STATE OF CONNECTICUT
PUBLIC UTILITIES REGULATORY AUTHORITY

Docket No. 26-05-10

APPLICATION OF THE CONNECTICUT LIGHT AND POWER COMPANY
D/B/A EVERSOURCE ENERGY
TO AMEND ITS RATE SCHEDULES

JOINT REBUTTAL TESTIMONY OF

MATTHEW NELSON AND MICHAEL GOLDMAN

Investment and Affordability Policy

On behalf of

The Connecticut Light and Power Company
d/b/a Eversource Energy

November 18, 2026

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I. INTRODUCTION

Q. Please state the names of the witnesses on the Investment & Affordability Policy Panel.

A. The Investment & Affordability Policy Panel is comprised of Matthew Nelson and Michael Goldman of Apex Analytics LLC. We are providing this rebuttal testimony on behalf of The Connecticut Power and Light Company d/b/a Eversource Energy ("CL&P," "Eversource," or the "Company").[1]

Q. Have you previously submitted testimony in this proceeding?

A. Yes. On July 14, 2026, we submitted direct, pre-filed testimony to the Public Utilities Regulatory Authority ("PURA") on behalf of CL&P in support of its application for approval of amended rate schedules. Our direct, pre-filed testimony was designated as Exhibits CLP-IAP-1 through CLP-IAP-7.

Q. What is the purpose of this panel's joint rebuttal testimony?

A. The purpose of this joint rebuttal testimony is to respond to elements of the direct testimony of the parties and intervenors, including Ms. Wilson and Mr. Tully (RMI, for OCC), Mr. Balakumar (Eclipse for OCC), Ms. Whited (Synapse for OCC), Ms.

[1] The Company does not respond to every issue raised in the intervenor testimonies. Silence on any issue should not be construed as agreement on any issue.

Griffin (CLF-AC), addressing the affordability framework; the Company's proposed Performance-Based Multi-Year Rate Plan ("PBMRP") as an instrument of affordability, and the Consumer Dividend. We do not address reliability engineering, the Company's benefit-cost model, the cost of capital, the design of performance incentive mechanisms, the productivity study behind the X-Factor, or project prudence. Where an intervenor's affordability argument depends on one of those subjects, other Company witnesses will address it.

Q. How is your testimony organized?

A. Our testimony is organized into the following sections:

- Section I is the introduction;
- Section II discusses the PBMRP stay-out term and rate stability.
- Section III discusses the affordability framework.
- Section IV provides responses to Mr. Balakumar on behalf of Office of Consumer Counsel ("OCC");
- Section V provides responses to OCC witnesses Ms. Wilson and Mr. Tully.;
- Section VI provides responses to witness Ms. Griffin on behalf of Acadia Center and Conservation Law Center; and

Q. Would you please identify the topics addressed in this joint rebuttal testimony?

A. Yes. This testimony addresses the following topics raised by the parties and intervenors:

- **OCC (RMI)** – OCC's witnesses Genelle Wilson and Oliver Tully raise issues and claims relating to PBMRP, regulatory lag, and the treatment of capital and operating costs.
- **OCC (Eclipse)** – OCC's witnesses Nikhil Balakumar raises issues in relation to PURA's Docket No. 17-12-03RE08 ("RE08") reliability framework, affordability test and capital baseline.
- **Conservation Law Foundation ("CLF") and Acadia Center (together "CLF-AC")** – CLF-AC's witness Lindsay J. Griffin raises issues on rate stability and the Company's proposed consumer dividend.

II. THE PBMRP STAY-OUT TERM AND RATE STABILITY

Q. Ms. Griffin and the RMI witnesses argue that the four-year stay-out commitment is a benefit to the Company and the plan's mechanisms are the price customers pay for it. Do you agree?

A. No, we do not. Rate stability and predictability are the 'Burden' leg of the framework we presented in our direct testimony. A bill that is predictable for four years is preferable from an affordability perspective than a bill that is subject to unpredictable changes even if, in the end, the same average level four-year bill impact results. Households and businesses plan against known costs, and the harm from an unexpected increase is not the increase alone but the adjustment it forces. The effect is largest for low- and moderate-income households, which have the least capacity to absorb a step change. A rate path that moves by a known rule, at a known time, in a known amount

is the one structural feature of the plan that addresses arrearage formation before it occurs. Stability is not a freeze: operating cost revenue moves each year by the index less the efficiency factor, less the dividend, and capital revenue moves within a reviewed and capped forecast. The alternative to the stay-out, however, is not lower rates. Rather, it is the same costs recovered on a schedule set by repeated litigation rather than by known and knowable formula.

Q. What is the Company committing to when it accepts a four-year prohibition on the filing of a rate application to create the "stay-out" element of the PBMRP?

A. The Company is committing to a stated revenue path while its costs move in directions it does not fully control. PURA acknowledged the differences in capital costs and consumer costs, stating in Docket No. 24-10-04 that the Handy-Whitman index of utility construction costs "better reflects costs of utilities doing business, while the GDP Deflator reflects costs from the consumer's perspective," and as of 2024 Handy-Whitman had risen 35 percent since 2022 and 49 percent since 2021, against 5 and 13 percent for the deflator (*Application of the United Illuminating Company to Amend its Rate Schedule*, Docket No. 24-10-04, at 43 (Oct. 28, 2025) ("UI 2025 Decision")). A utility that holds its operating cost recovery to the consumer-side index while its inputs move with the utility-side index is compelled to absorb that gap for the term, and the value of the commitment to customers grows if the gap persists. In other words, the utility is committing to distribution rates that are confined by formula, while the Company's obligations to customers stay open. Safe and reliable service, storm restoration, and changes in policies that PURA and the General Assembly require

during the term are fixed by law, not by the Company, and none is suspended because rates are under a fixed PBR rate plan. This commitment is one of two things that separates a utility stay-out from an ordinary fixed-price cost of service rate case.

In a traditional rate-case cycle, the utility chooses when and if it files a rate case with the regulator – meaning that, if costs are going up, the utility can seek rate relief. Conversely, in a traditional rate-case cycle, the utility can achieve efficiencies and choose *not* to file for a change in rates, benefitting from those efficiencies until rates are next set, at its own discretion. In a PBR plan, however, the utility cannot file a rate case when it chooses to address declining rates of return and, conversely, must yield achieved efficiencies to customers at the end of the PBR term when the Company must file an updated cost-of-service to continue under PBR.

A retail supplier offering a three-year fixed price takes on the risk that wholesale costs could increase against their position and they have to hedge that risk; but the customer receives certainty and pays a premium for it that is built into the price and never disclosed (e.g., the profit and risk are never disclosed and only controlled by competition). Utilities do not operate under that model. The Company's commitment has the same structure (multiple years of certainty) but with transparent pricing. Every dollar the Company will be allowed to collect is stated in advance and on the record — the index, the X-Factor, the dividend, the capital forecast and its associated cap. Nothing is embedded. If costs rise faster than the formula, the utility must withstand the gap. Here, the Company's working model presenting the rate formula for the

PBMRP shows earned return declines from 9.16 to 8.85 percent over the term against a 9.25 percent allowance (response to Interrogatory UPA-82, Attachment 8). The Company cannot control inflation, supply chains, or public policies – the Company can control only their own costs. As a result, the PBR and associated stay-out term provide transparency and simulate the discipline of the competitive marketplace.

Q. The Company has said that, under a traditional rate-case cycle, it would expect to file a new rate case on an 18-month frequency. Intervenors call such statements threats. Are they?

A. No, these statements are not threats. In our experience, this type of response indicates a lack of understanding or acknowledgment of the intense competition that now exists among electric transmission and distribution companies for capital resources. Competition for investment dollars in electric transmission and distribution is intense due to the massive surge in electricity demand that is occurring. Aging infrastructure is a dynamic that electric utilities are struggling with across the U.S., with a large percentage of distribution assets surpassing 40 years of age and requiring total modernization. Rapid expansion from electric vehicles, heat pumps and industrial electrification, including emerging needs for AI data centers, has created a structural and unavoidable need for grid expansion. Supply chain bottlenecks are persisting, driving inflation along with dramatic increases in costs—with prices for cables doubling and large power transformers rising 75%—while lead times stretch up to four

years. OCC's witness, RMI, has acknowledged this dynamic, for example, reporting about the supply chain challenges for electric utilities, as follows:[2]

> In fact, if you need a large power transformer, you may have to wait. The stakes are high for American businesses and consumers: the grid supply chain crunch is already impacting utility bills, threatening reliability, and stalling critical projects, from power plants and to new housing construction.

In addition, although renewable generation investment has surged, flat historical grid capital expenditures have created major bottlenecks for connecting that clean energy, forcing competitive solicitations and aggressive capital allocation to clear transmission congestion. As a result, the electric distribution industry is at an inflection point where the magnitude of capital that utilities currently need and are seeking across the country to meet these demands is coming into conflict with the need to maintain a level of affordability for customers. We are not capital-market experts, but there is universal consensus in the industry that competition for investment dollars among electric transmission and distribution companies is intense, escalating to unprecedent levels and driving the need to obtain timely and adequate recovery for invested dollars using any and all regulatory paths open to the utilities. In our view, this puts state regulatory commissions in a place where development of electric infrastructure in their home state will suffer if there is not a supportive regulatory framework and, if that framework

[2] *Solving the Gridlock, America's Electric Supply Chain Opportunity,* Ellie Garland and Ben Feshbach, May 8, 2026, https://rmi.org/resources/solving-the-gridlock-americas-electric-supply-chain-opportunity/.

provides only a pathway via a rate-case cycle, then the utilities will avail themselves of that option as frequently as they can manage.

As a result, the statement that the Company will file on an 18-month cycle without a multi-year rate plan in place is not a threat, but rather a description of the alternative ratemaking model that the parties and intervenors are recommending. The Company's revenue requirement witness has modeled this alternative under rolling cost-of-service cases, filed as often as Connecticut law allows, with the first taking effect July 1, 2027, and subsequent increases on January 1, 2029, July 1, 2030, and January 1, 2032 — with a bill impact in the range of 2.5 percent, as compared to about 1.5 percent a year under the plan (response to Interrogatory UPA-82, Attachment 7). A company whose costs rise at the utility construction index and whose rates are set to actual cost through the traditional rate case cycle that takes 12 months to conduct, will return to PURA as soon as the gap becomes foreseeable. Conversely, the stay-out term is designed so that, for four years, the utility cannot return to PURA and must do the best it can with what rates allow, sparing all stakeholders with the need to focus resources on repeated rate cases and driving stability and efficiency for customers.

III. THE AFFORDABILITY FRAMEWORK

Q. What are your concerns with how Mr. Balakumar describes the increment in the capital plan above its historical level as "discretionary," and that the Three B's framework does not provide an amount for the level of investment?

A. The Three B's framework is a method and was not designed to derive or determine a dollar figure. The Three B's framework asks what the system requires and what

meeting that need will cost (Budget); what that cost means to customers in terms of the level of rates and the stability of those rates (Burden); and whether the two can be reconciled and, where they cannot, which gives and on what evidence (Balance). As the Company explained to PURA, underinvestment is spending less than the system requires given its age, condition, weather exposure and obligations. The Company's response to UPA-025 and UPA-26 sets out the criteria a reviewer applies instead of a threshold – project benefit-cost results, reliability and asset condition, the composition of spending, and cost benchmarking, with the signs that distinguish insufficient from calibrated from over-investment. On those criteria, the record leaning toward the under-investment side of a calibrated framework and needing an increase in annual investment levels, based on the following:

- Capital spending about 14 percent below LEI's benchmark (UPA-025, citing Ex. CLP-PBR-3, pp. 9, 16–17);
- Blue-sky SAIDI at 77.5 minutes in 2025 against a 2021–2025 average of 71.1 (UPA-026, citing Ex. CLP-TSP-1, p. 76, Table 1);
- Emergent failures diverting resources from proactive replacement (Ex. CLP-TSP-1, p. 22, ll. 14–16);
- A 2025 capital plan reduced for "regulatory recovery risk" (Ex. CLP-ADDITIONS-12, p. 167, quoted at Balakumar Direct, p. 19); and
- The asset condition the Company's reliability witnesses describe (Ex. CLP-ELP-1, pp. 42, 48–49; Ex. CLP-TSP-1, p. 35).

The increment Mr. Balakumar calls "discretionary" (Balakumar Direct, pp. 5, 35) is the output of the Company's benefit-cost review of system conditions. The Company's reliability witnesses have testified to what continuing at historical levels means for

system performance (Ex. CLP-ELP-1, pp. 42, 48–49). Our direct testimony addressed the other side of the same question, i.e., what deferral of investment costs for customers when the bill comes due. The cases in Section III.D of Exhibit CLP-IAP-1 (pp. 37–44) show the pattern: deferred asset-condition work surfaces later as emergency restoration, casualty exposure, after-the-fact cost recovery and repriced capital, and the customer cost arrives late and exceeds the savings it followed, if any (Exh. CLP-IAP-1, p. 36). We presented those cases as a record of how the pattern has unfolded elsewhere, not as a prediction for Connecticut, and we do so again here.

Q. Ms. Griffin states that the Company produced no analysis comparing customer outcomes under its design with those under PURA's Proposed Final Decisions. Is that accurate?

A. What is important here is that PURA's PBR model has not reached a final decision balancing the interests and concerns of all parties. Nor are we aware that PURA ever reached a point where PURA was able to provide certainty on what that customer outcome would be. From a customer perspective, it is valid to compare the Company's proposed PBMRP to the alternative reality of a traditional cycle of cost-of-service rate cases using the same capital plan and the same return on equity to make the analysis apples to apples. Under that comparison, the results show that customers pay about 1.5 percent more each year under the plan, versus increases of roughly 2.5 percent under multiple rate cases, and $58 million less in total through 2032 — $344 million versus $402 million (UPA-82, Attachments 8 and 9). In addition, the Company's response to Interrogatory UPA-82, Attachment 7 quantifies the one element that distinguishes the plan from the RE01 design, the $133 million of return over the term on plant in service

that the CT-Bar would withhold, and its response to UPA-82 explains why that design fully prevented the Company from having any practical chance at staying out of a rate case. Consequently, this response from the Company identifies the conundrum, which is that the more that PURA's PBR framework is tilted against the Company (in the hopes of providing a greater benefit to customers than a balanced framework would), the more unlikely it is that the utility can or will commit to a stay-out period, returning the entire paradigm to a traditional rate-case cycle.

Griffin treats the $133 million as a cost of the Company's design relative to the CT-Bar (Griffin Direct, p. 69). However, this is the necessary return on plant that is in service and used and useful for customers, regardless of the applicable ratemaking framework. The CT-Bar does not eliminate the plant or its cost; it withholds the return on it for the term, which is a non-starter for a stay-out term. More specifically, under the RE01 design the revenue requirement "shall not include any return on investment" on CT-Bar additions, and the Company "is not entitled to a return or carrying costs" on them until the next rate case, when the plant enters rate base prospectively (RE01 PFD, pp. 37, 40). The financial consequences of deferring return on in-service plant, without taking into consideration the credit implication and downgrades for the Company's revenue requirement are (1) the $133 million is forfeited, not deferred — it is never recovered (the Company's response to Interrogatories UPA-82, OCC-435); (2) customers receive a four-year pause on part of the cost of prudently approved plant that is serving them, financed by the Company and shareholders, and then must

shoulder four years of additions entering rate base at once in the next case (with an aggregate return not already in rates, increasing the rate shock for customers at that interval); (3) costs are shifted from today's customers to future customers, who will have their own new costs and new policies to pay for; and (4) the design is one-way: a prudent addition earns nothing during the term, while an addition found imprudent is refunded with carrying charges (RE01 PFD, p. 40). A utility in that position will make different decisions on investment. Deferred replacement in an aging system becomes a failure-driven, replacement-based system, which in the long run costs more and drives outages and lower service levels (Ex. CLP-TSP-1, p. 22, ll. 14–16) – leaving customers in an abyss where they endure higher costs and lower levels of service.

IV. RESPONSES TO MR. BALAKUMAR ON BEHALF OF OFFICE OF CONSUMER COUNSEL

Q. What is the Company's position on the affordability test set forth in RE08?

A. The affordability test put forward by PURA in RE08 without any comment or participation by the parties is invalid. An inflation-escalated historical average cannot stand alone as the measure of what is affordable for capital investment on an aging system. The Company stated this in direct testimony and in discovery (Exh. CLP-IAP-1, at 23; Exh. CLP-IAP-7, at 1; Response to Interrogatory OCC-565). As written, the test indicates to PURA only whether the Company proposes to spend more than prior

years; it does not tell PURA whether the Company proposes to spend what the system needs, nor does it offer an analysis of the long-term costs of deferred maintenance.[3]

A ten-year average assumes that the past decade's spending is a fair sample of the system's ongoing requirements, when it is not for an electric distribution system operating in the current industry environment. This is a dynamic that PURA did not examine in putting forward this measure. For a system that has the bulk of its assets installed in concentrated periods and reaching the end of useful life together, a historical view does not take into account current realities. Most distribution assets last far longer than ten years, so a ten-year window sees only a fraction of any asset's life — and if the window falls in the middle of that life, it records little replacement spending and sets a baseline that cannot anticipate the replacement wave that follows. Consider a sub-transmission line whose poles were set in the same construction program. For decades, the line requires little capital. Then the poles reach the end of their service lives together, and the line is rebuilt once, in a few years, at a cost that no average of the preceding decade would predict. The ten-year test would call that rebuild unaffordable, but the system would call it overdue. The Company's system has that profile across major asset classes — poles, direct-buried cable, substation transformers — with large shares at or beyond design life (Ex. CLP-ELP-1, pp. 42, 48–49; Ex. CLP-TSP-1, p. 35; Ex. CLP-TSP-3, slide 58). A system in that condition has

[3] The Company's response to Interrogatory OCC-565 explains why the GDP deflator and the BLS PPI, which LEI used for a different purpose in its productivity study, are not the appropriate escalators for this test.

a different budget than the same system did a decade ago, even before construction costs are considered, and no escalator applied to past spending recovers that fact.

The RE08 Decision describes the historical test as "a rebuttable presumption" (Ex. CLP-IAP-7, p. 1). In this case, application of the RE08 "unaffordable" test is rebutted by the quantification the RE08 Decision requires at page 47. Additionally, RE08 expressly provides that a utility "may also propose a different affordability definition" (RE08 Decision, p. 46; *Application of the United Illuminating Company to Amend its Rate Schedule*, Docket No. 24-10-04, at 42 (Oct. 28, 2025) ("UI 2025 Decision")). The Budget, Burden and Balance framework in Exhibit CLP-IAP-1 is that definition. The Balance review provides a framework for weighing the challenges of overspending against the long-term negative affordability and reliability consequences of underspending.

Q. Is the historical test a cap on capital?

A. No. It is a check that triggers scrutiny, not a rule that sets the budget. The structure of the RE08 Decision makes this clear. A plan above the escalated baseline is not rejected; it must be justified by quantified benefits (RE08 Decision, p. 47). The mirror case shows the same thing. If the Company had proposed a plan *below* its escalated history, the RE08 Framework would not have required it to spend more. A benchmark that binds in neither direction is a reference point for review, not a determination of need. And once PURA sets rates in this proceeding, the approved plan — not a ten-year average — governs what the Company builds and what customers pay. Mr. Balakumar

treats the baseline as the ceiling and the quantification as an afterthought (Balakumar Direct, pp. 3, 34, 38), which inverts the RE08 Decision. Instead, the baseline is the trigger for the analysis, and the analysis is what PURA weighs based on evidence presented in this case.

Q. Which escalation index is appropriate for the RE08 test?

A. If the RE08 affordability test is used, it should be used only as a reference point, and the Handy-Whitman index of public utility construction costs should be used as the applicable inflation index. PURA itself has said that: "the HW Index better reflects costs of utilities doing business, while the GDP Deflator reflects costs from the consumer's perspective" (UI 2025 Decision, at 43). The affordability test seeks to understand whether the utility's reliability spending has grown faster than the cost of doing the work, and Handy-Whitman measures that cost — by FERC plant account, for northeast utilities. The GDP deflator measures the price of the economy's output as a whole. Although the GDP deflator is an appropriate index for what customers can bear in bills (the Burden review, addressing low-income discount rates), it is the wrong measure of what the work costs to maintain reliability (the Budget). PURA recorded how far the two have diverged. As of 2024, Handy-Whitman had risen 35 percent since 2022 against 5 percent for the deflator (UI 2025 Decision, at 43). Under Handy-Whitman, the Company's reliability plan averages 93 percent of its escalated ten-year history (Ex. CLP-IAP-7, Tables 3–4).

Q. Mr. Balakumar applies the escalated baseline to the Company's total distribution capital. Is that how the "affordability" test works?

A. No, in RE08, PURA did not apply the escalated baseline to the Company's total distribution capital. The RE08 test asks the utility to identify the reliability-related portion of its capital plan, and Exhibit CLP-IAP-7, Table 1, does that component by component. PURA confirmed in the UI 2025 Decision that new customer connections and customer projects "are exempt from the affordability analysis in the 17-12-03RE08 Decision" because they are "not planned … to address system reliability or operational needs but are done to meet specific customer needs" (UI 2025 Decision, at 42, citing RE08 Decision, p. 46). Mr. Balakumar's Table 1 includes New Customer Additions, at 1.9 times their historical level, in a comparison he presents as the RE08 baseline test (Balakumar Direct, Table 1). The comparison should be restated without the exempt category before PURA gives it any weight.

Q. Mr. Balakumar also relies on the Company's 2025 capital plan reduction and on a chart of SAIDI against spending. How should PURA read this information?

A. On the SAIDI comparison he writes: "I am not suggesting that reliability capital produced no benefit, or that a single year's result proves anything. Weather and other factors affect annual reliability results" (Balakumar Direct, p. 21). The Company agrees. His testimony does not state the level of investment he contends is justified, and therefore he does not say what would satisfy the gap he is allegedly identifying, which provides no basis for PURA to set a decision on capital allowance.

V. RESPONSES TO OCC WITNESSES MS. WILSON AND MR. TULLY

Q. What do Ms. Wilson and Mr. Tully recommend, and what would customers receive?

A. The primary recommendation of OCC witnesses Wilson and Tully is to deny the PBMRP and approve a one-year rate plan (Wilson/Tully Direct, p. 49, ll. 11–13) — no stay-out, and a new case within months of the decision. The Company's own model shows that cycle for customers, with increases of 2.4, 3.4 and 2.6 percent of the total bill in sequential years, as compared to about 1.5 percent a year under the plan (response to Interrogatory EOE-156, Table 1). Their fallback is a reopener to "combine both O&M and capital under an externally indexed revenue cap formula, requiring a new I-Factor, S-Factor, and X-Factor," with supplemental capital recovery "on a case-by-case basis" (pp. 49–50; p. 23, ll. 6–11) — a formula whose terms would be set later, with capital funded by an escalator not yet determined, and anything above it recovered under a process with no stated criteria, forum, timing or return rule. In every indexed plan we know of, prudent capital enters rate base at the next reset. A ratemaking design that defers capital investment is a delay and build-up for customers, not a savings.

Q. How does their recommendation compare to PURA's proposed final decision in Docket No. 21-05-15RE01?

A. The Company opposed the proposed final decision and said so at length. On the face of it, the CT-Bar is unworkable because it uses capital resources for the system with no return and no cost of removal under a downward-only reconciliation (RE01 PFD, p. 33, citing Eversource Brief, pp. 20–26; the Company's response to Interrogatory OCC-423). We do not rely on it as a model. We cite it for one thing it recognized. OCC

argued that capital should have no funding mechanism at all ("we view regulatory lag as an appropriate tool") and asked for a case-by-case application process instead (Wilson/Tully Direct, p. 22, n. 16, quoting OCC Letter in Lieu of Exceptions, pp. 6–7; RE01 PFD, p. 32, citing OCC Brief, p. 2). However, the proposed final decision did not adopt that position; whatever its other flaws may be, it recognized that a multi-year plan needs a mechanism that funds capital during the term (RE01 PFD, p. 36).

The RMI recommendation is OCC's position from that docket again, and the record in this case shows what PURA saw then: a design that funds capital by lag does not fund the system the Company is obligated to operate, and the RMI testimony offers no analysis showing it would. They further claim that the F-Factor recovers a return "before" a prudence review (p. 23, ll. 1–3), which is a claim Mr. Balakumar also makes (Balakumar Direct, pp. 15, 91–92), although he describes a design the Company has not proposed.

Q. The RMI witnesses say the F-Factor removes the discipline that regulatory lag provides and favors capital over operating solutions. How do you respond?

A. The return on capital is not an incentive layered onto the business; it *is* the business. Every utility borrows to build, and the time value of that money is a cost of service someone pays, whether the utility is government run, municipal, or investor owned. PURA's observation that cost-of-service ratemaking can support capital solutions is correct and not new (Decision, Apr. 26, 2023, Docket No. 21-05-15 "Phase 1 Decision", at p. 29). PURA's Phase I Decision describes how regulated utilities are

financed, and what it means for design is that a regulator should take care not to reward capital twice. The Company's mechanism is built with that care -- the forecast is reviewed in advance; recovery is capped at the lesser of forecast and actual; the adjustment is downward-only; every dollar is prudence-reviewed (response to Interrogatory OCC-423). The cap is "hard," in that capital additions five percent above forecast earns no additional revenue and reduces earned return by roughly 35 basis points, because the Company carries the plant unrecovered until the next case (EOE-156, pp. 8–10, Table 2). Regulatory lag, by contrast, disciplines the timing of investment, not its cost. It withholds recovery on plant in service, weakens cash flow, and leads a company to delay or avoid the proactive work that can be deferred without immediate failure. The work that cannot be deferred is done at the system's timing, which the Company has to work with and manage. The plan keeps lag above the cap, where it belongs as the consequence of exceeding a commitment, not the means of funding it.

Q. Why does the plan treat operating expense and capital investment costs differently?

A. Because operating expense and capital investment are different costs moving at different rates, and one index cannot describe both. Operating costs are for items consumed within a year and move with inflation; making it suitable for an index with an efficiency factor and a dividend. Capital costs are long-lived, lumpy and front-loaded at this stage of renewal, suitable for an index that is separate from general inflation. The Company's response to Interrogatory OCC-423 states the divergence:

capital investment rising nearly 40 percent, from $549 million in 2025 to $758 million in 2028 — more than 11 percent a year, while operating costs excluding storms and vegetation management rose 3 to 4 percent a year, making capital 87 to 89 percent of each year's adjustment under the plan (the Company's response to Interrogatory UPA-022).

A single escalator at the consumer-side index underfunds capital by the gap PURA measured; yet, set high enough for capital, over-escalates operating cost with no efficiency test. Under PBR theory, a cap that includes capital additions requires a negative X-Factor and that design leaves "no direct link between the actual cost of capital plant additions and the revenue collection through customer rates" (OCC-423(a)–(b)).

For this reason, the X-Factor in this case is the O&M partial factor productivity measure from LEI's industry study, chosen because the revenue adjustment mechanism "applies only to OM&A costs" (Ex. CLP-ELP-1, pp. 88–90). It was never derived nor offered as a productivity factor for capital and operating cost combined. LEI's study produces separate measures for each, and a combined cap would require a different X and, as the Company explained, a negative one (Ex. CLP-ELP-1, p. 88, ll. 10–14; OCC-423(a)–(b)). In addition, the composite ECI/GDP-PI index was built to track the O&M cost structure the PFP measures (Ex. CLP-ELP-1, p. 89, ll. 5–12). Both terms of the formula are operating-cost measures by construction; neither was designed for capital.

VI. RESPONSES TO MS. GRIFFIN ON BEHALF OF CLF-AC

Q. What does Ms. Griffin recommend and how does it compare to the Company's design?

A. Ms. Griffin recommends the RE01 proposed final decision's tiering, the S-Factor set in each rate case from a benchmarking study, larger for less efficient utilities and zero for the most efficient (RE01 PFD, pp. 23, 26) (Griffin Direct, App. C, item 5(c), at 35) (pp. 69–70). Under tiering, the S-Factor is set once from the utility's position against peers and held for the term; a utility in the most efficient tier receives an S-Factor of zero (RE01 PFD, pp. 23, 26). Ms. Griffin's recommendation on the dividend depends on her larger one. She recommends a revenue cap formula "applied to the total revenue requirement (capital and OM&A costs)" (Griffin Direct, App. C, item 1), and she faults the Company's proposal for removing "the total-cost discipline from the revenue cap" (Griffin Direct, p. 21, ll. 16–18). Her S-Factor would apply to that combined base (App. C, item 5(c)). The Company's proposed consumer dividend applies to operating expense only.

LEI's 0.15 to 0.60 percent range was drawn from operating-cost mechanisms and is specific to an operating-cost formula; a dividend applied to capital and operating cost together would require a different range and a different benchmark (Ex. CLP-PBR-3, Figure 16). On the design itself, the two share the first step and differ on the second. Under tiering, the dividend is set once by the utility's position against peers and left for the term. Under the Company's design, "the Company's relative cost position determined where the dividend starts" within LEI's range, and "actual performance

determines whether it increases" for example 0.10 percent up when Core Operating Expense per customer beats the index-escalated benchmark, 0.05 down when it does not, a 0.30 floor regardless, and a cap at I minus X (responses to Interrogatories OCC-539(b), UPA-069 and UPA-072). Her criticism describes the step the designs share and overlooks the one that is lacking from her design. Under tiering a utility that reaches the top tier can see its factor fall to zero; under the Company's design customers receive 0.30 percent even then (the Company's response to Interrogatory CLF-AC-005). The proposed final decision adopted that design '[w]ithout substantive Participant feedback regarding the S-Factor' and left its structure to a rate case (RE01 PFD, p. 26); this is that rate case."

Q. Ms. Griffin contends that the Company's 0.30 percent starting level is too low. How should PURA weigh the starting level?

A. The mechanism operates at any level in LEI's 0.15 to 0.60 percent range and PURA may set the starting point. The Company proposed 0.30 percent, slightly below the midpoint of LEI's 0.15 to 0.60 percent range, based on the Company's benchmarking (responses to Interrogatories OCC-443 and OCC-559; Griffin Direct, p. 35). The design of this mechanism, however, has the ability to increase beyond the starting level, up to the maximum of the range (between 0.3 to 0.6). A higher fixed dividend pays customers more whether any efficiency is achieved. The Company's dividend starts at 0.30 and rises only in the years the Company earns it, so the customer benefit over the term follows performance rather than a number set at the outset (response to Interrogatory UPA-071, Attachment 1).

Q. How does the dividend relate to the rest of the plan, and what is the constraint on its size?

A. The dividend strengthens the stay-out and must remain subordinate to it. The stay-out is the period in which the dividend steps up; the longer the Company performs under its commitment, the larger the customer's share. The dividend is designed to drive efficiency in operating cost, the one-year costs the Company manages within the year. Capital efficiency is achieved by different tools: the reviewed forecast, the cap, the lesser-of reconciliation and prudence review. That is the reason the dividend applied here is applied to operating cost revenue only, why dividends of this kind are small relative to the formula, and why LEI's range was drawn from operating-cost mechanisms (Ex. CLP-PBR-3, Figure 16). It is a sharing device, not an incentive; the incentive is the formula.

The Company sized the consumer dividend "small enough to preserve the incentive that produces the gains to be shared" and capped it at I minus X (OCC-539(b); UPA-072). The formula sets allowed revenue at inflation less productivity, so I − X is the most the dividend can return without reversing the formula. A dividend set above it does not share efficiency. Rather, it reduces allowed revenue in nominal terms while the Company's input prices rise, whatever the Company's actual cost performance may be. The Company has described that result as "a rate reduction unsupported by actual cost performance" (response to Interrogatory OCC-443(e)). A revenue path that falls below cost regardless of performance is not a stay-out the Company can sustain, and the Company retains its statutory right to file when it cannot (response to Interrogatory

OCC-423). Ms. Griffin does not engage with that constraint, and she does not account for the efficiencies the stay-out itself produces, which "unavoidably inure to the benefit of customers when base-rates are next set" (EOE-156, p. 11) and which the dividend shares in advance of that reset.

Q. Ms. Griffin compares the dividend to the $124.1 million return on capital and finds it inadequate. Is that a valid comparison?

A. No, it is not. The comparison assumes her own recommendation. She assumes capital and operating cost sit in one PBR formula and then the witness faults the Company's operating-cost dividend for not offsetting a capital figure. The dividend was never designed to do that. Instead, it shares operating efficiency. The $124.1 million is the return on plant in service the Company would recover through the capital mechanism. Under the CT-Bar design, it is withheld for the term and never recovered. As discussed above, the plant would enter rate base at the next rate case. The dividend, once applied, reduces the revenue requirement and is not deferred or recovered later. Therefore, the forgone return on capital is not a customer saving – it is a cost the Company carries and a step increase customers meet at the next case. Netting the consumer dividend against this deferral measures nothing.

VII. CONCLUSION

Q. Does this conclude your testimony?

A. Yes, subject to reserving the Company's right to respond to additional issues raised in discovery or at hearings.