Date Filed: November 03, 2026

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

Question:

(CAPITAL STRUCTURE) Application, Ex. CL&P-REVREQ-2, Sch. D-1.0. For the following questions, provide unlocked Excel workbooks with formulas intact, including all assumptions, worksheets, and working spreadsheet models to verify the computations:

a. Identify and explain the Company's planned changes to its current capital structure over the next five years (2026–2031).
b. Provide the annual actual capital structures, including dollar balances, at year end for December 31, 2024, through December 31, 2026. Include dollar balances weighted as a percentage of the total cost and weighted cost.
c. Provide the actual capital structures that include quarterly dollar balances for March 31, 2025; June 30, 2025; September 30, 2025; and December 31, 2025. Include dollar balances weighted as a percentage of the total cost and weighted cost.
d. Show the impact of the Company's projected capital structure on its Long-term Debt to Common Equity ratio.

Response:

a. The Company does not currently foresee any change to its current capital structure over the next five years (2026-2031), except for temporary fluctuations, and plans to maintain a target capital structure with an equity ratio of 53.86%[1]. Please refer to the Company's response to RRU-096[i] for a discussion of why a capital structure with an equity ratio of 53.86% is necessary and appropriate. Additionally, please refer to the Company's response to ALLCO-051[ii] for a discussion of how CL&P's target capital structure, including 53.86% equity, compares to CL&P's historical capital structure.

   As the Company explained throughout Docket No. 26-09-03, including in its response to RRU-11 provided below, the Company is committed to preserving its credit ratings to be able to secure the lowest cost funds necessary to provide safe and reliable distribution service on a daily basis now and into the future. The Company explained:

[1] As discussed in response to RRU-095, CL&P's actual capital structure varies over time as a result of the fixed maturity schedule of its existing first mortgage bonds ("FMBs"), the dynamic flow of funds required to operate and invest in the electric system, and variability in customer payments. As a result, the relative proportions of long-term debt and common equity will fluctuate between financing transactions.

The Company maintains a regulatory equity ratio of 53.86% because this is the level of equity capitalization that the Company perceives is necessary to maintain adequate credit ratings to support the business and deliver a reasonable cost of capital to customers, given what the Company's obligations are for financial stability. CL&P's assessment of its operating environment is that an equity ratio of approximately 53.86% is consistent with those in place at other similar utilities and is appropriate to enable the Company to maintain its financial integrity thereby providing access to capital at competitive rates under a variety of economic and financial market conditions.

Utilities have a public service obligation to provide safe and reliable service to customers, and require the ability to access capital markets in the provision of that service. In addition, utilities generally do not have the option to avoid raising external funds during periods of capital market distress. Capital-intensive companies are financed with a view on the risks and funding requirements associated with their assets and operations. Additionally, companies operating within a given sector are likely to have comparable financing requirements, face common financing constraints, and, therefore, have comparable financing practices. For this reason, CL&P assesses its capital structure relative to prevailing industry practice, as compared to other utilities with similar financing requirements and business risks.

The Company is also focused on the role capital structure plays with respect to its credit ratings. The credit rating agencies view capital structure as a pivotal element in their analytical construct. For example, 50 percent of Moody's overall ratings weight is derived from Moody's assessment of Regulatory Framework and Ability to Recover Costs and Earn Returns. An appropriate level of equity capitalization is a critical element of this analysis. In addition, the Moody's Ratings Methodology gives Capital Structure a 7.5% weighting for the rating. The Company's target capital structure of 53.86% is supportive of the Company's credit ratings, which provide benefits to customers in the form of reasonable capital costs and assured liquidity. Lastly, the Company has met this threshold for a credit-supportive capital structure for many years and changes to this structure attempted by the Company (or imposed by a regulatory outcome) would be detrimental to the Company's efforts to show financial and regulatory stability in the Connecticut regulatory environment.

In order to achieve its target equity ratio of 53.86%, CL&P will coordinate its proposed 2026-2027 long-term debt issuances with the timing and amount of earnings, capital contributions from Eversource Energy, and dividends to Eversource Energy.

b. Please refer to RRU-097 Attachment 1 for CL&P's actual capital structure at year-end 2024 and 2025. For Q4 2026, the Company expects its common equity ratio to be within a range of 53.86% to 54.50% and, for Q1 2027, to be at the Company's target common equity ratio of 53.86%, consistent with the capital structure requested in this proceeding. The Company will provide PURA with its actual capital structure as of December 31, 2026, as soon as that information is final and available.

   The Company continues to manage its capital structure toward the 53.86% target common equity ratio while balancing near-term liquidity and financing requirements, including the $500 million of first mortgage bonds that mature in Q1 2027. In addition, the Company currently has a pending application before PURA in Docket No. 26-09-03 – Application of the Connecticut Light and Power Company d/b/a Eversource Energy to issue Long-Term Deb, for which a decision is scheduled to be issued November 4, 2026, which is a pre-requisite to the Company's ability to issue long term debt. Accordingly, the Company's actual capital structure may vary from the target at particular points in time as a result of normal and practical timing differences associated with debt maturities, new debt issuances, and other financing transactions. Such variations are expected to be short-term and do not represent a change in the Company's target capital structure of approximately 53.86% common equity for the foreseeable future.

c. Please refer to RRU-097, Attachment 1.

d. Please refer to RRU-097, Attachment 2.

Prior Referenced Responses:

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[i] RRU-096 Question:

(CAPITAL STRUCTURE) Application, Ex. CL&P-REVREQ-2, Sch. D-1.0. For the following questions, provide unlocked Excel workbooks with formulas intact, including all assumptions, worksheets, and working spreadsheet models to verify the computations:

a. Provide the optimal or target capital structure for the Company.
b. If the proposed 53.86% common equity capital structure is not optimal, then explain how it is in the best interest of ratepayers.
c. Provide a worksheet that clearly depicts the components of the target structure. Compare it to the proposed ratemaking capital structure.
d. Explain how the Company plans on moving towards its target and/or optimal capital structure over the next five years.

RRU-096 Response:

a. The Company has a target equity ratio of 53.86% because this is the level of equity capitalization that the Company views as necessary to maintain adequate credit ratings to support the business and deliver a reasonable cost of capital to customers, given the Company's obligations for financial stability. The ratings agencies do not provide the Company with a specific target level and, instead, the Company routinely evaluates its financial costs, commitments, revenues and other factors in order to identify a capitalization balance that will be viewed positively by the credit-rating agencies through their intensive rating process. The outcome of this rate case proceeding will be a critical input to the rating agencies process. Whether rating agencies view the outcome of this proceeding as supportive of the Company's credit ratings will be a function of the overall revenue requirement authorized by PURA (rather than a single component of the revenue requirement) and the overall capital recovery support environment. However, the rate-case outcome related to the authorized capital structure for ratemaking will matter as it is a key component of the overall revenue requirement and is a component that is interpreted as a signal of the regulatory climate.

   Currently, CL&P has a target capital structure with an equity ratio of approximately 53.86%. CL&P's assessment of its operating environment is that an equity ratio of approximately 53.86% is consistent with those in place at other similar utilities and is appropriate to enable the Company to maintain its financial integrity thereby providing access to capital at competitive rates under a variety of economic and financial market conditions. In that regard, utilities generally do not have the option to avoid raising external funds during periods of capital market distress. Capital-intensive companies are financed with a view on the risks and funding requirements associated with their assets and operations. Additionally, companies operating within a given sector are likely to have comparable financing requirements, face common financing constraints and have comparable financing practices. For this reason, CL&P assesses its capital structure relative to prevailing industry practice, comparative to other utilities with similar financing requirements and business risks.

   The reason that the credit-rating agencies pay attention to capital structure is that utilities have a public-service obligation to provide safe and reliable service to customers and therefore require the ability to access capital markets in the provision of that service. The credit-rating agencies view capital structure as a pivotal element in that analytical construct. For example, as discussed in ALLCO-136, Attachment 1 – Moody's Ratings Methodology, 50 percent of the overall ratings weight is derived from Moody's assessment of Regulatory Framework and Ability to Recover Costs and Earn Returns. An appropriate level of equity capitalization is a critical element of this analysis.

   More specifically, 40 percent of the overall ratings weight is based on Moody's assessment of Financial Strength, with 7.5 percent of that 40 percent attributed to Capital Structure. Given that relatively material weighting (for a singular component of the revenue requirement), the Company's target capital structure, as it relates to the Company's proposed total revenue requirement, is maintained in a manner to be supportive of the Company's credit ratings, which provides a tangible benefit to customers in the form of reasonable capital costs and assured liquidity.

b. As discussed in subpart (a), the Company has a target capital structure with an equity ratio of approximately 53.86%. This capital structure appropriately balances the interests of customers with the Company's need to maintain financial strength and access to capital on reasonable terms. Over the past few years, the Company has carried a higher equity ratio as necessary to finance long-term deferrals for RAM and storm costs. More specifically, the Company has had to fund approximately $1 billion in deferred catastrophic storm costs. Carrying substantial unrecovered balances requires the Company to finance those costs and, all else being equal, places pressure on credit metrics. However, the Company recognizes that this higher equity ratio is not appropriate as a long-term capital structure for distribution ratemaking and is not generally aligned with capital structure of other operating utilities across the industry, including the Company's own affiliates. For ratemaking purposes, therefore, the Company is working to issue incremental long-term debt to bring the equity ratio toward its target

level. Conversely, the Company's assessment is that a lower equity ratio (particularly one that is materially lower) would weaken its financial position and could impair its ability to maintain credit ratings that support access to debt capital on reasonable terms. That outcome would not benefit customers. The Company must finance substantial and continuing capital investment, and more debt necessarily increases fixed interest and repayment obligations. At a time when interest costs have increased and competition for capital remains significant, increasing debt beyond an appropriate level would not simply substitute lower-cost debt for higher-cost equity. It would increase financial risk and could ultimately increase the cost at which the Company is able to finance investments required to serve customers.

c. Please refer to Schedule D-1.0 for a worksheet that depicts the components of the Company's target capital structure.

d. Although CL&P has a target equity ratio of approximately 53.86%, the actual ratio will vary around the range naturally over time due to normal variations in cash flows that arise in the course of doing business. Over the next five years, to manage the Company's actual capital structure toward the target capital structure of approximately 53.86% equity, CL&P will evaluate the timing and amount of its long-term debt issuances, equity infusions from Eversource Energy, and dividends to Eversource Energy. Those financing decisions will reflect the Company's cash requirements, capital investment needs, financial condition, and then prevailing capital-market conditions.

[ii] ALLCO-051 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.

ALLCO-051 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-522i, 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.