Date Filed: September 24, 2026

Witness: Douglas P. Horton, Brendan J. O' Brien, Garrett J. Murray, and Matthew Fallon
Request from: ALLCO

Question:

With respect to capital structure and expected earnings: (a) state the Company's actual common equity ratio, per books, at the end of the Test Year and as of the most recent quarter, and reconcile any difference from the requested 53.86%; (b) state the amount of long-term debt outstanding at Eversource Energy (the parent) as of the end of the Test Year and state whether any proceeds of parent debt have been invested as common equity in CL&P, quantifying the amounts (i.e., the extent of double leverage); and (c) quantify the expected return on equity to shareholders under the proposed earnings sharing mechanism — 50/50 sharing above the authorized return with no downside adjustment — assuming the requested 10.25% authorized return, producing the distribution or scenario analysis used, and state whether the Company performed any analysis of the asymmetric value of that mechanism; if not, explain why an asymmetric mechanism does not require a lower authorized return.

Response:

a. In recent years, the Company has had to fund significant deferred balances relating to catastrophic storm restoration costs and the Company's Revenue Adjustment Mechanism ("RAM") reconciling rates, including the 2024 Non-bypassable Federally Mandated Congestion Charges ("NBFMCC"). As discussed in response to data request OCC-522[i], including the attachment provided therein, the Company's capital resources are limited. With no foreseeable recovery of the costs in the near term, the Company had to support the growing deferral balance using its limited capital resources, although the deferral offered no operating cash flow with which the Company could service additional debt. To mitigate the financial risk that would otherwise result (from additional debt), the Company took steps to preserve its credit ratings, including maintaining a higher percentage of equity in its capital structure. Consequently, the Company's common equity ratio, per books, was considerably higher than the equity ratio in prior years. Once the artificially low RAM rates were corrected and the corresponding deferred balances were reduced, the need to maintain a higher equity capitalization ratio was lessened.

   Specifically, the Company's common equity ratio on a 5-quarter average basis was 54.56% as of December 31, 2025, and 55.26% as of June 30, 2026. The Company anticipates issuing $1.45 billion of First Mortgage Bonds over the two-year period July 1, 2026 through June 30, 2028, to fund ongoing operations as well as upcoming maturities of $500

million. Additionally, the Company expects to retain approximately $400 million of earned equity over the same timeframe. As shown in the table below, the Company has reflected an equity ratio of 53.86% in the rate year in this proceeding, incorporating assumptions of timely recovery of past and future storm costs, among other proposals in this proceeding.

Please refer to Table 1, below, as well as the Company's filed Exhibit CLP-REVREQ-2, Schedules D-1.0, WP-D-1.1, and D-5.0.

ALLCO-051 Table 1
($ Millions)

	End-of-Period Balance				Average
	June 30, 2026	June 30, 2027	June 30, 2028	2-Year Change	June 30, 2028
Long-term Debt *	$ 5,109.2	$ 5,751.7	$ 6,053.8	$ 944.5	$ 5,873.0
Common Equity	6,769.5	6,812.8	7,171.5	402.0	6,992.1
Preferred Stock	117.0	117.0	117.0	0.0	117.0
Total Capital	$ 11,995.7	$ 12,681.5	$ 13,342.3	$ 1,346.5	$ 13,011.9
Common Equity Percentage of Total Capital					53.86%

** Rate Year average balance is calculated on a 5-quarter average basis*

b. Eversource Energy is a public holding company that holds regulated electric, gas and water affiliates as well as unregulated affiliates. It is simply not possible to associate individual sources of funds, whether at the utility or holding company, with the uses of funds at the operating company level, nor is the business managed in that manner. The management of cash into and out of the Company is a daily undertaking that ultimately includes the passage of billions of dollars out of the Company, to suppliers and employees, as well as into the Company from various sources, including customers. Although the Parent company raises necessary capital through specific sources available, the uses are not connected to any specific source of funds.

Those sources of funds include equity issuances, retained earnings, the use of treasury shares for such programs as dividend reinvestment and 401k match, long-term debt issuances, and, temporarily, short-term debt. These sources of funds as well as the eventual uses vary significantly year to year. Moreover, the Company's credit ratings, such as those issued by Moody's, are determined at the subsidiary level based on the riskiness of its assets, specifically, as well as the degree of financial risk resulting from the Company's

issuances of First Mortgage Bonds. Those bonds include protections, ring fencing, and covenants specific to the Company (i.e not Eversource Energy Parent), and are backed by the Company's (again, not Eversource Energy Parent's) assets in the State of Connecticut.

c. There is no sharing of earnings caused by the setting of base rates with an authorized return incorporated into the approved revenue requirement. Further, the Company does not anticipate that it will over-earn during the term of the PBMRP.

Prior Referenced Response:

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[i] OCC-522 Question:

Leadership Panel Exhibit CLP-ELP-1 – Storm Cost Recovery

(Carrying charges applied to SCRAF) In its proposal, the Company notes, "should PURA implement the SCRAF, which provides for more timely review and recovery of storm and pre-staging costs, the Company accepts the Prime rate from the date of cost incurrence, applied to the net balance of the storm fund and pre-staging reserve fund 6 for storms occurring after March, 2025." (p.143) Did the company consider or analyze setting carrying charges on costs recovered through SCRAF to be equal to the commercial paper index or the utility's actual cost of short-term debt, rather than the prime rate?

a. If yes, provide the analysis conducted and the rationale for proposing the use of the Prime rate instead.

b. If not, explain why the Company did not consider proposing that the carrying charges on SCRAF recovery to be set at either the commercial paper index or actual cost of short-term debt.

OCC-522 Response:

a. and b.

Carrying costs are the mechanism by which the Company recovers its cost of money. Thus, carrying costs must be tied to the actual cost that the Company is incurring to carry the storm deferral. When the storm deferral is relatively larger and carried for a relatively extended time period, then the Company's weighted average cost of capital ("WACC") is its actual carrying cost. If PURA establishes a ratemaking mechanism that provides more systematic reviews and more timely recovery, then the cost of money may be susceptible to approximation with lower cost sources of funds.

The relationship between time and quantity and the cost of capital is clearly demonstrated through a utility's cost of service whereby a utility's rate base (comprised mainly of the Company's plant which is paid back by customers over many years) receives a return at the Company's authorized WACC. Applying the Company's WACC to long-term assets aligns the carrying charge calculation with the manner in which comparable long-term assets are reflected for ratemaking purposes.

Similarly, the WACC is the appropriate rate for calculating carrying charges on long-term funded regulatory assets because it reflects the Company's actual cost of funding those customer "debts," including storm restoration costs, over an extended period of time. Financing obligations – certainly obligations of this magnitude – cannot be supported

exclusively through debt financing, whether short-term or long-term. Instead, the Company must balance its capital requirements through a reasonable mix of both debt and equity to ensure financial stability and continued access to reasonably priced capital.

With respect to the appropriate carrying charge rate to utilize for the Storm Cost Recovery Adjustment Factor ("SCRAF"), the Company provided a thorough response to this question in response to LFE-031, in Docket No. 25-12-13. The Company is providing that response as OCC-522, Attachment 1. The analysis shows that: (1) necessary uses of cash routinely exceed available sources of cash, creating a persistent funding gap; (2) commercial paper is a tool to maintain liquidity, not to finance investments or deferred expenses; and (3) short-term borrowing capacity is limited, and the Company cannot plan to operate at or near its short-term debt capacity without putting its ability to operate the system in severe jeopardy.

Given all of the considerations elucidated by Attachment 1, the Company recognizes that the appropriate treatment of carrying charges may vary based on the regulatory framework established within each jurisdiction. Different regulatory constructs reflect differing policy objectives and mechanisms designed to balance the Company's financing needs with customer impacts. In establishing a going-forward framework for storm cost recovery, the Company agrees that it would be within PURA's discretion to strike a balance between the Company's costs of financing storm costs while ensuring that the Company is not 'profiting' on a force majeure event like a storm. This is the Company's experience in Massachusetts, as well, where the MDPU has authorized a carrying charge rate that is different from and generally less than the Company's WACC, but that still recognizes that the Company is using its longer-term capital resources to finance storm costs (not its shorter term commercial paper source of liquidity). Thus, the Company stated that "should PURA implement the SCRAF, which provides for more timely review and recovery of storm and pre-staging costs, the Company accepts the Prime rate from the date of cost incurrence, applied to the net balance of the storm fund and pre-staging reserve fund for storms occurring after March, 2025."