Date Filed: November 03, 2026

Witness: Rima Hyder and Matthew P. Fallon
Request from: Public Utilities Regulatory Authority

Question:

(FINANCIAL) Describe the Company's current financial condition as compared to that of the Company's circumstances at the time of its last rate case. Also, explain any improvements and/or other changes to its financial condition.

Response:

Since the Company's last rate case, in 2018, the Company's financial position has remained viable, although weakening over time due to the need for substantial and continuing capital resources to fund base levels of investment, pay for storm response, and withstand large differences in the timing of recovery through the respective reconciling rate mechanisms.

Since 2018, the financial demands on the Distribution business have changed materially. The Company has continued to operate and invest in the distribution system while experiencing sustained under-earning, higher costs, substantial timing-related regulatory balances, and materially greater investment and financing requirements. Those conditions have been particularly impactful given the significant distribution investment required over the period ahead.

From the Company's perspective, the question is asking whether the Company has the recurring financial capacity necessary to provide safe and reliable distribution service, finance the investment program presented in this proceeding, and meet the operating challenges ahead. The strong cash-flow metrics reported by CL&P in 2025 are favorable, but benefited materially from collections of prior-period under-recoveries that, by their nature, are not recurring. CL&P's liquidity, ratings, and access to capital provide relevant context, but do not define the Company's financial condition of its distribution operations.

To answer that question, it is necessary to understand not only the Company's current financial position, but also how it reached that position and what will be required going forward. In 2018, PURA approved the financially supportive framework established by settlement with OCC and PURA's PRO unit, which was widely recognized by ratings agencies and investor analysts as a constructive outcome. However, the Company has experienced subsequent weakening in recurring distribution financial performance as investment, costs and financing requirements have increased. In the sections below, the Company discusses the influencing factors for its current financial conditions.

1. Financial and Regulatory Conditions Subsequent to Docket No. 17-10-46, and the 2018 Rate Settlement.

The comparison of current circumstances to the 2018 rate case requires consideration of three distinct periods. First, during the 2015-2017 pre-case period, Connecticut regulation was not viewed as uniformly supportive. Fitch, for example, characterized the framework as somewhat challenging or restrictive.[1] Then came the 2018 Rate Settlement. The 2018 Rate Settlement was viewed as materially improving the framework applicable to the Company by establishing a more forward-looking and predictable basis for distribution revenues that benefitted credit quality. Moody's, for example, stated that it viewed the settlement as a positive, credit-supportive development.[2] Lastly, the post-settlement period that followed has been marked by sustained under-earning, larger financing requirements, accumulated regulatory balances and greater dependence on individual regulatory rulings deciding the availability of timely and adequate recovery.

The 2018 Rate Settlement provides a useful example of how a ratemaking framework can strengthen the Company's financial position, while also mitigating the impact-on customers. The 2018 Rate Settlement was a multi-year rate plan encompassing forward test years and providing a $124.7 million phased-in increase in base distribution revenues, consisting of increases of $64.3 million effective May 1, 2018; $31.1 million effective May 1, 2019; and $29.2 million effective May 1, 2020. The 2018 Rate Settlement also set an authorized ROE of 9.25%, and a capital structure founded on the Company's own capitalization of 53% equity and 47% long-term debt.

As noted above, Moody's described this settlement as credit supportive. Moody's explained that "[s]ettlement agreements generally benefit a utility's earnings and cash flow by reducing regulatory lag, the interval between a utility's costs and investments and their recovery from customers through an increase in rates." At the same time, Moody's specifically observed that "the phased-in rate increase mitigated some of the immediate rate effect on customers." The 2018 Rate Settlement therefore demonstrated that financial support and customer affordability need not be competing objectives, which was positively viewed by the marketplace. It showed that a forward-looking framework can improve the alignment of revenues with costs and investment while managing the timing of the resulting customer impact.[3]

The 2018 Rate Settlement's treatment by the rating agencies reinforces that point. Moody's viewed the settlement as credit supportive, while S&P later viewed the approximately $125 million multiyear rate increase and associated capital structure as favorable for credit quality.[4] These

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1 Fitch Ratings, Connecticut Light and Power Company, Rating Report (Apr. 20, 2016), p. 2.
2 Moody's Ratings, Connecticut Light & Power Company: Credit Opinion (June 28, 2022), p. 4.
3 Id, p. 4.
4 S&P Global Ratings, Connecticut Light & Power Company, February 25, 2019, p. 2.

assessments are relevant, not because the current proceeding should reproduce the 2018 Rate Settlement, but because the credit-rating assessments highlight the financial characteristics that made that framework effective, which were: forward-looking cost recognition, greater revenue predictability, reduced regulatory lag, and implementation over time to mitigate impacts on customers.

The 2018 Rate Settlement also provided a useful contrast to the Aquarion rate case discussed in the Company's response to ALLCO-142.[i] The subsequent Aquarion rating action highlights the potential credit consequences of an adverse rate-case outcome, whereas the Company's 2018 Rate Settlement illustrates the exact opposite. The OCC's description of the settlement at that time reinforces that point. The OCC estimated total bill impacts of 2.47%, 0.81%, and 0.61% for Rate Years 1, 2, and 3, respectively.[5]

That balance of sufficient revenue support for the utility and mitigating impacts for customers is also evident over the longer period following the settlement. As shown in Figure 2 of Exhibit CLP-IAP-1, the significant volatility in customer bills in recent years has occurred primarily outside the distribution charge, particularly in supply and public-benefit costs.[6] Distribution service has represented between 19% and 30% of the total customer bill over the past five years and approximately 25% currently.[7] At the same time, the 2018 framework was expressly designed to cover base levels of investment on an affordable basis. Through the multiyear rate plan and ESI mechanism, customer bill impacts associated with ESI were limited to less than $2 per month each year, on average, over 2018-2025 while providing recovery of costs associated with $2.7 billion of invested net capital for infrastructure upgrades.[8]

The significance of the 2018 Rate Settlement is therefore broader than its immediate financial effect. It provides a real-life, historical example of a framework that supported the Company's financial requirements and substantial system investment while smoothing the customer impact over time. Moody's recognized the same balance, describing the settlement as a credit supportive one that "mitigated some of the immediate rate effect on customers."[9]

The final scheduled base-revenue increase under the 2018 Rate Settlement became effective in May 2020. The Company thereafter continued to invest in the distribution system, supported by the ongoing ESI, although operating expense was increasing and regulatory deferral balances were growing more significant. The current proceeding presents a different and more demanding set of financial and investment circumstances, but the underlying principle remains relevant – a forward-

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5 Connecticut Office of Consumer Counsel, *PURA Approves Settlement Agreements in Eversource Energy Rate Case; New Rates Are Effective on May 1, 2018* (May 1, 2018), pp. 1-2.

6 Exhibit CLP-IAP-1, July 14, 2026, p. 22, Figure 2

7 Exhibit CLP-ELP-1, July 14, 2026, p. 30

8 Exhibit CLP-ELP-1, July 14, 2026, p. 77

9 Moody's Ratings, Connecticut Light & Power Company: Credit Opinion (June 28, 2022), p. 4.

looking ratemaking framework can support the Company's financial capacity and necessary system investment, while managing and mitigating the timing and magnitude of the customer impact.

2. Persistent Distribution Under-Earning

An important indicator of recurring distribution financial performance is the Company's earned return on equity. The Company has not earned its 9.25% authorized return in any year since the 2018 Rate Settlement was approved, although the Company experienced two years of relative strength (2020 and 2021). As shown below, the degree of under-earning has increased materially over time, as needed investment has been maintained, operating costs have increased, and the Company has had to bear the cost of financing regulatory deferrals. The annual results reported in the Company's response to EOE-062[ii] illustrate the regression:

Table 1

Return on Equity

Year	Earned ROE	Authorized ROE	Shortfall
2018	8.98%	9.25%	0.27%
2019	8.70%	9.25%	0.55%
2020	9.03%	9.25%	0.22%
2021	9.09%	9.25%	0.16%
2022	8.33%	9.25%	0.92%
2023	7.35%	9.25%	1.90%
2024	6.13%	9.25%	3.12%
2025	6.51%	9.25%	2.74%

The comparison is instructive. From 2018 through 2021, the Company's earned ROE remained below, but generally near, its authorized return. The average shortfall over that period was approximately 30 basis points. Beginning in 2022, the gap widened materially. The Company earned 8.33% in 2022; 7.35% in 2023; 6.13% in 2024; and 6.51% in 2025, as compared to the authorized ROE of 9.25%.[10] Over those four years, the average shortfall increased to approximately 217 basis points. These are not isolated annual results. These results show a sustained weakening in the recurring financial performance of CL&P's distribution business since the period immediately following the 2018 Rate Settlement.

[10] CL&P Response to EOE-062, filed August 14, 2026.

Earned ROE is a critical touchpoint in that it reflects two interrelated dynamics. First, it reflects the divergence between the revenue generated by base rates (through the revenue requirement approved in the last rate case) and the utility's actual cost. As costs of investment accumulate and operating expense increases, the earned ROE declines on a linear basis, all else equal. Second, earned ROE inherently reflects the utility's efforts to manage and mitigate those cost increases to attempt to stall the growing, linear gap between rates and costs. However, the ability to forestall declines in the earned ROE is limited, particularly on a short-term basis and, if not resolved through a distribution rate change, ROE will decline at a faster and faster rate.

The widening gap between the Company's authorized and earned ROEs over the period 2018 through 2026 therefore indicates the weakening financial condition of the distribution company, and the declining ability of existing rates to support the costs and capital requirements of the distribution business.

3. A Substantially Larger Distribution Business and Financing Requirement

The Company's system investment base is considerably larger than it was at the time of the 2018 Rate Settlement. Distribution rate base approximately doubled between Test Years 2016 and 2025, increasing from $3.479 billion in 2016 to $6.925 billion at year-end 2025, or by $3.45 billion.

A larger investment base requires more capital to finance and increases the financial significance of timely recovery of the associated cost of service, including the cost of capital. A substantially larger investment base, requires substantially more capital to finance. When recurring revenues and cash recovery do not keep pace with the cost of that larger business, the resulting financing pressure becomes increasingly consequential.

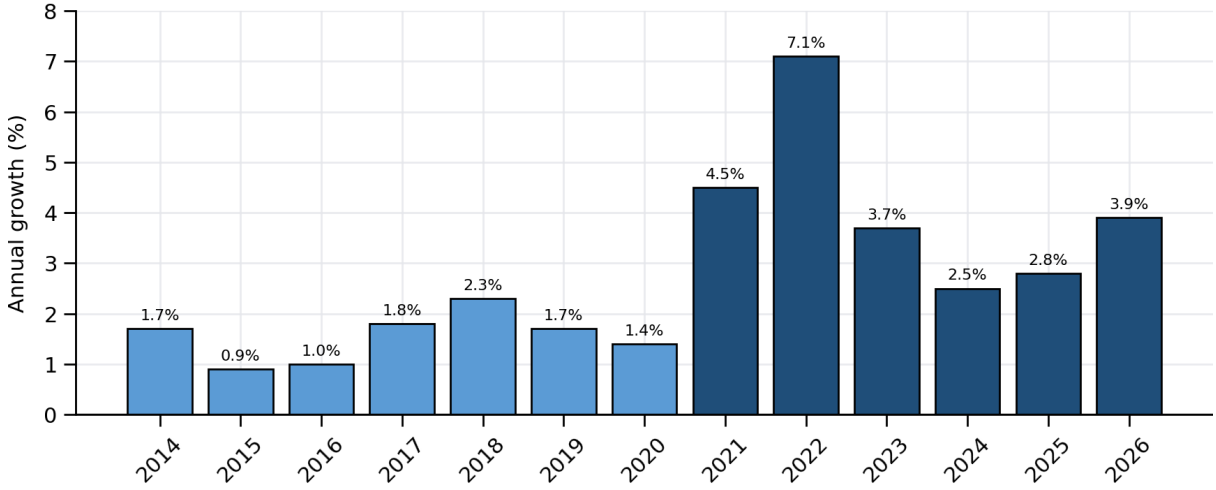
That capital requirement is not merely historical. The Company's current investment plans contemplate substantial additional distribution investment over the coming years. The scale of the prospective program reinforces the financial significance of current rate-base growth. The Company is not simply financing a larger investment base than it did in 2017; it must continue to attract debt and equity capital to finance the investment required over the period ahead. The Company's testimony explains that distribution assets are financed through a combination of long-term debt and equity raised in the financial markets and that the authorized return is intended to compensate lenders and investors supplying capital, while maintaining continued access to the financing necessary to sustain and modernize the electric system.

The general cost environment is also materially different from the conditions surrounding the last rate case. As the chart below illustrates, the Company's last rate case came at a time of relatively stable and significantly lower inflation. Although the existence of a high inflation trend does not necessarily establish that every individual cost is increasing by the same percentage, it does provide relevant context for the cost environment. Simply put, the Company operates in a cost

environment that is materially different from the conditions under which existing rates were established.[11]

Chart 1

Annual GDP-PI Percentage Change



The significance of that growth is the corresponding increase in the Company's capital and financing requirements. The Company must finance a much larger distribution investment base in a higher-cost environment while the Distribution business earns materially less than its authorized return. That condition affects the amount of capital that must be raised, the cash flow available to support additional investment, and the Company's capacity to carry out the capital investment program proposed in this proceeding. Together, those conditions increase the importance of a ratemaking framework that reasonably aligns revenues with the costs and capital requirements of the distribution business over the period ahead.

4. Regulatory Under-Recoveries, Storm Costs, and Recovery Timing

The scale and duration of regulatory under-recoveries have also changed materially since 2018. As discussed in the Company's response to OCC-522, Attachment 1, which references the more detailed response provided in LFE-031 in Docket No. 25-12-13, the combined net balance of CWIP, Distribution under- or over-recoveries, and unrecovered storm costs, net of funding

[11] Annual GDP-PI growth values supplied for 2014-2026; underlying series identified in EOE-156, Attachment 1, as BEA Table 1.1.4 / Moody's Analytics forecast data.

increased from approximately $494 million in 2017 to more than $2 billion in 2024, before declining to approximately $1.6 billion in 2025.[12]

When considering financial condition, ultimate recoverability and *timely* cost recovery are separate questions. A regulatory asset may represent a cost expected to be recovered from customers while the related cash expenditure has already occurred. Until that revenue is collected, the expenditure must be financed. A cost may therefore be prudent and ultimately recoverable while still creating a material financing requirement during the period between expenditure and collection. This gap has the potential to have a very significant impact on the Company's finances.

The Company's recent financing requirements illustrate the point. OCC-522, Attachment 1, states that over the nine-year period analyzed, uses of funds exceeded sources of funds, excluding financing, by approximately $5.389 billion, or approximately $599 million annually on average. That gap required approximately $5.4 billion of debt and equity financing to fund the Company's requirements.

The effect of delayed recovery is also evident in the Company's capitalization decisions. As explained in the Company's response to ALLCO-144[iii], growing deferral balances provided no operating cash flow to service additional debt. The Company therefore had to rely on its available capital resources, and maintaining a higher percentage of equity, in order to mitigate the resulting financial risk. As the deferred balances declined, the need for higher equity capitalization was reduced.

Storm restoration costs provide an important example. PURA's July 2026 final decision resolved a substantial portion of the Company's deferred catastrophic-storm costs and established the amount eligible for further recovery through the securitization process. The decision was favorable, but it followed an extended period during which CL&P had to finance the underlying restoration expenses before final regulatory disposition and recovery. Moody's described the regulatory resolution as a "net positive" because it addressed "long-dated lag" and brought resolution to an "8-year regulatory overhang," which Moody's expected to improve CL&P's cash position and reduce outstanding recourse debt.[13] Fitch characterized the decision as balanced, stating that it allows recovery of most storm costs and may signal improving regulatory conditions in Connecticut.[14] Those assessments illustrate the financial significance of recovery timing, which is that regulatory resolution improves cash flow and credit quality, but only after the intervening financing requirement has been borne.

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12 OCC-522, Attachment 1, which references LFE-031 in Docket No. 25-12-13.

13 Moody's Ratings, Connecticut Light and Power Company (The): Update to Credit Analysis (June 30, 2026), p. 2.

14 Fitch Ratings, Connecticut Light and Power Company, September 15, 2026, p. 2.

Regulatory adjustment mechanisms present the same underlying issue. When reconcilable costs and revenues are temporally mismatched, the resulting balance may materially affect cash flow without producing a corresponding change in net income. Conversely, collection of prior-period under-recoveries can materially improve cash flow in the period collected without a corresponding improvement in recurring distribution earnings. That distinction is central to interpreting CL&P's atypical 2025 cash-flow results, discussed below.

5. Credit Quality, Cash Flow and Access to Capital

CL&P's liquidity, credit ratings and access to capital provide important context for assessing the Company's financial condition. The items indicate that CL&P can meet its current obligations and continue to finance its operations. These items do not, however, establish that the Company is producing adequate recurring distribution earnings or recovering its costs on a sufficiently timely basis to sustain its overall financial health. That distinction is particularly important when considering the strong cash-flow metrics reported by CL&P in 2025.

CL&P reported particularly strong credit metrics in 2025. Moody's reported CL&P's cash from operations before working capital, or CFO Pre-W/C, to debt at 30.1% in 2025 and 30.6% for the twelve months ended March 31, 2026. Those results compare with 13.8% in 2023 and 16.4% in 2024. S&P similarly reported 2025 FFO to debt of 31.3%, operating cash flow of approximately $1.660 billion, and FFO of approximately $1.608 billion.[15]

Those results are favorable, but they are not representative of CL&P's recurring financial profile. Moody's stated that "some of this improvement is due to the catch-up of under-recoveries from the 2023/24 timeframe" and that it expected "the run-rate financial profile to be generally around 19%, but very dependent on regulatory recovery provisions and the results of its to-be filed rate case."[16] S&P likewise stated: "Overall, our base-case scenario assumes CL&P's funds from operations (FFO) to debt temporarily weakens in 2026 to about 19%-20%, before improving to 22%-23% in 2027 and onwards."[17]

The rating agencies therefore do not treat the 2025 results as the appropriate recurring baseline. Those results demonstrate the financial benefit of collecting amounts associated with prior-period costs and under-recoveries. The results do not establish that the Company is now earning adequately or that recurring distribution revenues support the prospective cost of providing service, which is not the case.

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[15] Moody's Ratings, Connecticut Light and Power Company (The): Update to Credit Analysis (June 30, 2026), p. 2; S&P Global Ratings, Connecticut Light & Power Co. (July 23, 2026), financial summary at p. 5.

[16] Moody's Ratings, Connecticut Light and Power Company (The): Update to Credit Analysis (June 30, 2026), p. 6.

[17] S&P Global Ratings, *Connecticut Light & Power Co.* (July 23, 2026), p. 2.

The earned-ROE results confirm the distinction. In the same year in which CL&P reported unusually strong cash-flow ratios, the Company earned only 6.51% on common equity, compared with its authorized 9.25%.[18] Strong cash collections and weak recurring earnings can coexist because the collections may relate to costs and under-recoveries originating in prior periods, as they did. The cash-flow measures principally reflect when cash was collected, while earned ROE reflects the Company's recurring distribution financial performance. The 2025 cash-flow improvement was therefore real and important, but does not establish a corresponding improvement in the Company's recurring distribution financial performance.

CL&P remains investment grade. The ratings history nevertheless shows that Moody's and S&P assign lower rating levels to CL&P than they did in 2018, while Fitch's A- rating is unchanged.[19] More significant to the present comparison is the concern the agencies now express regarding Connecticut regulation, recovery timing and future financial performance. Moody's describes Connecticut as a "challenging regulatory framework" characterized by "higher political scrutiny" and "inconsistent regulatory decisions and rate case outcomes."[20] Fitch states that the relationship between PURA and utilities under the prior regulatory regime had been "contentious," leading to outcomes that were "unsupportive of credit quality," including decreased "cash flow visibility, predictability and profitability."[21]

The agencies also connect CL&P's future credit profile directly to regulatory outcomes. Moody's states that the expected run-rate financial profile is "very dependent on regulatory recovery provisions and the results of its to-be filed rate case."[22] S&P's base-case assumptions include a "constructive regulatory outcome in [the] pending base rate case filing" and "[t]imely recovery of costs recovered through the company's Rate Adjustment Mechanism for distribution rates."[23]

These observations do not mean that the rating agencies endorse any particular proposal in this proceeding. These observations show that the sufficiency, timing, and predictability of Distribution cost recovery are material to CL&P's prospective credit profile.

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18 CL&P Response to EOE-062, filed August 14, 2026

19 Moody's Ratings, Connecticut Light and Power Company (The): Update to Credit Analysis (June 30, 2026), p. 1; S&P Global Ratings, Connecticut Light & Power Co. (July 23, 2026), p. 1; Fitch Ratings, The Connecticut Light and Power Company (September 15, 2026), p. 1.

20 Moody's Ratings, *Connecticut Light and Power Company (The): Update to Credit Analysis* (June 30, 2026), pp. 1 and 4.

21 Fitch Ratings, *The Connecticut Light and Power Company* (September 15, 2026), p. 1.

22 Moody's Ratings, *Connecticut Light and Power Company (The): Update to Credit Analysis* (June 30, 2026), p. 6.

23 S&P Global Ratings, *Connecticut Light & Power Co.* (July 23, 2026), pp. 2 and 5.

It is also important to note that CL&P's FERC-regulated transmission business has materially supported its credit quality, throughout the course of CL&P's difficulties in the Connecticut regulatory environment. Moody's explains that FERC regulation "ensures the utility's ability to earn its authorized [transmission] ROE and enhances the stability and predictability of cash flow, a significant credit positive."[24] S&P and Fitch similarly identify formulaic rates and timely transmission cost recovery as supportive.[25] That support is an important part of CL&P's overall credit profile, but it does not resolve the Company's recurring distribution earnings or recovery conditions. The credit-rating agencies' treatment of transmission also reinforces the importance they place on predictable, timely, and forward-looking cost recovery.

CL&P's present liquidity and access to capital remain important strengths. S&P assesses CL&P's liquidity as adequate and states that available sources cover expected uses by approximately 1.1 times over the following twelve months.[26] That assessment addresses CL&P's near-term ability to meet expected obligations; it does not establish whether the Company has sustainable financial capacity throughout the rate-plan period. Rate cases are inherently forward-looking. The framework established for Rate Year 1 and beyond must therefore reflect reasonable expectations of the prospective costs and capital requirements necessary to provide distribution service.

External financing can bridge timing differences between expenditures and regulatory recovery, but it is not a substitute for recurring financial performance. CL&P's ability to finance the Company's investment program on reasonable terms depends on continued access to both debt and equity capital. The financial importance of this proceeding therefore should not be measured solely by whether CL&P can meet its current obligations, but by whether the resulting framework supports the Company's financial requirements over the period ahead.

Taken together, the preceding discussion distinguishes current financial capacity from recurring financial performance. CL&P has adequate liquidity, access to capital, investment-grade ratings, and strong reported 2025 credit metrics. However, the Company continues to under-earn substantially, beyond its capacity to cut costs, and the strong 2025 cash-flow metrics benefitted materially from collection of prior-period under-recoveries and are not viewed by the rating agencies as a recurring baseline. The forward-looking question is therefore whether the distribution framework established in this proceeding will provide the financial capacity necessary to support the Company's costs, investment requirements and service obligations over the period ahead.

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[24] Moody's Ratings, *Connecticut Light and Power Company (The): Update to Credit Analysis* (June 30, 2026), p. 5.

[25] S&P Global Ratings, *Connecticut Light & Power Co.* (July 23, 2026), pp. 3 and 5; Fitch Ratings, *The Connecticut Light and Power Company* (September 15, 2026), p. 2

[26] S&P Global Ratings, Connecticut Light & Power Co. (July 23, 2026), p. 7.

6. Conclusion

The comparison demonstrates a materially different distribution business than the one for which rates were established in 2018. The Company now supports a substantially larger investment base in a higher-cost environment; is experiencing sustained under-earning and materially greater financing requirements; and has become more dependent on timely recovery of costs incurred to provide service. CL&P retains key financial strengths, but those strengths do not alter the facts regarding the Company's recurring distribution financial conditions.

The significance of this proceeding is therefore forward-looking. Each element of the Company's application remains subject to PURA's review on its own record, but the resulting framework will determine whether the Company enters the coming investment period with recurring financial capacity sufficient to support its costs and obligations, or continues to finance substantial costs and investments for extended periods before the associated revenues are recovered through rates. The objective of this proceeding should be a durable financial foundation that supports the investment and service requirements ahead while managing the impact on customers.

Prior Referenced Responses:

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[i] ALLCO-142 Question:

(Credit metrics and rating thresholds.) (a) State the Company's current long-term issuer and first mortgage bond ratings from Moody's, S&P, and Fitch, the date of each rating action since January 1, 2020, and the outlook. (b) For each calendar year 2020 through 2025 and the Test Year, state the Company's CFO pre-WC/debt, FFO/debt, debt-to-capitalization, and cash-flow-to-interest ratios as calculated by each rating agency (or, if the Company does not have the agency calculation, as calculated by the Company using the agency's published methodology), and produce the calculation. (c) Identify the ratio ranges or thresholds that each rating agency has published or communicated to the Company as consistent with the Company's current rating and with the next rating category below it, and produce each rating-agency report, credit opinion, or communication since January 1, 2023 that states such thresholds for the Company or Eversource Energy. (d) State the share of the Company's cash flow from operations in the Test Year that consists of net income, and the share that consists of depreciation, amortization, deferred income taxes, and other non-cash items. (e) Compute the Company's CFO pre-WC/debt and FFO/debt ratios for the Rate Year at authorized returns on common equity of 10.25%, 9.25%, 8.5%, 7.5%, and 6.5%, holding all other inputs at the Company's proposed levels, and state for each the rating category the Company contends would result and the basis for that contention.

ALLCO-142 Response:

(a) Please refer to ALLCO-142, Attachment 1, for CL&P's ratings and outlook from S&P Global Ratings since January 1, 2020.

Please refer to ALLCO-142, Attachment 2, for CL&P's ratings and outlook from Moody's Ratings since January 1, 2020.

Please refer to ALLCO-142, Attachment 3, for CL&P's ratings and outlook from Fitch Ratings since January 1, 2020.

(b) Please refer to ALLCO-142, Attachment 4, for the metrics requested.

(c) Please refer to ALLCO-142, Attachment 5, for reports from S&P Global Ratings on CL&P since January 1, 2023. As discussed on page 2 of 109, in ALLCO-142, Attachment 5, S&P expects "CL&P's stand-alone FFO to debt will average 20%-22% over the forecast period".

Please refer to ALLCO-142, Attachment 6, for reports from Moody's Ratings on CL&P since January 1, 2023. As discussed on page 3 of 73, in ALLCO-142 Attachment 6, "CL&P's stable outlook reflects our expectation that the utility will maintain a ratio of CFO pre-WC to debt of at least 17% over the next 12-18 months. At the same time, the stable outlook reflects the company's ongoing effort to rebuild its relationship with key stakeholders including regulators, state leaders and customers and the potential that storm costs could be recovered through pending regulatory proceedings or securitization" and "CL&P could be downgraded if Connecticut regulatory decisions continue to be contentious or unsupportive of credit quality or if CL&P's financial performance deteriorates such that its ratio of CFO pre-WC to debt falls below 17% on a sustained basis".

Please refer to ALLCO-142, Attachment 7, for reports from Fitch Ratings on CL&P since January 1, 2023. As discussed on page 2 of 19 in ALLCO-142, Attachment 7, "Through 2027, Fitch forecast CL&P's FFO leverage to average about 4.0x.". Additionally on page 2 of 19 in ALLCO-142 Attachment 7, factors that could, individually or collectively, lead to a downgrade include "FFO leverage exceeds 4.3x on a sustained basis" and "An adverse implementation of the recent regulatory changes that reduces the stability and predictability of earnings and cash flow and materially weakens CL&P's financial profile".

(d) Please refer to exhibit CLP-REVREQ-2-H-1.2A for the Company's 2025 Form 10K. Per the Company's reported statement of cash flows:

Net Income: $551,329k
Non-Cash Items: $964,867k
Change In Current Assets & Liabilities: $158,970k
Cash from Operations: $1,675,166k

"Non-Cash Items" includes Depreciation, Amortization, Deferred Income Taxes, and Other Non-Cash items, as requested. Note that Test Year Amortization expense includes recovery of substantial under-recovered prior-period costs that built up as the direct result of artificially low RAM rates established over multiple years beginning in 2022. As a result, Test Year Amortization expense may not be indicative of future amortizations, to the extent that reconciling rate adjustments maintain closer alignment with current costs better than they have in the past.

(e) The requested computations would produce unreliable and misleading information regarding the Company's credit ratings because the computations would require broad speculation as to how independent rating agencies will evaluate hypothetical outcomes under circumstances that do not exist.

In particular, the request presumes that credit ratings can be determined solely by recalculating CFO pre-WC/debt and FFO/debt under a series of assumed ROEs and then assigned a corresponding rating category on that basis. Rating agencies do not evaluate utility credit quality in this manner. Moody's expressly states in its methodology that a "scorecard-indicated outcome is not expected to match the actual rating for each company" and further recognizes that there are "various reasons why scorecard-indicated outcomes may not map closely to actual ratings." Thus, Moody's

itself cautions against the precise type of exercise requested here, which is the use of a limited set of quantitative measures to infer a specific rating outcome.1

More fundamentally, Moody's does not evaluate utility credit quality through financial metrics alone. Moody's identifies the regulatory framework as "a key determinant of the credit quality of a utility" and recognizes that utilities can experience financial stress because of "a breakdown or obstacle in the regulatory framework." Consistent with that view, Moody's methodology focuses on the regulatory environment, the consistency and predictability of regulation, the utility's ability to recover its costs and earn returns, and the sufficiency and timeliness of cost recovery. As Moody's explains, the critical issue is whether rates are sufficient to allow the utility to recover its costs and earn a reasonable return, not whether a particular authorized ROE can be associated with a particular financial ratio.2

These facts were proven by the experience of Aquarion Company of Connecticut ("Aquarion") during and after its general rate case, Docket No. 22-07-01, which is particularly instructive on this point because it involved the precise type of exercise requested here. In that docket, PURA purported to evaluate projected credit metrics under multiple ROE and capital structure scenarios, ultimately concluding that "[Aquarion's] credit metrics remain in acceptable ranges set by the credit rating agencies" and that "an ROE set within the ranges presented by EOE, OCC, and [Aquarion] (i.e., 7.765% to 10.35%) would not adversely affect [Aquarion's A3] credit rating." PURA then relied upon that conclusion in establishing the authorized ROE, opining that "[a] key determinant in setting an ROE is whether the ROE will allow the utility to maintain its current financial condition and credit rating."

In its rationale, PURA asserted that it had conducted a "rigorous analysis" of the effect of various ROE levels on the company's credit rating.

In that instance, PURA evaluated alternative ROE scenarios, compared projected metrics against rating-agency benchmarks, concluded that the approved ROE would not adversely affect Aquarion's credit rating, and relied upon that conclusion in setting rates. That exercise involved the same basic premise underlying this interrogatory, which is that projected credit metrics and rating-agency thresholds can be used to predict the credit implications of alternative ROE outcomes. This proposition is invalid.

Despite PURA's conclusions that Aquarion's A3 credit rating would not be adversely impacted by the decision in Docket No. 22-07-01, approximately one year later, Moody's downgraded Aquarion Water Company of Connecticut from A3 to Baa1 and specifically attributed the downgrade to the consequences of the rate order. Moody's stated:

> The downgrade of Aquarion Water Company of Connecticut reflects a weakening financial profile resulting from the utility's rate order last year, which included a reduced revenue requirement as well as lower returns. The rate order was another indication that the Connecticut regulatory environment has become more challenging and less credit supportive for the state's regulated utilities."

Moody's further explained that Aquarion's lower rating reflected a Connecticut regulatory environment that had become less consistent and predictable, as evidenced by recent regulatory decisions affecting Connecticut utilities.7 Notably, the factors Moody's cited as driving the downgrade extended beyond the projected financial metrics on which PURA's analysis principally relied.

The requested computations suffer from the same fundamental flaw. The request assumes that all relevant rating considerations remain unchanged except for the effect of a lower ROE on two financial ratios. In reality, rating agencies do not assess utility credit quality that way. A lower ROE is not merely an input to a ratio calculation. Depending on the circumstances, the ROE may affect a rating agency's assessment of the utility's ability to earn its return, recover its costs, attract capital, maintain cash flow, and operate within a constructive regulatory framework. From a credit perspective, the relevant question is not what ROE appears in a rate order, but whether the utility can

actually recover its costs, earn its authorized return, generate sufficient cash flow, and maintain access to capital. Those outcomes depend on numerous features of the regulatory framework and cannot be inferred from the authorized ROE alone.

Accordingly, the Company cannot reasonably assign hypothetical rating categories to the requested ROE scenarios. More importantly, the Aquarion outcome demonstrates that doing so would not provide a reliable indication of how the rating agencies would actually evaluate the Company's credit quality. The requested exercise would therefore create an appearance of precision that is unsupported by the methodology used by the rating agencies in practice and is contradicted by the directly analogous Connecticut experience.

[ii] EOE-062 Question:

(EARNINGS SHARING MECHANISM-ESM) Provide an unlocked Excel spreadsheet detailing the Company's annual ESM results (i.e., calculated return on equity-ROE) in comparison to the Company's authorized ROE each annual ESM filing since the Company's last rate case. Separately, provide a similar comparison of the Company's "hypothetical" annual ROE results to the Company's authorized ROE whereby the "hypothetical" ROE results are capped at the equity ratio authorized in the last rate case.

EOE-062 Response:

In accordance with Section 10(a) of the 2018 Rate Settlement approved by PURA in Docket No. 17-10-46, earnings at the end of each calendar year above the authorized return on equity ("ROE") of 9.25% shall be shared between customers and the Company on a 50/50 basis. The Company reports its ROE at the end of each calendar year in Docket No. 76-03-07 (2018 – 2020) or Docket No. 76-03-07RE01 (2021 – 2025) as the basis for any earnings sharing.1 The Company did not earn above the authorized 9.25% at the end of any calendar year between 2018 and 2025.

Please refer to Exhibit 1(C)(1) of Attachments 1a through 5a for each actual ROE for the period 2018 through 2022. Please refer to Exhibit 1(C)(1a) of Attachments 6 through 8 for each actual ROE for the period 2023 through 2025.

Please refer to Exhibit 1(C)(1) of Attachments 1b through 5b for each illustrative ROE for 2018 through 2022 utilizing the Company's authorized equity ratio from Docket No. 17-10-46. The Company began reporting an illustrative ROE utilizing the Company's authorized equity ratio from Docket No. 17-10-46, beginning with its year-end 2023 results. Please refer to Exhibit 1(C)(1b) of Attachments 6 through 8 for each illustrative ROE for 2023 through 2025 utilizing the Company's authorized equity ratio from Docket No. 17-10-46.

A table summarizing the results is presented below:

Year	Earned ROE w/ Actual Capital Structure	Illustrative ROE Using Authorized Capital Structure	Reference
2018	8.98%	9.00%	Attachments 1a and 1b
2019	8.70%	8.85%	Attachments 2a and 2b
2020	9.03%	9.26%	Attachments 3a and 3b
2021	9.09%	9.26%	Attachments 4a and 4b
2022	8.33%	8.60%	Attachments 5a and 5b
2023	7.35%	7.57%	Attachment 6
2024	6.13%	6.23%	Attachment 7

2025	6.51%	6.57%	Attachment 8

[iii] ALLCO-144 Question:

(Capital structure.) (a) State the Company's actual common-equity ratio at each year-end 2018 through 2025 and at the most recent month-end, and the equity ratio proposed for ratemaking in this proceeding, and explain any difference. (b) State whether the Company or Eversource Energy has analyzed the effect on the Company's credit metrics and total cost of capital of increasing the common-equity ratio while reducing the return on equity, and produce each such analysis. (c) State the amount of equity infused by Eversource Energy into the Company in each year 2018 through 2025 and the amount of dividends paid by the Company to Eversource Energy in each such year.

ALLCO-144 Response:

(a) Please refer to the Company's response to EOE-062i, for the actual common equity ratios for each year 2018 through 2025. The equity ratio proposed in this proceeding is 53.86%. Please refer to the Company's response to ALLCO-051ii, for a discussion of the Company's historic equity ratios and the equity ratio proposed in this proceeding.

(b) Please refer to the Company's response to OCC-757[iii].

(c) Please refer to ALLCO-144, Attachment 1, for the amount of equity infused by Eversource Energy into the Company in each year 2018 through 2025 and the amount of dividends paid by the Company to Eversource Energy in each such year.