Date Filed: April 09, 2026

Witness: Kallen, Jonathan, FALLON, MATTHEW P, O'BRIEN, BRENDAN J, Murray, Garrett J, Horton, Douglas P
Request from: Public Utilities Regulatory Authority

Question:

Reference Exh. ES-SFP-6. Please provide the inputs to derive the grossed-up weighted average cost of capital for the calculation in column I, for each period in which the grossed-up WACC changed. Please also include columns showing carrying costs calculated at the weighted average cost of debt and the prime rate

Response:

Please refer to LFE-031, Attachment 1, for a working Excel file containing the calculations of the authorized weighted average cost of capital ("WACC") inclusive of the tax gross-up.

Please also refer to LFE-031, Attachment 2, for a working Excel file containing the requested calculations of carrying charges:

(1) Pages 1 through 4 calculate carrying charges using the Company's authorized WACC from Docket Nos. 14-05-06 and 17-10-46. Note that these calculations are identical to those provided in Exhibit ES-SFP-6;

(2) Pages 5 through 8 calculate carrying charges using the Company's authorized cost of Long-Term Debt from Docket Nos. 14-05-06 and 17-10-46. Please refer to LFE-031, Attachment 1 for supporting documentation of the authorized cost of long-term debt utilized in the calculations; and

(3) Pages 9 through 12 calculate carrying charges using the monthly Prime rate as reported by the Federal Reserve.

When the WACC is used as the applicable carrying charge rate, it is applied to the storm cost balance net of Accumulated Deferred Income Taxes ("ADIT"). This treatment is appropriate because it is consistent with traditional rate base principles, which reflect the Company's long-term investment in assets reduced by the associated deferred tax impacts. When PURA determines a company's rate base, it determines the long-term investment base, net of accumulated depreciation, which represents amounts invested but recovered from customers through rates, and net of ADIT, which represents a temporary funding source created by the timing difference between book and tax expense. PURA then applies the company's WACC to rate base on the

premise that the company has had to finance the net long-term investment base (rate base) with its weighted average cost of capital. Applying the WACC to the storm balance net of ADIT therefore aligns the carrying charge calculation with the manner in which comparable long-term assets are reflected for ratemaking purposes.

Conversely, if an alternative carrying charge rate is employed that does not reflect the Company's full WACC (such as the cost of long-term debt or a short-term benchmark like the Prime rate) the resulting calculation would not be consistent with rate base treatment. In those circumstances, the lower carrying charge rate does not incorporate the cost of equity or the overall capital structure of the Company and therefore cannot be applied to a storm cost balance net of ADIT. As a result, when such alternative rates are used, the carrying charge must instead be applied to the gross storm cost balance, without reflecting the ADIT offsets. This is the practice of the Massachusetts Department of Public Utilities as it relates to storm cost recovery for Massachusetts EDCs.

As discussed during the March 27, 2026 hearings, the Company applies the WACC as the appropriate rate for calculating carrying charges because it reflects the Company's actual cost of funding long-term regulatory assets (or, alternatively, customer-related liabilities), such as storm restoration costs, over an extended period of time. Financing obligations of this magnitude cannot be supported exclusively through debt financing, whether short-term or long-term. Instead, the Company must prudently balance its capital requirements through a reasonable mix of both debt and equity to ensure financial stability and continued access to capital. (March 27, 2026 Hearing Transcript at pp. 64–65).

Table LFE-031-1
($ Millions)

Line	Description	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total
1	**Connecticut Light & Power Operating Activity**										
2	Operating Revenue, excluding earnings	2,519	2,775	2,792	3,075	3,261	4,274	4,025	4,088	4,732	31,541
3	Purchased Power, Transmission, & All Other	(1,357)	(1,936)	(1,794)	(2,003)	(1,827)	(3,033)	(2,741)	(2,644)	(2,881)	(20,215)
4	O&M	(488)	(482)	(522)	(549)	(625)	(718)	(740)	(809)	(844)	(5,777)
5	Property Taxes	(144)	(154)	(167)	(189)	(182)	(202)	(201)	(211)	(226)	(1,676)
6	Capital Investment	(824)	(864)	(917)	(833)	(790)	(876)	(1,093)	(979)	(868)	(8,043)
7	Storms (unapproved & deferred only), net funding	(31)	(105)	97	(321)	(225)	(131)	(131)	(99)	(32)	(979)
8	Distribution Trackers, (Under)/Over	6	56	(11)	(136)	(211)	360	(305)	(81)	539	216
9	Working Capital, net receipt/(payment)	(60)	49	(68)	57	15	(212)	15	(81)	(169)	(456)
10	Subtotal, Source/(Use) of Cash	(380)	(661)	(589)	(899)	(584)	(539)	(1,171)	(817)	251	(5,389)
11	Retained Earnings (i.e. reinvested equity capital)	116	312	63	383	55	235	183	173	116	1,636
12	Capital contributions from ES Parent		300	125	275	200	250	124	300		1,574
13	Short-term borrowing	(11)	(70)	64	(64)		(0)	457	(177)	(280)	(80)
14	Long-term debt issuance	525	500	500	400	425		800	650	400	4,200
15	Long-term debt maturity	(250)	(300)	(250)		(121)		(400)	(140)	(400)	(1,860)
16	Total Increase/(Decrease) in Cash	1	82	(87)	95	(25)	(54)	(8)	(10)	87	80
17	*Totals included above*										
18	Net equity capital (line 11 + line 12)	116	612	188	658	255	485	306	473	116	3,210
19	Long-term debt issuance, net maturity (line 14 + line 15	275	200	250	400	305		400	510		2,340
20	Increase/(Decrease) short-term debt (line 13)	(11)	(70)	64	(64)		(0)	457	(177)	(280)	(80)
21	Total Debt & equity capital funding	381	743	502	994	559	485	1,163	806	(164)	5,469
22									Equity % of capital		58.7%
23									Debt % of capital		42.8%

24	**Note:**	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
25	Average monthly short-term notes payable balance		51	60	130	237	21	21	296	330	
26	Ending short-term notes payable balance	80	70		64				457	280	

Table LFE-031-1, above provides the Company's sources and uses of cash over the last nine years. As Table LFE-031-1 shows, the Company has invested $8 billion in electric infrastructure (line 6) and approximately $1 billion in financing catastrophic storm events, net of customer contributions (line 7) over this time frame. To support these investments, Table LFE-031-1 shows that the Company has contributed $3.21 billion of equity capital (line 18), combined with $2.34 billion (net of maturities) in new long-term debt in the form of first mortgage bonds (line 19). At the same time, the Company's available short-term debt usage (line 20) has *decreased* since December 31, 2016, showing that there are no short-term debt resources supporting the deferred storm costs.

Importantly, over the last nine years, the Company's use of funds has exceeded its sources of funds, excluding financing, by $5.389 billion (line 10), or by $599 million annually, on average. That is, over the last nine years, the Company has required approximately $5.4 billion of debt and equity capital to fund the gap between its uses of funds to maintain and enhance the energy grid, including responding to catastrophic weather events, and its sources of funds from customers.

Considerations regarding the raising of capital include the following:

1) Uses of cash routinely exceed sources of cash, creating a persistent funding gap.

2) Commercial paper (short term borrowing) is a tool to maintain liquidity, not to finance investments or deferred expenses.
3) Credit-rating agency perspectives regarding the use of short-term versus long-term debt are important.
4) Short-term borrowing capacity is limited, and the Company cannot plan to operate at or near its short-term debt capacity.
5) Cash is a scarce resource, a fact that drives the cost of acquiring it.

Uses of cash routinely exceed sources of cash, creating a persistent funding gap

As shown above, and discussed at hearing as well as in the Company's pre-filed testimony, the Company routinely operates with a cash deficit. That is, the Company's uses of cash for operations, including necessary ongoing infrastructure system investments, routinely exceeds the cash it receives from customers, creating a gap in funding. As the Company stated in its pre-filed testimony:

> On a daily basis, the Company uses cash from operations to fund working capital obligations and capital expenditures. If working capital obligations coupled with capital expenditures exceed cash from operations, the Company will bridge the gap by raising short-term debt through its intercompany revolving credit agreement with Eversource. It is important in this regard to note that CL&P's short-term debt capacity is limited at $600 million, which means that the Company must manage its short term debt balance to remain under that cap. As the Company's short-term debt balance approaches its limit, short-term debt will be refinanced with long term capital in the form of long-term debt and equity via capital contributions from Eversource. Additionally, if necessary, long-term capital may be raised in advance of refunding long-term debt maturities. Exhibit ES-SFP-1 at 41.

Long-term sources of debt and equity capital take time to plan and execute. This includes filing for and receiving approval from PURA to issue long-term notes months, if not a year or more, in advance of issuance. Therefore, it is simply not feasible to issue a long-term note tomorrow in response to a cash funding requirement that emerges today. For example, CL&P has no long-term debt authorization remaining with PURA as of the time of this submission.

Moreover, due to the unpredictability of energy markets, weather, timing of day-to-day cash receipts and payments, and various other real-world utility business circumstances, the Company may find that it requires additional funding today, while expecting to have a cash balance one month from now. Ordinarily, it would not be considered wise cash management for an individual to take on a personal loan only to then have that cash sit in a bank account. The same principle applies to a utility, including the Company. To issue a long-term note in response to the funding requirement today would further increase the cash balance one month from now. In that case the Company would essentially be paying interest on the note it issued to have more cash that it cannot immediately deploy. Instead, the Company relies on short-term notes to bridge the gap between when a funding need materializes (today) and when cash is on hand (in the future). And, as

explained above, as short term debt balances approach their capacity limits, the Company must then manage (pay down) those balances by injecting long-term capital resources in the form of debt and equity.

Commercial paper is a tool to maintain liquidity, not to finance investments or deferred expenses.

Eversource parent has a $2.00 billion commercial paper program allowing Eversource parent to issue commercial paper as a form of short-term debt. Eversource parent uses its available capital resources to provide loans to its subsidiaries to assist in meeting their short-term borrowing needs. Eversource parent charges interest on these intercompany loans at the same weighted-average interest rate as its commercial paper program.

On a daily basis, Eversource's treasury office aggregates various information from several sources, including bank account cash balances, customer receipts from remittance processing, payroll, and vendor payments from Accounts Payable, the collective result of which is the estimated cash balance or shortfall (i.e. the degree to which the Company would need to borrow funds on a short-term basis from capital markets). Practically, this means Eversource engages brokers to acquire funds by issuing notes that will be repaid with interest and in full, at varying maturities ranging from a few days up to 11 months. Potential investors interested in Eversource's commercial paper are large, institutional investors seeking high-grade, short-term (measurable in days or months, not years) opportunities for cash management, such as money market funds.

Suppose, for example, Eversource determines the sum of cash obligations for payroll, vendor payment, and other uses exceed cash receipts from all sources on a particular day by $50 million. Therefore, Eversource has identified an immediate cash deficit of $50 million, which it will meet by issuing short-term notes (i.e. commercial paper). On this particular day, Eversource secures the required funds by selling $50 million of short-term notes to money market funds through a combination of brokers, which is to be repaid in 60 days with interest determined using the Secured Overnight Funding Rate (SOFR) as the underlying index. 60 days from now, Eversource repays the notes at full face value ($50 million), making periodic interest payments in the meantime. On the subsequent day, Eversource determines the funding requirement that day is $10 million. On that day, the Company would engage brokers in a similar manner, resulting in a different note issued with potentially different terms (maturity, interest rate, etc.). And so on.

The biggest advantages to securing funds in this manner are flexibility and cost. Eversource's commercial paper program offers access to liquid sources of funds that are quickly available for deployment, do not require registration with the Securities and Exchange Commission (SEC), are relatively easy to execute (compared to issuing a First Mortgage Bond ("FMB"), for example), and are cost-effective.

However, short-term notes must be repaid at varying intervals in the very near-term: anywhere from a few days to, at most, 270 days, or about 30 days on average. This means that within 30

days, on average, the Company will again need to access capital markets regardless of the state of the market, to repay a note issued today. Fundamentally this introduces volatility and risk. Global events can develop overnight and have immediate effects on capital markets, including the cost securing funds through commercial paper. Eversource ended 2025 with approximately $1.28 billion outstanding commercial paper. All else being equal, in 270 days or less the Company will need to have secured $1.28 billion in new funds to repay that existing debt regardless of the cost of new debt at the time. That is, the Company will need to have secured $1.28 billion ***before*** factoring in any funding gap resulting from ongoing operations. Put differently, the Company will need $1.28 billion plus funds necessary to support ongoing operations.

Even if CL&P requires a short-term note to pay a vendor in the immediate future because it does not have the cash on hand, within a short timeframe (i.e., up to 270 days) that note must be repaid, at which point the Company would require additional funding. If it simply continued to rely upon short-term notes (i.e. issue new short-term notes to pay off existing ones), its short-term debt outstanding would continue to grow, quickly exceeding capacity, as the illustrative example below illustrates.

Table LFE-031-2
($ Millions)

Line	Description	Year 1	Year 2	Year 3	Year 4	Year 5
1	Annual operating funding gap	-599M	-609M	-619M	-629M	-639M
2	Year 1 notes maturing		-599M			
3	Year 2 notes maturing			-1,208M		
4	Year 3 notes maturing				-1,826M	
5	Year 4 notes maturing					-2,455M
6	New short-term notes required	599M	1,208M	1,826M	2,455M	3,094M
7	Net Cash	-	-	-	-	-

Table LFE-031-2, above, provides a simplified illustrative example to illustrate why the Company is not able to issue only short-term notes to finance operations where there is inadequate funding provided through its sources and uses of cash (i.e., line 10 of Table LFE-31-1, above). As shown in Table LFE-31-2, in Year 1, the Company's use of funds exceeds its sources (excluding financing) by $599 million, the annual average deficit described previously. For illustrative purposes, Table LFE-31-2 assumes the annual cash deficit grows $10 million per year. For example, the deficit is $609 million in Year 2, and $619 million in Year 3. The remainder of Table 2 is explained as follows:

1. Year 1 ($599 million cash deficit, excluding financing)
    a. The Company issues short-term notes to secure the $599 million needed (line 6).
2. Year 2 ($609 million cash deficit, excluding financing)
    a. Year 1 notes of $599 million mature (line 2)

   b. The Company issues short-term notes to cover the $599 million needed for Year 1 notes maturing plus $609 million for the current cash deficit, or $1.208 billion total
3. Year 3 ($619 million cash deficit, excluding financing)
   a. Year 2 notes of $1.208 billion mature (line 3)
   b. The Company issues short-term notes to cover the $1.208 billion needed for Year 2 notes maturing plus $619 million for the current cash deficit, or $1.826 billion total
4. Year 4 ($629 million cash deficit, excluding financing)
   a. Year 3 notes of $1.826 billion mature (line 4)
   b. The Company issues short-term notes to cover the $1.826 billion needed for Year 3 notes maturing plus $629 million for the current cash deficit, or $2.455 billion total
5. Year 5 ($639 million cash deficit, excluding financing)
   a. Year 4 notes of $2.455 billion mature (line 5)
   b. The Company issues short-term notes to cover the $2.455 billion needed for Year 4 notes maturing plus $639 million for the current cash deficit, or $3.094 billion

In this example, the Company must refinance an increasingly large amount of debt each and every year, exposing a rapidly growing balance of debt to going market conditions. Thus, it is plain to see an overreliance on short-term notes will, over time, only increase the financial risk of a company operating in this manner. Establishing a ceiling on short-term borrowing, therefore, limits the Company′s exposure to the phenomenon illustrated in Table LFE-31-2.

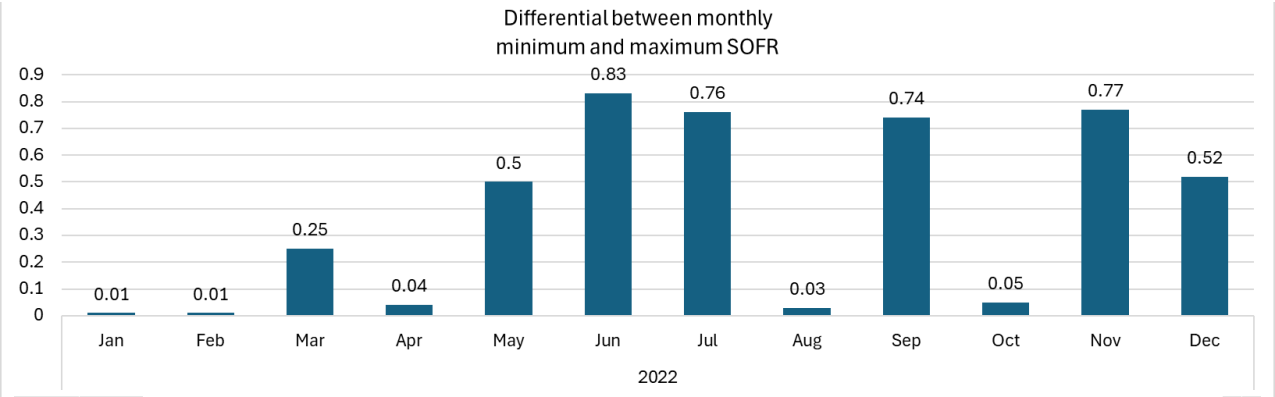
For this reason, as well as the long-term nature of storm cost recovery, it is simply not a reasonable prospect that the Company could finance its deferred storm, or any other long-term assets, with short-term debt on anything but a temporary basis, as the Company demonstrated in its pre-filed testimony (ES-SFP 1, Figure 2). As the figure illustrates, and Table LFE-031-1above corroborates, short-term debt not only did not increase proportionately with the deferred storm balance, short-term debt actually decreased over that time.

Credit-rating agency perspectives regarding the use of short-term vs long-term debt are important

Ultimately credit rating agencies are evaluating financial risk – the degree to which a Company is able to cover repayment of principal and interest on borrowed funds. Uncertainty (i.e. the degree of predictability of future cash flows) increases risk. To credit rating agencies, one dollar of short-term debt is not the same as one dollar of long-term first mortgage bond (“FMB”). As demonstrated with the previous example, short-term notes must be repaid within as little as a few days to, at most, a year, exposing the entire balance of short-term notes to prevailing interest rates upon maturity. This introduces near-term liquidity risk that a 30-year FMB does not.

The fact that short term maturities are viewed as more risky than longer term maturities is articulated by S&P in its "Corporate Methodology" ratings criteria as follows: " In evaluating refinancing risk, we consider risks in addition to those captured under the 12-month to 24-month time-horizons factored in our liquidity criteria (see "Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers"). While we recognize that investment-grade companies may have more certain future business prospects and greater access to capital than speculative-grade companies, **all else being equal, we view a company with a shorter maturity schedule as having greater refinancing risk compared to a company with a longer one**. In all cases, we assess a company's debt maturity profile in conjunction with its liquidity and potential funding availability. Thus, a short-dated maturity schedule alone is not a negative if we believe the company can maintain enough liquidity to pay off debt that comes due in the near term." [1] (**emphasis added**)

Chart LFE-031-1

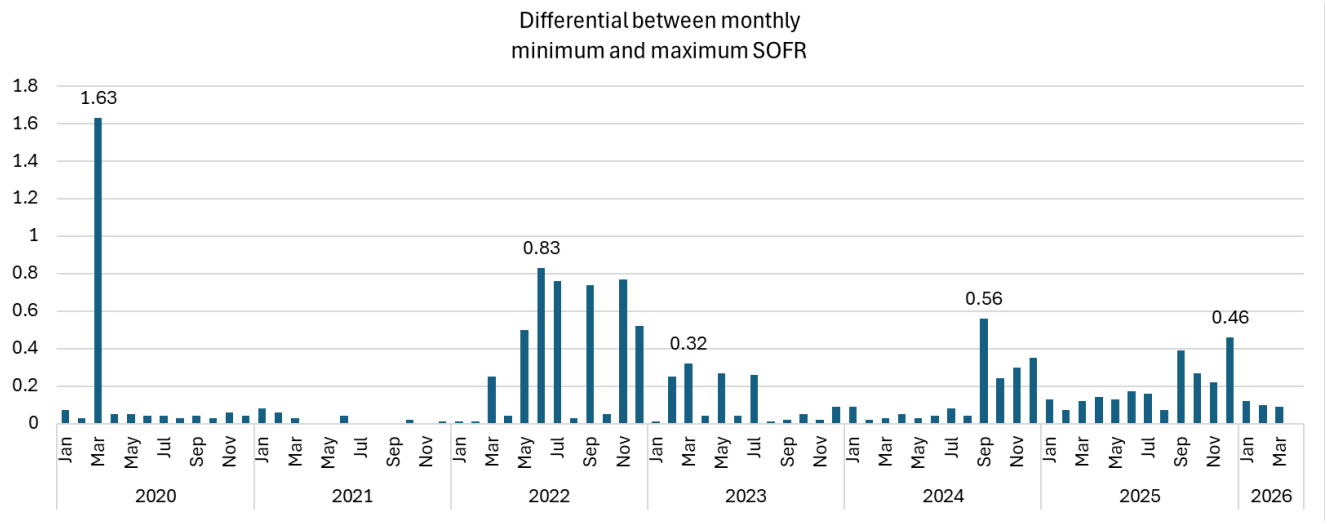


In 2022, for example, the index underlying the Company's short-term borrowing rate (SOFR) changed dramatically month-to-month, as depicted in Chart LFE-031-1 above. Chart LFE-031-1 provides the change in SOFR for each month of 2022. For example, in January 2022, the difference between the highest and lowest rates for the month was just .01%. June of that same year saw rates change by as much as 0.83%. More specifically, notes issued on June 28, 2022 cost issuers 0.83% more than on June 14, just two weeks earlier. Were the Company to refinance all of its debt in this manner, even, if possible, 0.83% x $5.3 billion average outstanding debt = $44 million. That is, the annual cost of debt would have increased $44 million due to the interest rate changes experienced in a single month. Looking at all of 2022, the SOFR increased from 0.04 in January to 4.32 in December, or an increase of 4.28%. 4.28% x $5.3 billion average outstanding debt = $226.8 million. Put differently, were all of the Company's debt exposed to this volatility,

[1] S&P Global Ratings, "General: Corporate Methodology," retrieved April 9, 2026 from https://www.spglobal.com/ https://www.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/12913251

the cost of that debt would have changed by $226.8 million in just a single year. The Company provides these extreme examples not to demonstrate how it can work, rather why it cannot operate in this manner, or in any way remotely similar. To do so would be financially irresponsible, particularly for a regulated utility company providing critical services to its customers.

Chart LFE-031-2



As Chart LFE-031-2 above illustrates, 2022 was not particularly unique in terms of interest rate volatility. In fact, except for a period of relative quiet August 2023 through August 2024, the SOFR has varied considerably month after month since March 2022. Thus, the more funding the Company secures through its short-term notes, the more the Company's debt is exposed to such rate volatility

Conversely, a 30-year FMB has predictable repayment terms. The Company knows when the interest is due and when the principal must be repaid. This permits the Company to anticipate future funding requirements such that it can take steps to secure funds well in advance of those repayment obligations. In contrast, a short-term note must be repaid just days or months after issuance, regardless of market or business circumstances. This very concept is the reason the Company's commercial paper program is required to be backed by a revolving credit facility, a source of funding that carries upfront, legal, and ongoing fees whether or not the facility is actually used. It exists simply in case the Company cannot access capital markets.

Short term borrowing capacity is limited, and the Company cannot plan to operate at or near its short-term debt capacity

The Company must, at all times, be positioned to respond to emerging circumstances effecting the energy grid. Those circumstances are oftentimes unpredictable and the cash implications of which are often immediate, requiring ample liquidity. Below are just a few examples of unexpected or

unpredictable events that required CL&P's immediate access to funds, a requirement that would be jeopardized if the Company operated at or near its short-term debt capacity on a sustained basis.

- Storm Isaias: $254 million
- Storm Henri: $149 million
- April 2023 Storm restoration: $63 million
- July 2023 Storm restoration: $59 million
- April 2024 Storm restoration: $57 million
- Six months with storm restoration cost $20-49 million: $190 million
- Eleven months with storm restoration $10-20 million: $146 million
- 2021 settlement with PURA: $119 million
- COVID-19 and rate mitigation efforts: $193 million
- 2023 NBFMCC rate set artificially low: $265 million under-recovery

Additionally, certain types of costs, while generally more predictable in nature, are not consistent one month to the next, and do not necessarily align with receipts through customer rates. Property tax, gross earnings tax, interest on first mortgage bonds, and income tax payments are but a handful of significant costs that are all paid either on a quarterly or semi-annual basis. Collectively, the unpredictability of some events combined with uneven cash payments for even expected costs necessitate cash flexibility on a daily basis. While reported financial statements are often shown over a single period of time, such as a year, and as of a point time, such as December 31, 2025, the flow of cash into and out of the Company is a daily balancing requirement. The purpose of financial reporting is intentionally summarized, simplified, and standardized to increase the likelihood that interested stakeholders correctly interpret and understand the material. Therefore, while the balance of outstanding short-term notes payable may appear on a balance sheet as a single number as of a single point in time, the reality is that short-term notes as well as the flow of cash into and out of the Company must be, and indeed is, managed *daily*. The Company preserves immediate liquidity by managing its short-term debt levels, thus preserving its capacity to borrow short-term funds.

Cash is a scarce resource, a fact that drives the cost of acquiring it

Because the balance of deferred storm costs has continued to increase, far outpacing the level of cost recovery in rates, this necessarily creates a cash need (or a use of cash) which the Company must close with capital provided by debt and equity investors. Investors in turn require the Company to compensate them for the use of their capital, which comes at a cost to the Company.

Additionally, and for the reasons explained above, short-term debt has a limited capacity. CL&P is one of six Eversource operating companies in addition to unregulated companies that require access to short-term sources of capital. For the same reason ES Commercial paper is capped so too is CL&P's capacity within Eversource's commercial paper program. Eversource Energy backs

up its commercial paper program with revolving credit facilities. This is a requirement of the commercial paper program. Higher commercial paper limits would require higher revolving credit facilities, therefore higher fees. This is in addition to interest costs. Revolver fees are not trivial – approximately $7M per year.

Capital resources, both debt and equity resources, must be balanced in order for the Company to remain financially stable. Debt and equity lenders evaluate the Company's cash flow position and other factors before providing the Company access to its capital, and prior to determining their cost of providing the Company access to its capital. As capital resources become constrained, there is a limit to the amount of capital resources utilities are able to expend, and a cost to access additional capital as those resources are constrained.

Simply put – and as shown in Table LFE-31-1 - the Company's uses of cash to fund its myriad financial obligations (i.e., RAM under recoveries, storm restoration activities, ongoing infrastructure system investments, etc.) exceed its sources of cash (revenues collected from customers); meaning it needs to be able to access external capital in the form of debt and equity in order to remain solvent. Short term resources (short term debt) are used for temporary differences less than one year. Recovery extending beyond a year requires the use of permanent sources of capital; long-term debt and equity. Consequently, the Company needs to rely on permanent sources of capital, including long-term debt and equity resources, to fund this shortfall.

The Company recognizes that the appropriate treatment of carrying charges may vary based on the regulatory framework established within each jurisdiction. Different regulatory constructs reflect differing policy objectives and mechanisms designed to balance the Company's financing needs with customer impacts.

For example, in Massachusetts, the Department of Public Utilities has implemented a storm cost recovery mechanism that allows for more timely review and recovery of prudently incurred storm-related expenditures. Under this framework, the Company files annually for review and approval of accumulated storm costs, which are then amortized and recovered from customers over a five-year period. As part of this mechanism, the Company is permitted to apply carrying charges at the Prime rate, calculated from the date the costs are incurred (i.e. from the date invoices are paid).

This approach explicitly acknowledges that there is a real and measurable cost associated with the use of the Company's capital to finance deferred storm costs. At the same time, the use of a Prime-based carrying charge reflects a regulatory determination to balance the Company's need for timely cost recovery with consideration for customer rate impacts. Accordingly, this treatment represents a jurisdiction-specific policy choice that aligns with the underlying structure of the Massachusetts storm recovery mechanism and differs from approaches used in other jurisdictions where recovery timing, financing duration, and capital structure considerations may warrant alternative carrying charge methodologies.

This framework does not currently exist in Connecticut and has not been in place for the duration of the storm costs under review in this proceeding. At the hearing it was suggested that PURA, will, as a policy decision, determine whether or not to allow the utility "profit" on a force majeure event, like a storm. (March 27, 2026, Hearing Transcript at pp. 114–21). It is important to distinguish that concept in the context of PURA establishing a going-forward storm cost recovery framework, like Massachusetts has in place and as the Company expects to propose in its upcoming rate case from the historical framework (or lack thereof) that has existed in Connecticut which has caused the Company to incur substantial capital costs associated with financing the ever-growing balance of storm costs under review in this proceeding. In establishing a going-forward framework for storm cost recovery, the Company agrees that it would be within PURA's discretion to strike a balance between the Company's costs of financing storm costs while ensuring that the Company is not 'profiting' on a force majeure event like a storm. This is the Company's experience in Massachusetts, as well, where the MDPU has authorized a carrying charge rate that is different from and generally less than the Company's full WACC. Id.

However, in this proceeding, the Company has demonstrated that it has incurred capital costs at its full WACC on the ever-growing balance of storm costs, and thus it is seeking to be reimbursed for its financing costs using a combination of debt and equity (weighted average cost of capital or WACC). The debt component of the WACC reimburses the utility for the interest costs it incurred associated with issuing debt to finance the storm response. The equity component represents the cost to reimburse the equity investors for their investment. All else equal, the issuance of equity dilutes the value available to other investors, deflating their share of any earnings, and so the recovery of the cost of equity though WACC carrying charges is intended to reflect the cost to the equity investor if their equity investment. For traditional utility capital investments, equity investors earn a return through the equity return on rate base (which in the case of capital investments already includes the cost of financing through inclusion of AFUDC) which is allowed in the calculation of the revenue requirement in base rates. In this case, the Company is seeking recovery for deferred storm balances that are not in rate base and do not include AFUDC. Therefore, were PURA to issue a decision in this proceeding that declines to authorize the recovery of carrying costs at the WACC, it will need to overcome the fact that the Company has demonstrated it has had to finance this cost with its available capital (demonstrated in this response and elsewhere on this record) of debt and equity, and has incurred the costs associated with that capital.

As shown above and demonstrated on the record in this proceeding, the Company's balance of incurred and deferred catastrophic storm costs has continued to grow year after year as the amount of storm expenses has far exceeded the amount of funding provided through customer rates. The Company has had to finance that gap in cash flows with other available capital resources, all of which come at a cost. The Company cannot finance the capital deficit associated with storm costs on a long-term basis with short-term notes that must be repaid within days or months. To do so

would be impractical, illogical, and irresponsible. Instead, the Company has had to finance this ever-growing balance of storm costs with its available long-term capital resources - a combination of its long-term debt and equity capital, both of which come at a cost. It is evident, therefore, that the Company has, in fact, incurred the cost of long-term capital (i.e., its WACC) to fund the balance of storm costs under review in this proceeding.