Date Filed: October 15, 2026

Witness: Douglas P. Horton
Request from: Office of Education, Outreach, and Enforcement

Question:

(PBMRP CAPITAL SUPPORT MECHANISM) Refer to Response to EOE-156, pp. 10-12. The Company's response argues that the proposal will require O&M savings of $29 million by Rate Year 4 to achieve the authorized rate of return (pp. 10-11) and then details an assumption of "v. O&M cost pressure is assumed to be 1% greater than inflation, annually" (p. 12). All else equal, confirm that the $29 million amount was driven by the O&M assumption within the broader revenue cap formula and was not driven by the F-Factor proposal. If not confirmed, provide the updated analysis excluding the O&M assumption (i.e., assume O&M costs equal inflation) and separately discuss why there would be a shortfall driven by the proposed F-Factor.

Response:

The analysis presented in EOE-156, Attachments 1 and 2, demonstrated that, under the cost projections presented in that response, projected revenues under the proposed framework do not fully recover projected costs in order to produce adequate net income over the course of the PBR term, with assumptions outlined in that response. In addition to the assumption identified in this question, the Company also assumed that going-in rates established in this proceeding *are approved as filed and requested by the Company*, with no adjustments or disallowances.

Having said that, the $29 million gap reflected in EOE-156, Attachment 1, is predominantly attributable to the O&M assumptions rather than the proposed F-Factor, since Attachment 1 assumes that the Company's actual spending is identical to the spending within the TSP, and thus that capital is reflected in the F-Factor revenue support presented in that response. Conversely, EOE 156, Attachment 2, presents analysis assuming spending exceeds the amount allowable in the F-Factor by 5 percent. As a result, the larger gap identified in Attachment 2, relative to Attachment 1, is driven by capital related costs rather than O&M, since O&M assumptions are the same in both attachments.

As discussed in the Company's responses to EOE-372[i] and OCC-857[ii], the F-Factor is subject to a downward-only annual reconciliation based on actual capital investment. As a result, the mechanism cannot produce earnings in excess of those supported by actual plant investment. If actual capital investment is lower than forecast, F-Factor recovery is reduced through the reconciliation process. Conversely, if actual capital investment exceeds forecast levels, the Company will incur the additional capital-related costs without corresponding F-Factor revenue until such investment is reflected prospectively through future ratemaking proceedings.

Accordingly, the F-Factor does not provide a structural opportunity for over-recovery and is not responsible for the earnings shortfall reflected in the EOE-156 analysis.

Further, even if O&M costs were assumed to increase only at the rate of inflation, the proposed PBR-O mechanism would continue to preserve cost-efficiency incentives. Because the mechanism includes a minimum customer dividend of 30 basis points, revenue growth is designed to trail inflation. As a result, achieving the authorized return on equity would remain dependent upon the Company's ability to manage costs effectively and operate efficiently. The proposal therefore does not guarantee earnings recovery and continues to place meaningful performance risk on the Company. Consequently, the analysis demonstrates that the proposal maintains robust incentives for cost containment, operational efficiency, and prudent management while continuing to protect customers through the proposal's sharing and reconciliation mechanisms.

Prior Referenced Responses:

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[i] EOE-372 Question:

(TIMING OF ANNUAL FILINGS; F-FACTOR) Provide both a discussion and a visual representation of the timeline detailing key components of the Company's proposed annual filings for each year of the MRP. As part of the response, identify the cutoff date(s) for capital additions, the annual filing date(s), and rate change date(s). This request attempts to understand the amount of time needed for the Company to close its books and prepare the filing, along with the amount of time for the Authority's approval, and the Company's subsequent processing of the rate increases within its system. Additionally, this request attempts to understand relevant cutoff dates whereby the F-Factor capital additions would be applicable from the end of the evidentiary record through the first annual cutoff date.

EOE-372 Response:

Please refer to the Company's response to OCC-857,[i] which responds to a similar question.

The Company proposes to align the Performance Based Multi-Year Rate Plan (PBMRP) with the Rate Year, with PBMRP adjustments occurring on July 1 each year. 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; (7) bill impacts of the new rate by rate class; and (8) any request for exogenous rate change, if applicable.

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 will be set at the Company's capital forecast, as approved in this proceeding. 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 will be reconciled against the approved forecast. As

described in the response to OCC-857, 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 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. If the Company's actual capital spending exceeds the forecasted amount approved in this proceeding, the Company will 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 of excess capital spending on the Company. 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, since, although the F-factor will initially be established based on the capital expenditure forecast presented in this proceeding, it will ultimately be reconciled based on plant in service, but only to the extent actual plant in service is less than (not more than) contemplated in the original F-Factor. For these reasons, the proposal aligns cost recovery with prudent investment, promotes accurate capital forecasting, and incentivizes efficient execution of the capital program, all while ensuring that customers do not provide revenues that support capital that is not in-service and used and useful to customers, and that is not found prudent by PURA.

Based on the above framework, an exhibit that reconciles actual plant additions placed in service during the applicable plan year against the approved forecast will be filed on or about March 1st of each year consistent with the timing of all other RAM component reconciliations. 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.

Annual reconciliation, including the prudence reviews involved, is a critical element of the Company's PBMRP proposal. As part of each annual PBMRP adjustment effective July 1 each year of the PBMRP[i], the Company's actual capital additions for the Prior Year are allowed for inclusion in the calculation of the F factor to the extent that the actual capital additions do not exceed the Forecasted Budget (referred to as the F-factor allowance). To the extent that the cumulative actual capital costs in-service through the Prior Year, in aggregate, exceeds the Forecasted Budget through the Prior Year, then the F Factor allowance is capped at the cumulative Forecasted Budget. This downward-only reconciliation will ensure that, in the end upon reconciliation, customer bills reflect the costs associated only with projects that are in service to customers and no more, and that if the Company invests more than the Forecasted Budget, customer bills will not reflect amounts above the Forecasted Budget, until such time as those capital investments are allowed into rates at the time of the Company's next rate case. The prior-period reconciliation will be reflected in the F-Factor, in addition to the revenue requirement associated with the Forecasted Budget for the upcoming Rate Year, effective July 1 annually. The F Factor allowance will be calculated to determine the revenue requirement (inclusive of depreciation expense, property tax expense, return on rate base, and income tax) on actual plant additions (including plant additions, cost of removal, plant retirements, accumulated depreciation, and plant-related accumulated deferred income taxes ("ADIT")) up to the Forecasted Budget amount, and to reflect the revenue requirement for the Prior Year and through the Rate Year on in service capital additions placed in service in the Prior

Year, provided that those in service capital additions are not reflected in base rates or in another rate mechanism. In addition, the F Factor allowance will reflect the revenue requirement for Rate Year capital, established at the Forecasted Budget, subject to downward-only reconciliation in the subsequent F Factor filing.

As noted above, annual reconciliation will consider plant-related ADIT on the Company's books through the end of the calendar year, prior to a given annual filing. To the extent the Company has recorded cumulative plant additions in excess of the capital expenditure forecast provided in this docket or supported by a mechanism other than the F-Factor, the plant-related ADIT will be adjusted in the Company's annual reconciliation to avoid overstating the ADIT relevant to the F-Factor.

In total, the Company's proposed F-Factor will provide revenue support for, and ultimately reconcile, the capital investment placed into service from the cutoff date for inclusion in base rates through the effective date of the Company's subsequent rate case at the conclusion of the proposed PBMRP term. Per the Company's proposal the F-Factor would ultimately reconcile capital investments made up to July 1, 2031 (the effective date of the subsequent rate case). Should the subsequent rate case be effective later than the July 1, 2031, illustrative date, the F-Factor would continue to reconcile capital investments placed into service until such time as that rate case does take effect.

[ii] OCC-857 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.

OCC-857 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 reconciliation1 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 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.