure to the benefit of customers when base-rates are next set on a cost-of-service basis. This is the fundamental power of a PBR framework, which the Company is experiencing in its Massachusetts companies.

In this case, Table 2 (above) and the working model included as part of this response, each show that it would be necessary for the Company to realize cost savings of approximately
$29 million annually, by the end of the PBR term, in order to be able to offset the downward pressures on the (currently) authorized return on equity ("ROE") of 9.25%, all else equal. (See, EOE-156, Attachment 1, worksheet "Financial Summary", Line 24). "Downward pressures" mean increased costs, whether operating expense or the cost of carrying unrecovered capital investment.

For context, the Company's O&M reflected in this docket (per Exhibit CLP-REVREQ-2, Schedule C-3.0), excluding vegetation management, storm restoration and uncollectible expense, is $352 million, annually. Cost efficiency gains of $29 million therefore equate to a reduction on total O&M of approximately 8 percent, which is a significant reduction in the normal course of business.

At the same time, Table 2 further highlights that this $29 million annual gap is almost doubled to a gap of $49.3 million with only a five percent increase in capital investment as compared to the capped F-Factor. This computation highlights the extreme sensitivity that exists within the cost-of-service ratemaking model when operating expenses and investment costs are increasing and the point at which base rates will be reset and realigned with actual costs is extended to a future point in time.

For example, recall that this analysis is founded on a "going in revenue requirement" that is equal to the Company's filed, proposed revenue requirement – and assumes only one change in the modelling over the entire PBR term, which is the 5% increase in capital investment. However, in reality, there is a virtual certainty of operating cost increases and investment additions that well exceed the 5% shown here, which would only further suppress the rate of return. Accordingly, this analysis highlights the inherent power of the stay-out term associated with a multi-year rate plan that provides revenue support, but without any guarantee of aligning with the actual cost of service along the way. The growing gap is the pressure that is created for efficiency gains that will then be passed on to customers at the next rate-setting interval.

D. Model Overview

Please refer to EOE-156, Attachment 1, for the Company's illustrative PBR model. The model incorporates the Company's proposal with respect to inflation measurement, revenue increases related to operating expenses, F-Factor, and combined effect on the financial results of the Company.

Key assumptions include:

i. The base rate increase, PBMRP, and catastrophic storm cost recovery authorized in this docket are all assumed at the level filed by the Company in this proceeding, with the only exception being the Company used the return on equity and equity capitalization as currently allowed, which is 9.25% and 53.0%, respectively.

ii. The sum of plant additions and cost of removal each year are equal to the capital investment forecast provided in this proceeding, as shown in Exhibit CLP-ELP-1, Figure 7.

iii. Capital and O&M costs related to AMI are excluded from the projected cost of service and illustrative F-Factor revenue requirement calculations. Should the F-Factor be approved as the mechanism enabling revenue support for AMI, the cap on capital investment would need to be increased to accommodate the costs for that program.

iv. Catastrophic storm costs, both the recovery of existing deferred costs as well as the costs related to future events, have no bearing on the model. Importantly, this implies the catastrophic storm and pre-staging costs in base rates perfectly match future costs (i.e. future revenue equals future cost for each and every year).

v. O&M cost pressure is assumed to be 1% greater than inflation, annually.

The model is organized into three primary sections:

1) **Financial Summary**, which presents illustrative results of the combined effect of the Company's proposed rate increase, PBR framework, and cost projections
2) **PBR model**, which covers "I – X – CD" and F-Factor
    a. Worksheet "PBR-1 Total PBRA"
    b. Worksheet "PBR-2 Inflation"
    c. Worksheet "PBR-3 F-Factor Summary"
    d. Worksheet "PBR-4 F-Factor"
    e. Worksheet "PBR-5 F-Factor Property Tax"
    f. Worksheet "PBR-6 Capital Forecast"
    g. Worksheet "PBR-7 Going-In Capital RR"
    h. Worksheet "PBR-8 GDP"
    i. Worksheet "PBR-9 ECI"
3) **Cost of service,** which consists of three worksheets, provides a forecast of the actual cost of providing electric service

1) <u>Financial Summary</u>

The "Financial Summary" provides the combined results of going-in revenues along with the rate increases determined through the Company's PBR proposal, the operating costs of service projected over the same timeframe, and the investment base that enables the Company's essential service to customers.

Lines 15-27 show the calculation of the Company's actual, earned return on equity over the four years of the Company's PBMRP term. Specifically, Line 22 provides the annual earned return on equity; Line 23 provides the cumulative average annual ROE; and Line 24 provides the revenue requirement (excluding GET and uncollectible) or cost savings necessary to achieve the allowed ROE.

Lines 28-44 provide a simplified Income Statement for the four years of the Company's PBMRP, including revenue projections as well as the operating costs of service. These costs represent the projected costs of doing business whether or not those costs are supported with rates.

Lines 46-61 provide a summary of the revenue increases calculated in the PBR model and the corresponding impacts on uncollectible expense and gross earnings tax.

2) PBR

The PBR worksheets are the working calculations that drive the illustrative distribution rate increases discussed above. Each one of which is discussed separately below:

a. Worksheet "PBR-1 Total PBRA"

This worksheet summarizes the results (i.e. rate increases) of the model's other "PBR" worksheets and is organized into four sections: (1) Going-In Revenue Requirements; (2) PBR-O Adjustment; (3) F-Factor Adjustment; and (4) Total Performance Base Revenue Adjustment. "Going-In Revenue Requirements" reflects the eventual revenues authorized as a result of this proceeding. For purposes of this response, this reflects revenues as proposed in this docket and adjusted, as discussed above. The purpose of this section is to orient the reader to the authorized levels of operating revenue (Line 17) and O&M (Line 21) established in this proceeding and, second, to perform calculations necessary to establish Rate Year 1 baselines for use with subsequent rate year revenue calculations. Line 19 is the resulting base distribution revenue requirement that represents the overall starting point for distribution revenues to which any and all PBMRP rate adjustments for Rate Year 2 would be added or subtracted as appropriate. Line 23 is the level of O&M to which the PBR-O percentage increase for Rate Year 2 would apply.

The PBR-O adjustment section (Lines 25-30) provides the calculations for inflation-driven rate increases, which are initially applied to line 23 discussed above. Line 27 is the combined percentage increase resulting from the Company's proposed composite inflation measure, -0.03% productivity ("x") factor, and consumer dividend. For this analysis, the Company has assumed a 30-basis point consumer dividend for all years. Line 28 provides the resulting annual incremental revenues.

The F-Factor adjustment section on this worksheet references the results determined on other worksheets of the model (discussed below). Here, Line 33 provides the resulting annual incremental revenues, while Line 34 provides the cumulative F-Factor revenue requirement.

Line 37 provides the total annual revenue increase, which is the sum of Lines 28 and 33.

Line 43 is the final resulting base distribution revenue requirement that begins with Rate Year 1 amounts and adjusts annually thereafter by the amounts described above.

For purposes of this analysis, there are no exogenous cost recovery assumptions reflected in the accompanying working model. If PURA were to authorize the Company's proposal, including mechanics related to exogenous cost provisions and the consumer dividend, the PBR model would need to be adapted from the attached to include additional worksheets as appropriate.

b. Worksheet "PBR-2 Inflation"

This worksheet first aggregates the relevant indices' data points from worksheets 10 and 11 (discussed below), which are shown on Lines 13-16 for GDP-PI and Lines 21-24 for ECI. Each index is then averaged for a given calendar year (Lines 17 and 25), which then form the basis for the annual growth calculations on Lines 17 and 26. As discussed in the Company's pre-filed testimony, the Company is proposing to weight the indices 66.9% for GDP-PI and 33.1% for ECI. The composite resulting inflation is shown on Line 32.

Line 33 provides the -0.03% productivity factor, while Line 34 shows the consumer dividend, which

assumes 30 basis points for simplicity of this analysis. The combined result of inflation, productivity factor and consumer dividend is shown on Line 35, which is before the imposition of a 5% cap. To the extent line 35 exceeds the proposed 5% cap, Line 36 would provide the adjustment such that Line 37, the final result, is the lesser of the 5% cap and Line 35.

Note that projections of inflation are used for analytical purposes in this response and to assist with discussion pertaining to future rate increase implications. Actual calculations of PBR adjustments in future annual PBR filings would rely exclusively on published data available at the time of a given year's annual PBR filing.

c. Worksheet "PBR-3 Factor Summary"

Like the CT-Bar, the Company's proposed F-Factor is calculated on a monthly basis. The "F-Factor Summary" worksheet aggregates the results of those calculations on Lines 17-29 and presents in 6-month increments to enable both calendar-year and rate-year views of the same information. Property taxes (Line 19) are not calculated monthly, but rather on a fiscal year basis. Line 28 provides the resulting cumulative F-Factor revenue requirement, while Line 29 is the annual incremental amount shown on the worksheet "PBR-1 Total PBRA," line 33.

d. Worksheet "PBR-4 F-Factor"

This worksheet provides the monthly calculation of the F-Factor revenue allowance summarized on the previous worksheet and is the "engine" of the overall F-Factor model. Broadly, it aggregates the necessary inputs, including rate base activity assumptions (Lines 18-25) and relevant rates resulting from this proceeding, including depreciation expense as a function of gross plant (Line 49) and pre-tax return on rate base (Line 51).

Note also that this worksheet includes a "switch" (Line 16) that enables this model to adapt to the cutoff date of capital investment for inclusion in base rates. However, due to the large number of possibilities for a potential cut-off date and similarly large variation of resulting Going-In revenue requirements, the model is currently configured to use this line as an adjustment for Rate Year 1 only. That is, the model is not currently built such that the user can specify a cutoff date for capital investment inclusion in base rates and have that date adjust the going-in capital revenues, as well as the F-Factor. Conceptually, this switch is intended to affix the start of the F-Factor calculations to the last date capital investment is reflected in base rates.

As presently configured, the F-Factor revenue requirement assumes the capital investment reflected in base rates is per the Company's proposal, which is through June 30, 2028. However, the capital-driven rate year revenue requirement calculations reflected in the Company's filed cost of service are based on rate year averages. For example, the rate base referenced in the return on rate base calculations found on Exhibit CLP-REVREQ-2, Schedule A-1.0, Line 16 is average rate base, while Rate Year 1 depreciation expense is based on rate-year average plant in-service, as denoted on WP C-3.34, line 13 of the same exhibit. Consequently, the F-Factor calculation is currently configured to rely on 50% of Rate Year 1 capital investment to effectively build the proper ending balances as of 6/30/2028 upon which subsequent rate year calculations can grow. Note that the interaction between the F-Factor and the cut-off date for capital investment inclusion in base rates is a critical component to the longevity of the Company's proposal as it assures that the F-Factor starting point aligns with the endpoint for base rates, leaving no gap over the duration of the rate plan.

For purposes of this written response, the Company does not detail the calculations of this worksheet here. Instead, the Company refers to the line references provided on the last page of this worksheet (Model PDF, page 8) for both Attachments 1 and 2, which detail the calculations performed. For emphasis, note that Line 33 captures the accumulation of depreciation recovered in base rates. By design, the F-Factor intentionally reflects this to properly estimate a reasonably true capital-driven revenue requirement.

The resulting F-Factor revenue requirement, excluding property tax, which is referenced by the preceding worksheet, is shown on line 53.

e. Worksheet "PBR-5 F-Factor Property Tax"

This worksheet provides the fiscal year calculations for incremental property tax expense based on capital investments made since 2024 and forecast through 2031. Line 12 references capital investment assumptions discussed elsewhere, while Lines 13-24 perform the calculations of depreciation expense pursuant to Conn. Gen. Stat. §12-63(b)(6), net book value, assessed value pursuant to Conn. Gen. Stat. §12-63(a), and the eventual property tax expense by applying the composite mill rate calculated in Exhibit CLP-REVREQ-2, Schedule WP C-3.37 p17 to 21, Page 20, Line 73. The result is shown on line 24.

Lines 28-32 then summarize that result by calendar year, while Lines 38-40 summarize by rate year. After adjusting for the extent to which base rates recover the property tax related to these same investments on Line 41, as discussed in previous sections, the final property tax amount reflected in the F-Factor allowance is shown on Line 42.

f. Worksheet "PBR-6 Capital Expense Forecast"

This worksheet is provided to create the necessary link between the F-Factor revenue allowance calculations and the capital investment forecast discussed in this docket. The capital investment forecast included aligns with the Company's filed capital investment forecast, as can be seen in Exhibit CLP-ELP-1, Figure 7. The F-Factor capital investment assumptions reflected in the revenue allowance calculations of "PBR-4 F-Factor" necessarily agree with this worksheet.

g. Worksheet "PBR-7 Going-In Capital RR"

This worksheet is a collection of select data points as approved in the Company's "Going-In" rates (or, in this case, as proposed in the Company's filed cost of service schedules, Exhibit CLP-REVREQ-2-A, B, C, D Schedules, adjusted to reflect the currently authorized return on equity (9.25%) and equity capitalization (53.0%), as stated previously:

- Lines 12-16 provide the dollar amounts related to capital-driven costs of services, which are depreciation, property taxes and costs of capital. Amounts shown are currently as proposed in this illustrative model (except where noted), but ultimately will reflect the amounts as approved in this docket.
- Lines 21-28 provide a summarized view of the Company's filed rate base for the test year, rate year beginning, rate year ending, and rate year average balances. These balances serve as the basis (denominators) for establishing the capital-driven costs above as a percentage of approved balances. Those percentages are used on the other "PBR" worksheets, as well as the cost of service worksheet to estimate future costs of service based on approved levels (Lines 30-32)
- Lines 47-81 provide rates for uncollectible expense, gross earnings tax, and the costs of capital

as well as necessary calculation of gross-ups to those rates for use in the model's calculations.

- Additional details are shown in column (F) of this worksheet.

h. Worksheet "PBR-8 GDP"

This worksheet presents raw Gross Domestic Product-Price Index (GDP-PI) data obtained from the Bureau of Economic Analysis. For illustrative purposes only, this model also includes a projection of GDP-PI obtained from Moody's September 14, 2026. As noted above, actual calculations of PBR increases, if approved as filed, rely only on historical data available at the time of a given year's annual PBR filing.

i. Worksheet "PBR-9 ECI"

This worksheet contains raw Employment Cost Index (ECI) data obtained from the Bureau of Labor Statistics. Note that projections of inflation are used for analytical purposes and to assist with discussion pertaining to future rate increase implications. Calculations of PBR increases, if approved as filed, rely only on historical data available at the time of a given year's annual PBR filing.

3) Cost of Service

The cost of service included for analytical purposes in the Company's working model consists of three worksheets: "COS-1 Total," "COS-2 Capital," and "COS-3 Property Tax."

a. Worksheet "COS-1 Total"

This worksheet provides projections of the Company's actual costs through the end of the PBMRP term as a means of assessing the impact the capital investment forecast and O&M cost pressures have on the overall cost of service as well as the degree to which revenues align with the Company's cost of service (as reflected on the "Financial Summary" worksheet).

Lines 15-37 summarize the results of the cost drivers, including especially O&M (Lines 16-19), depreciation (Line 21), property taxes (Line 22), and costs of capital, including corresponding income taxes (Lines 24-27).

Gross earnings taxes and uncollectible expense are calculated on Lines 33 and 34 as if the full cost of service (Line 28) is in rates.
Non-storm O&M is shown on Lines 38-44, while storm O&M is shown on Lines 45-50, where non-catastrophic costs are identified separately from catastrophic storm / pre-staging funding.

Non-storm rate base is shown on Lines 52-59, which reflect the capital investment forecast (exclusive of AMI) filed in this docket.

Lastly, capital-driven costs of service are shown on Lines 61-67. Depreciation, property tax, uncollectible, gross earnings taxes, and costs of capital are based on the Company's filed cost of service in this docket, specifically Exhibit CLP-REVREQ-2-A, B, C, D Schedules, except that the return on equity (9.25%) and equity capitalization (53%) are shown at currently authorized amounts.

b. Worksheet "COS-2 Capital"

This worksheet functions nearly identically to "PBR-4 F-Factor" except that it relies on actual capital

investment projected over the term of the PBMRP. This is essential to understanding actual costs of service, whether or not those costs are supported by revenues. It forms the basis for evaluating the degree to which the F-Factor is sufficient. For additional details pertaining to the mechanics, please see the line references found at the end of this worksheet (or model PDF page 19).

c. Worksheet "COS-3 Property Tax"

Similarly, this worksheet is included to assist with the calculation of actual costs of service. It operates mechanically identically to "PBR-5 F-Factor Property Tax" except that it relies on actual capital investment projections (Line 12).