Date Filed: November 03, 2026

Witness: Douglas P. Horton
Request from: Department of Energy and Environmental Protection

Question:

(PBMRP Z- factor) Refer to Exhibit CLP-ELP-1 p. 100. Compare and contrast the Company's PBMRP proposal with the performance based ratemaking mechanisms allowed for Eversource's electric operations in other jurisdictions.

Response:

As described below, the Company's proposed Z-Factor is generally consistent with the exogenous-cost mechanisms applicable to Eversource's electric operations in Massachusetts and New Hampshire. Although the mechanisms differ in their eligibility criteria and materiality thresholds, each distinguishes ordinary cost variation subject to the incentives and risks of a multi-year plan from material changes outside utility management's control that may warrant separate regulatory treatment.

In this proceeding, the Company has proposed to implement an exogenous cost recovery adjustment for qualifying positive or negative cost changes that are beyond the Company's control, are not reflected in the I-Factor, and are not otherwise addressed through another PURA-approved cost recovery mechanism. Potential changes include State Initiated Cost Changes, Federally Initiated Cost Changes, Regulatory Cost Reassignments, and Externally Imposed Accounting Rule Changes. The Company proposes an aggregate materiality threshold equal to 0.5 percent of total distribution revenues. Please refer to the Company's response to BETP-004[i] for additional discussion of these categories.[1]

In Massachusetts, NSTAR Electric's exogenous mechanism provides for rate changes for qualifying industry-specific tax, accounting, regulatory, judicial, and legislative changes that are beyond the company's control and not reflected in the applicable inflation factor. It applies a $4 million individual-event threshold in the first PBR year, adjusted annually by GDP-PI, which equates to approximately 0.37 percent of distribution revenues.[2]

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[1] Exhibit CLP-ELP-1, p. 100; Company response to BETP-004.

[2] PURA Docket No. 21-05-15RE01, Eversource Energy Comments on Revised Straw Proposal (Mar. 26, 2025), pp. 34-41.

In New Hampshire, the NHPUC approved a $1.5 million applicability threshold for PSNH's exogenous-cost adjustment. PSNH explained that the threshold was intended to limit the mechanism to changes significant enough to justify a separate proceeding and to protect against events that could "upset the balance of the PBR plan during the term".[3] The NHPUC allows PSNH to seek recovery of exogenous costs driven by changes in costs driven by state or federal government entities, regulatory cost reassignments, or changes in accounting rules.[4]

The Massachusetts and New Hampshire mechanisms demonstrate that the scope and materiality of a Z-Factor may be defined differently without changing its essential purpose. The Company's proposal identifies comparable categories of externally driven cost changes, but applies a 0.5 percent threshold to the aggregate distribution-revenue impact of qualifying changes. In each case, the mechanism leaves ordinary cost variation within the PBR framework while providing a defined process for addressing material changes that arise outside the utility's control. Please refer to the Company's response to BETP-060[ii] for additional comparisons and the supporting regulatory authorities.[5]

Performance Metrics:

Regarding PBR metrics in New Hampshire, while the Company proposed additional metrics as part of DE 24-070, after investigation the Commission determined that reliability of service is a core concern for the Company's customers and adopted SAIDI and SAIFI metrics as the only metrics to be applied in the alternative regulation. The thresholds are calculated based on a five-year rolling average plus one standard deviation. If performance falls outside that threshold for any given year, a $1.5 million (revenue-requirement) penalty shall be assessed, and no offset resulting from exceeding the performance standards shall be used to reduce penalties. The Company's proposal for SAIDI and SAIFI in this proceeding is similar in that the Company's proposal calculates these metrics using the IEEE methodology, excluding Major Event Days (MEDs) and planned outages. Regarding the target threshold, while New Hampshire uses a rolling five-year average, the Company recommends setting a fixed target to apply to the full PBR term based on the most recent five years prior to the start of the PBR term. Fixing the target for the full PBR term provides clarity on the standard for performance during the PBR term. Utilizing a rolling five-year average to set targets each year during the term causes performance targets to rise or fall based on the system's most recent experience rather than focusing on a transparent measure of whether the Company has improved and maintained system reliability as compared to an established set of targets. The proposal for Connecticut also includes gradual penalties, starting at the threshold of "average plus one standard deviation" and full penalty for performance exceeding

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[3] Docket No. DE-24-070, Public Service Company of New Hampshire response to interrogatory PUC-1-004 issued September 6, 2024.

[4] Docket No. DE-24-070, Order No. 28,170, pp. 51, fn. 12.

[5] PURA Docket No. 21-05-15RE01, Eversource Energy Comments on Revised Straw Proposal (Mar. 26, 2025), pp. 34-41; Proposed Final Decision.

"average plus two standard deviations" with a penalty range of $1.75 million to $3.5 million each for Blue Sky SAIDI and Blue Sky SAIFI. The Connecticut proposal, like the PSNH metrics, do not include direct offsets resulting from exceeding performance standards for these metrics.

Regarding PBR metrics in Massachusetts, the M.D.P.U. approved a PBR plan for NSTAR Electric Company, d/b/a Eversource Energy in Order D.P.U. 22-22. In that Order, the Department approved 18 individual performance metrics. The performance metrics are for reporting purposes and do not include associated penalties or incentives. At the time of approval of the PBR plan, the M.D.P.U. acknowledged that service quality metrics, such as Blue Sky SAIDI and SAIFI, are developed and implemented under a separate regulatory framework than the PBR plan. These metrics have associated penalties under the separate service guidelines. The M.D.P.U therefore approved a broad set of PBR performance metrics that are tied to the goals of the PBR plan without making changes to the service quality guidelines. Note that the M.D.P.U. has recently reopened the Service Quality guidelines that determine the methodology and historical data to calculate targets and deadbands (D.P.U. 24-53).

Please refer to BETP-010, Attachment 1, for a full list of the Connecticut proposed PBR metrics, the New Hampshire approved PBR metrics and the Massachusetts approved PBR metrics.

Prior Referenced Response:

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[i] BETP-004 Question:

(PBMRP- Z factor) Refer to Exhibit CLP-ELP-1 p. 99. Define (1) State Initiated Cost Change; (2) Federally Initiated Cost Change; (3) Regulatory Cost Reassignment; and (4) Externally Imposed Accounting Rule Change as it pertains to Exogenous Events in the Company's proposal. For each category, provide specific examples of potential events the Company expects would and would not qualify for recovery as an Exogenous Event.

BETP-004 Response:

Below, the Company has provided illustrative examples of the types of events or changes that could qualify for exogenous factor consideration, subject to satisfaction of the applicable Z-Factor criteria:

1. **State Initiated Cost Change**

- A new Connecticut statutory mandate requiring a distribution-system capital investment program or activity that was not contemplated in the revenue requirement used to establish the PBMRP.
- A new or materially changed PURA or other Connecticut agency requirement imposing material incremental compliance, operational, or infrastructure requirements on electric distribution companies.
- A change in Connecticut tax law that imposes a new or materially different tax obligation specific to utilities or electric distribution operations.

2. **Federally Initiated Cost Change**

- A new or materially revised federal reliability or cybersecurity requirement that requires incremental distribution-system investment or operating expenditures.
- A new federal environmental requirement requiring remediation, equipment modifications, monitoring, or other incremental expenditures associated with distribution assets or operations.
- A new or materially revised federal safety or physical-security standard requiring changes to distribution facilities, equipment, systems, or operating practices.

3. **Regulatory Cost Reassignment**

- A change in jurisdictional cost responsibility between federal and state regulation that causes a category of costs to become, or cease to be, the responsibility of distribution customers.
- A regulatory determination that moves responsibility for a material cost into or out of distribution rates

4. **Externally Imposed Accounting Rule Change**

- A new or amended FASB accounting standard that requires a material change in the recognition or measurement of distribution-related costs.
- A mandatory regulatory-accounting change that requires costs previously capitalized to be expensed, or costs previously expensed to be capitalized.
- A mandatory accounting change that creates, eliminates, or materially changes the accounting treatment of a regulatory asset or regulatory liability.

[ii] BETP-060 Question:

(PBR- Z factor) Refer to Exhibit CLP-PBR-1p. 74. Provide a summary of Z Factor designs tested and implemented in other jurisdictions, including the decision where such designs were approved, the qualifying criteria for associated expenses and the associated tariffs

BETP-060 Response:

The following table summarizes the Z-Factor provisions approved in a sampling of jurisdictions that have deployed an I-X based PBR framework. Approval of these mechanisms does not necessarily constitute approval of specific cost adjustments that are generally evaluated on a case-by-case basis.

Jurisdiction / Regulatory decision	Approved Z-Factor scope and qualifying events	Criteria for Z-Factor eligibility	Materiality threshold	Reference

New Hampshire – Public Service Company of New Hampshire	Approved a relatively narrow Z-Factor covering specific cost changes resulting from state or federal government actions, regulatory cost reassignments, and changes in accounting rules. These adjustments may be forward-looking when known and measurable.	Cost changes must fall within the Commission's defined categories and satisfy the applicable threshold. The Commission adopted its earlier definition for the exogenous-event provision.	$1.5 million revenue-requirement impact	New Hampshire Public Utilities Commission Order No. 28,170 (July 25, 2025), Docket DE 24-070, pp. 2 and 54.
Alberta –	Approved a general Z-Factor for	All five criteria must be met: (1) outside	Dollar equivalent of an after-tax 40-	AUC Decision 27388-D01-2023

Jurisdiction / Regulatory decision	Approved Z-Factor scope and qualifying events	Criteria for Z-Factor eligibility	Materiality threshold	Reference
Electric and Gas Distribution Utilities	significant positive or negative financial impacts from exogenous events. May apply to capital or O&M. No exclusive list of qualifying events is prescribed.	management's control; (2) material impact; (3) no significant influence on the inflation factor; (4) prudently incurred costs; and (5) unforeseen event. The impact must also lack another reasonable recovery mechanism within the PBR framework.	basis-point change in ROE, calculated using the utility's equity supporting 2023 going-in rates; escalated annually by I-X	(October 4, 2023), Appendix 5, pp. 119–120.

Massachusetts – Eversource (NSTAR Electric)	Approved exogenous costs from: (1) tax-law changes uniquely affecting the industry; (2) industry-specific accounting changes; and (3) regulatory, judicial, or legislative changes uniquely affecting the industry.	Cost change must be beyond company control, arise from qualifying legal/accounting/regulatory action, uniquely affect electric distribution rather than the general economy, and not be reflected in GDP-PI. Supporting evidence is required, and eligibility is determined case by case.	$4 million per individual event in the first PBR year, adjusted annually by GDP-PI Generally noncumulative, with limited exceptions for related property-tax events	MDPU, NSTAR Electric Company d/b/a Eversource Energy, D.P.U. 22-22, Final Order, (November 30, 2022), pp. 71–76.
Massachusetts – Fitchburg Gas and Electric Light Company (Unitil Electric)	Approved the standard MA categories of industry-specific tax, accounting, regulatory, judicial, and legislative changes.	Beyond management control; arises from qualifying changes in requirements or directives; unique to the distribution industry; material; and not reflected in the inflation index or otherwise in PBR formula.	$110,000 per event with annual GDP-PI adjustments	MDPU, Fitchburg Gas and Electric Light Company d/b/a Unitil, D.P.U. 23-80/D.P.U. 23-81, Final Order (June 28, 2024), 51–54

Jurisdiction / Regulatory decision	Approved Z-Factor scope and qualifying events	Criteria for Z-Factor eligibility	Materiality threshold	Reference

Massachusetts – Massachusetts Electric Company and Nantucket Electric Company (National Grid Electric)	Approved the standard Massachusetts categories. Also expressly approved potential Z-Factor recovery for certain major storm-related O&M expenses, subject to additional conditions and prudence review.	Qualifying costs must be beyond control, arise from industry-specific legal/accounting/regulatory changes, not be reflected in the applicable inflation adjustment, and meet the significance threshold. For major storms, additional storm-fund eligibility requirements apply.	$3.6 million per individual event initially, adjusted annually by GDP-PI Special storm provision: individual storm O&M expenses above $30 million, where the storm fund balance plus costs exceeding $30M, exceeds $75M.	MDPU, Massachusetts Electric Company and Nantucket Electric Company, each d/b/a National Grid, D.P.U. 23-150, Final Order (September 30, 2024), pp. 94–96.
Ontario – Electricity Distributors	Approved a general Z-Factor mechanism for extraordinary, unforeseen events outside management's control. Examples include severe storms and other exceptional events. The framework does not restrict claims solely to legal or regulatory changes.	Three principal tests: (i) causation, (ii) materiality, and (iii) prudence. Costs must be incremental to those reflected in rates; management must show the event could not reasonably have been planned or budgeted for. Current guidance also requires the distributor's achieved ROE not to exceed its deemed ROE by more than 300 basis points.	Under the OEB's 3rd Generation IRM, the standard Z-factor materiality thresholds are C$50,000 for utilities with distribution revenue requirements up to C$10M; 0.5% of distribution revenue requirement for utilities above C$10M through C$200M; C$1M for utilities above C$200M. The threshold applies on a per-event basis.	Ontario Energy Board, Supplemental Report on 3rd Generation Incentive Regulation for Ontario's Electricity Distributors, Docket EB-2007-0673, (September 17, 2008), Appendix B, VII-VIII

Jurisdiction / Regulatory decision	Approved Z-Factor scope and qualifying events	Criteria for Z-Factor eligibility	Materiality threshold	Reference
			However, utilities operating under OEB-approved Custom IR plans may be subject to different, utility-specific materiality thresholds.	
Hawaii – Hawaiian Electric Companies	Approved a broad Z-Factor mechanism for exceptional events beyond reasonable utility management control. Potential examples discussed in the proceeding include tax-law changes, natural disasters, and pandemics, but the Commission deliberately did not establish an exclusive or automatically approved list. Changes to ROE or credit ratings do not qualify.	Six criteria: (1) outside control of a prudent utility; (2) directly related to the exogenous event; (3) impact outside the original rate base; (4) prudently incurred; (5) not otherwise recovered through rates, insurance, government aid, or third parties; and (6) above materiality threshold. Each request is evaluated individually.	$4 million per event for HECO; $1 million per event for HELCO and MECO	Hawaii Public Utilities Commission, Decision and Order No. 37507 (December 22, 2020), Docket 2018-0088, pp. 57–60 and 80.