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Witness: Craig Dikeman and Matthew J. Correia
Request from: ALLCO

Question:

Reconcile the Company's responses to EOE-164, and EOE-166. EOE-166, describes contract-execution controls in Ariba, automated purchase-order logic in Ariba and Maximo linking every purchase order over $50,000 to an active contract, sole-source justification, or approved exception, dual sign-offs, and year-to-date compliance metrics tracked by the procurement group. EOE-164, states that milestone payments "are not maintained as a separately reportable procurement attribute." State: (a) whether milestone or advance payment terms are recorded in the Ariba contract records or payment schedules for the contracts they govern; (b) whether the Ariba and Maximo systems can be queried or reported on by payment-term attributes, and if not, what payment-term data those systems store; and (c) produce the listing EOE-164, declined to provide — each procurement since January 1, 2020 that included milestone or advance payments, with the vendor, contract amount, milestone payment amounts and schedule, and the amount paid in advance of work performed or costs incurred — deriving it from the systems described in EOE-166; or, if the Company maintains that this cannot be done, explain how a compliance assertion of "no policy violations" across 50,323 purchase orders can be validated by systems from which basic payment-term attributes cannot be reported.

Response:

As it relates to the controls identified in the Company's response to EOE-166[i], those controls are related to purchase-order compliance with the competitive bidding requirement for transactions valued at greater than $50,000 and the approval of Ariba contracts.

When a purchase order is released, systemic logic evaluates whether the purchase order is linked to an active Ariba contract or an approved Maximo sole-source justification. If neither linkage is present and the purchase order exceeds $50,000, the purchasing agent must then select an approved exception or identify the transaction as a policy violation before the purchase order can proceed.

The Maximo purchase-order control therefore evaluates whether a purchase order subject to the release logic is associated with: (1) an active Ariba contract; (2) an approved Maximo sole-source justification; (3) an approved exception to the competitive-bidding requirement; or (4) a policy-violation designation. The applicable pathway requires sign-off by the purchasing agent and the agent's supervisor.

The statement in EOE-166 that there were no policy violations among 50,323 released purchase orders means that none of those purchase orders were released with a policy-violation designation based on the specific system logic and fields evaluated by the control. The metric separately identified 294 approved exceptions at the purchase-order level. The statement was not intended to represent that each of the 50,323 purchase orders was reviewed for compliance with every procurement-policy, contractual or payment requirement.

This control is only one component of the Company's broader procurement compliance and oversight framework. Separately, prior to execution of an Ariba contract, purchasing agents and designated approvers are required to upload or verify supporting documentation to validate compliance with applicable competitive-bidding requirements. That contract-level review confirms the applicable procurement pathway and supporting documentation without requiring milestone or advance payment provisions to be captured as separately reportable system attributes. The Maximo purchase order release control does not evaluate contract-specific payment structures, including milestone or advance payment provisions, and does not depend on those provisions being maintained as separately reportable system attributes. Accordingly, there is no inconsistency between the EOE-166 description of the purchase-order release control and the EOE-164[ii] statement that milestone-payment provisions are not maintained as a separately reportable procurement attribute.

a. Milestone payment schedules may be included in the underlying contract documentation, which may take the form of an Ariba Contract or a Maximo Purchase Order. Advance payment provisions may be recorded in the same types of governing or supporting documents. The location and format of the applicable provision may vary based on the structure of the transaction and its governing documents.

   Milestone or advance-payment information is not maintained as a separately reportable or trackable data field within Ariba or Maximo because this type of information is most common to larger materials purchases or to engineering work pertaining to custom materials. As a result, this type of information is not generally applicable to the bulk of the Company’s contracts. For efficiency and effectiveness, Ariba and Maximo store payment-term information as necessary to support procurement and accounts payable processes.

b. The standard payment term, referring to the field that generally establishes how long after invoice receipt a payment should be made, is maintained within the Company's procurement system. It is generally established at the vendor level, although it may be modified at the purchase-order or contract level in limited circumstances where appropriate.

   A standard payment term generally establishes when payment is scheduled following invoice receipt. By contrast, a milestone or advance-payment provision may establish the

contractual events or conditions governing when an invoice may be submitted or payment becomes due. These provisions are generally contained in contract documentation rather than a discrete data field in Ariba or Maximo.

Where milestone or advance payments are contemplated, invoice processing would generally be supported through business-approval workflows conducted in accordance with the applicable contract and Delegation of Authority requirements. These payments require approval by the appropriate invoice approver and, where applicable, additional approvers based on the relevant thresholds. The review relies on the approver's understanding of the contract terms and confirmation that the applicable conditions have been satisfied.

Accordingly, the Company's systems maintain payment terms as necessary for transaction processing, which the business uses. The Company's systems are not designed to create an all-encompassing inventory of procurement transactions containing milestone or advance-payment provisions that is not necessary for the business.

c. Compilation of the requested listing would require a manual review of the relevant contracts, purchase orders, statements of work, amendments, payment schedules, invoices, and supporting documentation, which is not an analysis that the Company needs or utilizes for its own purposes. The existence of an Ariba contract or Maximo purchase order does not necessarily indicate that the transaction contains such a provision or its associated amount and schedule.

In most instances, advance- or milestone-related payments are intended to support supplier costs associated with engineering, materials, or other contractually required investments in Company projects. A contract may also provide for a payment or payment commitment to secure production capacity, long lead materials, or manufacturing slots.

The amount of "paid in advance of work performed or costs incurred" therefore cannot necessarily be determined from a payment schedule alone. That determination requires a transaction-specific comparison of contract terms, invoices, payment records, supporting documentation, and the status of supplier performance or costs at the time of payment.

The Company's response to EOE-166 does not rely upon the identification or reporting of milestone-payment provisions, advance-payment arrangements, or other contract-specific payment structures. Rather, the compliance metric referenced in EOE-166, relates to a control designed to verify that purchase orders exceeding $50,000 are supported by are processed through (1) an Ariba contract, (2) an approved Maximo sole-source justification, or (3) an approved exception to the competitive-bidding requirement or (4) identification as a policy violation. The separate Ariba contract execution process requires the upload or verification of supporting procurement documentation; however, that requirement does not

create a separately reportable field identifying milestone- or advance-payment provisions, as this information is not necessary for the business.

The EOE-166 metric can therefore be validated through the system fields, workflow statuses and approvals evaluated by the purchase-order release control. That validation does not depend on milestone or advance payment provisions being separately reportable. Conversely, the control is not intended to evaluate compliance with those contract-specific payment provisions.

Accordingly, the Company's statement that there were no policy violations means that no purchase orders were released with a policy-violation designation based on the defined release-control logic. It does not speak to compliance with milestone payments, advance payments, or other requirements outside the control's scope or that are monitored by the Company through other processes.

Prior Referenced Response:

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[i] EOE-166 Question:

(COMPETITIVE BID ASSESSMENTS) Respond to the following:

a. Explain how the Company ensures that each purchase order or contract is subject to a competitive bid assessment, sole source justification, or an approved exception. As part of the response, please discuss whether there are any systemic controls, including the use of Ariba, that ensure adherence to these requirements and, if applicable, provide an example of the referenced controls.
b. Explain how the Company ensures adherence to the Company's competitive bid requirements for situations where multiple purchase orders or contracts could be used in lieu of the referenced controls discussed in subsection a.

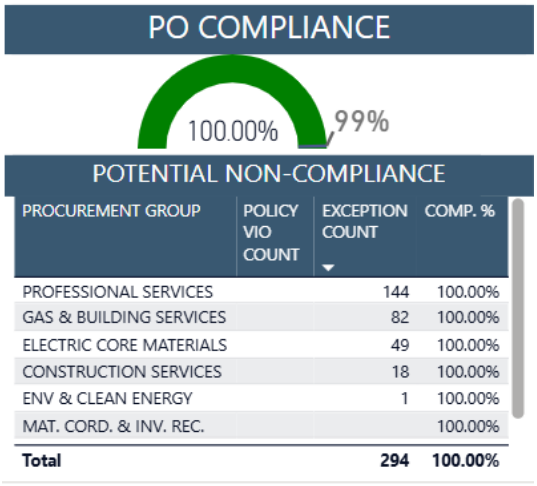
EOE-166 Response:

a. The Company enforces adherence to competitive bid assessments, sole source justifications, and approved exceptions through integrated governance policies and automated controls within Ariba and Maximo:

- Contract Execution Controls: Prior to executing an Ariba Contract, purchasing agents and designated approvers are required to upload or verify appropriate supporting documentation into the system to validate compliance.
- Automated Purchase Order (PO) Systemic Logic: When a PO is released, system logic automatically verifies that it is linked to either an active Ariba Contract or an approved Maximo Sole Source Justification. If neither control is present and the PO is valued at more than $50,000, the system prevents processing until the agent selects an approved exception or flags the record as a policy violation.

Both pathways require formal dual sign-off from the agent and their supervisor. For exceptions a standardized comment nomenclature is expected.

The image below, details the year-to-date metrics tracked by the procurement group on exceptions and violations across the procurement organization, including records supporting CL&P and other affiliates. To date, out of 50,323 Purchase Orders released by the Procurement Team, there were no policy violations and 294 represented exceptions taken at the PO level.



PROCUREMENT GROUP	POLICY VIO COUNT	EXCEPTION COUNT	COMP. %
PROFESSIONAL SERVICES		144	100.00%
GAS & BUILDING SERVICES		82	100.00%
ELECTRIC CORE MATERIALS		49	100.00%
CONSTRUCTION SERVICES		18	100.00%
ENV & CLEAN ENERGY		1	100.00%
MAT. CORD. & INV. REC.			100.00%
Total		**294**	**100.00%**

b. The Company actively prevents purchase order "stringing" which is the practice of splitting orders to bypass competitive bidding thresholds, where the practice is inappropriate. In some cases, purchase orders may be used to accommodate valid operational requirements (such as distinct delivery sites, scopes of work, or material types):

- Agent Oversight & Pattern Detection: Procurement agents evaluate non-contracted POs during the approval workflow. Agents monitor indicators of stringing by cross-referencing requisitions with similar service descriptions, identical supplier selections, and matching accounting strings across multiple orders.

- Centralized Spend Coverage: Over 90% of Company spend is governed by master Ariba Contracts. Establishing spend under Ariba Contracts naturally mitigates the risk of PO-level stringing, as individual POs draw down from existing contracts that were approved to DOA systematically.

[ii] EOE-164 Question:

(MILESTONE PAYMENTS) Refer to Response to EOE-056. The Company's response stated that the "Company does not generally support milestone payments prior to work being performed or costs being incurred by the Company's vendor…" Provide a listing of all procurements that included milestone payments, along with the rationale for why the payments were permitted. As part of the response, please identify the vendor, the contractual amount, and the payment amount that would be at risk.

EOE-164 Response:

Milestone payments are not maintained as a separately reportable procurement attribute. Milestone payment terms, where applicable, are permitted on a case-by-case basis as described in the Company's response to EOE-056[i].

Milestone payments may be permitted where appropriate, based on the nature of the goods or services being procured and the applicable commercial terms. Any characterization of an amount that would be "at risk" would depend upon the specific contractual provisions, milestone that was completed, and other facts applicable to the individual procurement and payment.