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

Question:

For each electric distribution affiliate of Eversource Energy (including Public Service Company of New Hampshire and the Company's Massachusetts electric distribution affiliate): (a) state the currently authorized distribution return on equity and common equity ratio, and identify the proceeding and date in which each was authorized; (b) identify each risk-reducing mechanism (decoupling, storm cost recovery or tracker, multi-year rate plan, capital tracker, earnings sharing) available to that affiliate; and (c) state whether the Company contends that CL&P faces greater business or regulatory risk than each such affiliate and, if so, produce every analysis supporting that contention.

Response:

Please refer to ALLCO-048, Attachment 1, for subparts (a) and (b). The Company has indicated in Attachment 1 whether each company's respective, approved rate plan includes revenue decoupling, storm cost recovery or dedicated mechanism, multi-year rate plan, capital cost recovery, and/or earnings sharing provision. The Company does not agree with the characterization in the question of these mechanisms as "risk reducing mechanisms," given the regulators would not implement these mechanisms unless there were a symmetrically, balancing impact for the utility and its customers and after consideration of the trade-offs inherent in the mechanism. Specifically:

- Revenue decoupling is primarily implemented for policy reasons to eliminate any disincentive that the utility would have for promoting load-conservation initiatives that would reduce sales revenues between base-rate cases. In the course of achieving that policy goal, revenue decoupling operates as a symmetrical reconciliation in which revenues are adjusted up or down to the target level of revenues authorized by the regulator, so that both the utility and customers are held constant to the authorized level of revenue. As shown in Attachment 1, revenue decoupling has been implemented in Massachusetts for NSTAR Electric but has not been implemented for PSNH.

- Storm cost recovery mechanisms operate to provide symmetrical benefits, shielding customers from rate shock associated with the accumulation of incremental storm expenses and limiting carrying costs associated with deferrals, while the utility is allowed timely and adequate recovery of costs it incurs to safely and efficiently restore service to its customers after a significant weather event. By definition, storm cost recovery mechanisms that

operate outside of base rates are intended to cover storms that cannot be reasonably covered through base rates as typical 'ebb and flow' of utility expenses, because to do so would leave customers or the utility paying too much or too little for the obligation. As shown in Attachment 1, although the mechanics differ by jurisdiction, both NSTAR Electric and PSNH have storm cost recovery mechanisms that operate outside of base rates.

- Multi-year rate plans are aimed at stabilizing revenue levels to provide a symmetrical benefit for customers and the utility in terms of enabling necessary rate changes to cover the cost of service, while providing customers rate stability and predictability, along with strong incentives for cost control. Multi-year rate plans that are performance-based and involved in a relatively longer "stay-out" period drive efficiency for the benefit of the utility and customers, due to the fact that the utility needs to operate within the confines of the plan and control its costs in order to maintain financial integrity over the stay-out term. Conversely, customers are protected from utility over-earning during the rate plan through operation of the ESM which, in the Company's experience is implemented in a one-sided manner – to the benefit of customers. The NHPUC approved a 4-year PBR plan as part of the Company's last rate case issued in Docket No. 24-070. The MDPU approved a 5-year PBR plan as part of NSTAR Electric's last rate case in DPU 22-22 (2022).

- Capital cost recovery mechanism outside of a multi-year rate plan have also been implemented by the MDPU for certain targeted investments that are identified as benefitting customers, while providing timely and adequate recovery to the utility in relation to the investments that customers require. The design of the New Hampshire multi-year rate plan encompasses capital cost recovery and PSNH does not currently have a targeted capital cost recovery in place.

- As noted in ALLCO-048, Attachment 1, both PSNH and NSTAR Electric have earnings sharing mechanisms that operate on an asymmetric basis so that the utility is allowed to share earnings above (not below) their authorized return on equity. The earnings sharing mechanisms do not provide additional revenues to the utilities in the event they earn below their authorized return on equity.

As discussed on page of Exhibit CLP-ROE-1, Ms. Bulkley relied on a proxy group of comparable utilities to develop the costs of equity models. Therefore, when assessing business risk, the appropriate comparison is the business risk of the Company as compared to the proxy group to determine where within the range of results the Company's ROE should fall. Accordingly, the requested analysis comparing CL&P to NSTAR Electric and PSNH were not conducted.