Date Filed: October 07, 2026

Witness: Douglas P. Horton
Request from: Office of Consumer Counsel

Question:

(Capital Support Mechanism) On p. 101 of Exhibit CLP-ELP-1, the Company states that, "As part of the Company's annual RAM compliance filing, actual plant additions placed in service during the applicable plan year will be reconciled against the approved forecast." In the Company's response to EOE-156, Witness Horton states that prudence reviews would be included in the annual reconciliation process.

a. Provide a detailed plan for how the Company envisions the annual reconciliation process would proceed and how long the process would take both as a whole, and for each step. Please identify what filings would be made, whether and how discovery would be allowed, and what types of determinations would be required by the Authority.
b. Where in the reconciliation process will the distinction and differences be identified between realized annual plant addition costs and the associated rate base, and the return, taxes, and deprecation on rate base that are included in the going-in revenues?
c. Will the annual PBR reconciliations be assessments of the whole Company's rate base with calculations of commensurate return, tax and depreciation, or will it be an incremental adjustment based on annual plant additions? Please explain.
d. Provide one or more examples, as appropriate, showing how the annual capital recovery process, including reconciliation, would function, including detailed calculations in the form to be used in the annual adjustment filings.
e. Provide a list of all types of costs that will be included in the capital recovery reconciliations.

Response:

a. The Company has given this process a lot of thought based on discussions throughout the PBR dockets. Based on input from those sessions, the Company's proposal is to align the Performance Based Multi-Year Rate Plan (PBMRP) with the Rate Year, and as much as possible, aligns with the existing annual RAM ratemaking process. As such, the Company proposes that PBMRP adjustments occur on each July 1, starting with July 1, 2027, and annually thereafter. For each year that the PBMRP mechanism is in effect, the Company would submit an Annual PBR Plan Compliance Filing to PURA in the annual RAM proceeding. The annual compliance filing would include, among other things:

(1) the calculation of the annual revenue-cap adjustment;

(2) the new proposed rate using the PBR formula;

(3) an earnings-sharing computation;

(4) cost documentation for the Company's capital investments;

(5) the calculation and reconciliation of the annual capital-cap adjustment;

(6) documentation of metric performance and resulting penalties or incentives; and

(7) bill impacts of the new rate by rate class.

(8) as applicable, any request for exogenous cost recovery.

With respect to the capital-support mechanism or "F" factor in the formula, the Company proposes a mechanism based on a fixed annual capital investment level for each year of the PBMRP, with reconciliation through PURA's annual RAM proceedings. The fixed annual investment level would initially be set at the Company's capital forecast, as approved in this proceeding, and would be subject to downward-only reconciliation[1] in the event that either i) the Company's actual plant in service is lower than projected and utilized in establishing the initial F-Factor for that Rate Year or ii) PURA ultimately denies as imprudent a level of investment that was initially included in the F Factor allowance. In this way, customers are assured that rates ultimately reflect the costs of system investments that are actually in service, and have been found prudently incurred by PURA.

As described in its Exhibit CLP-ELP-1 testimony, the Company has presented different investment trajectories in the Company's 5-Year targeted system performance (TSP) and is proposing to establish the capital support mechanism of the PBR adjustment consistent with the annual capital funding requirements presented in Figure 7 of the Exhibit CLP-ELP-1 testimony. As part of the Company's annual RAM compliance filing, actual plant additions placed in service during the applicable plan year would be reconciled against the approved forecast that would have been utilized in the prior PBMRP filing to establish the F-Factor initially.

Following PURA's determination that the Company's actual plant additions are prudent, used and useful, the Company's allowed rate base and associated revenue requirement for

[1] The Company notes that the revenue decoupling mechanism (RDM) will continue to operate and reconcile actual revenues to the target revenues, as adjusted by the PBMRP. The Company's reference to a 'downward only' reconciliation is meant to reflect that the revenue target utilized in the RDM will not be adjusted upward in the event actual plant additions exceed the level originally reflected in the F-Factor allowance. In that circumstance, the F-Factor allowance is capped at the fixed level projected in this proceeding. Capital that is placed in service above the cap would not be included in rates until a future rate case proceeding, and only then on a prospective basis.

that year will be limited to the lesser of (1) the total revenue requirement for the forecasted capital approved in this proceeding; or (2) the total revenue requirement for the actual plant in service. As described previously, if the Company's actual capital additions exceeds the forecasted amount approved in this proceeding, the Company would not be permitted to seek recovery of the incremental investment during the initial four-year PBMRP Term. Any such investment would instead remain subject to review and consideration in a subsequent base rate proceeding or successor PBMRP Term.

The Company's proposed capital funding mechanism sets a defined cap on capital recovery during the plan term, providing customers with greater rate certainty and placing the risk (and cost) of increased capital spending on the Company during the course of the PBMRP. The annual reconciliation further protects customers by blocking recovery of investments that are delayed, deferred, canceled, or not placed in service, since those costs would not be reflected in the "F" factor upon reconciliation, which is based on plant in service. For these reasons, the proposal aligns cost recovery with prudent investment and incentivizes efficient execution of the capital program, all while minimizing customer over-collection.

Based on the above framework, an exhibit that demonstrates a revenue requirement consisting of: (1) a reconciliation of actual plant additions placed in service during the previous calendar year against the approved forecast (also referred to as the F-factor allowance) for that calendar year, and (2) the F-factor allowance for the new Rate Year beginning July 1st, would be filed on or about March 1st of each year consistent with the timing of all other RAM component reconciliations. Concurrent with that timing, all plant additions documentation for the previous calendar year included in the above reconciliation will also be filed on or about March 1st as part of the same filing.

Further, under the Company's proposed timeline, the revenue requirement resulting from the reconciliation of the prior year's F-factor allowance and the new Rate Year's F-factor allowance will go into effect on July 1, following the March 1st filing. As part of the RAM process, PURA performed prudence reviews of capital documentation filed for the ESI, including discovery, between March 1st and September 1st, the date on which additional RAM rate changes were made. Even though PBMRP rates would go into effect on July 1st, the Company proposes that this timeline continues to be used for capital prudence reviews under the PBMRP.

To the extent PURA's prudence review warrants any adjustment to the revenue requirement that went into effect on July 1, the Company will calculate the excess revenue collected from customers over the period of July 1 through August 31 and include this amount, plus carrying costs for those 2 months, in the RDM's allowed revenue target for the July 1 through June 30th Rate Year.

b. Please refer to subpart (d) of this question.

c. Please refer to subpart (d) of this question.

d. Please refer to the example shown in EOE-156, Attachment 1, pages 4 through 12, showing how the annual capital recovery process, including reconciliation, would function, including detailed calculations in the form to be used in the annual adjustment filings. Please note that pages 4, through 12, show an illustrative example for all four Rate Years contemplated for the duration of the PBMRP; however, the annual filing would only be for a single year of the PBMRP. As part of this example, please refer to the differences between realized annual plant addition costs and the associated rate base, and the return, taxes, and depreciation on rate base that are included in the going-in revenues found in EOE-156, Attachment 1, worksheet "PBR-7 Going-In Capital RR", Lines 13-16. Additionally, the detailed calculations shown in EOE-156, Attachment 1, pages 4 through 12, demonstrate that the annual PBR reconciliations will be an assessment of the Company's total accumulated depreciation included in base distribution rates (i.e., customers will be receiving credit for the increase in the Company's accumulated depreciation for all capital included in base distribution rates), as opposed to the Company's entire rate base (the Company considers its entire rate base to include other rate base items such as deferred assets and liabilities, etc.).

e. The revenue requirement for capital recovery will include appropriate recovery of net plant in service, accumulated deferred income taxes ("ADIT") and accumulated depreciation for the cumulative additional plant additions and will include a pre-tax return on investment (i.e. return on rate base including income taxes), return of investment (i.e. depreciation), property taxes, gross earnings tax and uncollectible expense.