Date Filed: October 05, 2026

Witness: Matthew Fallon and Jonathan Kallen
Request from: Office of Consumer Counsel

Question:

(Capital Structure) Referring to page 68, of Exhibit CLP-ROE-1. Is preferred stock more costly compared to common equity?

Response:

No. Preferred stock is not more costly than common equity. Preferred stock and common equity are distinct forms of permanent capital with fundamentally different contractual rights, priorities, and risk profiles. Consistent with fundamental finance principles, investors require returns commensurate with the risks they bear. Because preferred shareholders have greater protections and a higher claim on earnings and assets than common shareholders, preferred stock is generally less risky and therefore commands a lower required return than common equity.

The Company's three forms of permanent capital occupy different positions within the capital structure and are compensated accordingly:

- Long-term debt warrants the lowest return because debt holders possess contractual rights to interest and principal payments and maintain the most senior claim on utility assets.

- Preferred stock warrants an intermediate return because it combines certain debt-like and equity-like characteristics. Preferred shareholders rank behind debtholders but ahead of common shareholders and generally receive a stated dividend preference.

- Common equity warrants the highest return because common shareholders bear the residual financial risk of the utility, have the most junior claim on earnings and assets, and provide capital that remains at risk for an indefinite period.

This relationship is reflected in the characteristics summarized in Table 1, below. Relative to common equity, preferred stock benefits from a dividend preference, priority over common shareholders in liquidation, more limited return variability, and lower investor risk. These attributes support a lower required return than common equity.

Table 1

Characteristic	Company Long-Term Debt	Company Preferred Stock	Company Common Equity
Nature of Investment	Borrowed capital represented by First Mortgage Bonds	Equity security with a stated dividend preference	Residual ownership interest in CL&P
Priority in Bankruptcy	Senior claim on assets	Senior to common equity; subordinate to debt	Residual claim on assets
Voting Rights	None	Generally limited or none	Ownership and voting
Payment Obligation	Contractual interest and principal payments	Stated dividend rate; generally not a contractual obligation. **Cumulative dividends owed must be paid before any common dividends**	No fixed payment obligation; returns depend on earnings and authorized ROE
Financial Distress Consequences	Failure to satisfy payment obligations may constitute default	Dividend deferrals generally do not constitute default	Suspension of dividends does not constitute default
Risk to Investors	Lowest	Moderate	Highest
Expected Return	Lowest	Intermediate	Highest
Return Potential	Limited to contractual interest payments	Generally limited to stated dividend payments	Unlimited residual downside and upside
Rating Agency Treatment	100% Debt	50% Debt	0% Debt

However, the fact that preferred stock generally has a lower cost than common equity does not imply that a utility should maximize its use of preferred stock. The objective is not to minimize the cost of any single source of capital. Rather, the objective is to maintain a reasonable and balanced capital structure that supports financial flexibility, credit quality and continued access to capital markets.

Common equity remains the strongest form of permanent capital because it fully absorbs the residual risks of the business and provides the greatest financial flexibility. Consequently, utilities generally maintain preferred stock, if any, as a relatively limited component of their overall capitalization and rely primarily on common equity as their principal source of permanent risk-bearing capital.

Therefore, while preferred stock is generally less costly than common equity, increasing the proportion of preferred stock beyond normal, reasonable levels would not necessarily reduce the Company's overall cost of capital and could diminish the financial flexibility and risk-bearing capacity that common equity provides. For that reason, a balanced capital structure, rather than maximizing any single source of financing, best serves both the Company and its customers.