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Witness: Matthew Fallon
Request from: Office of Consumer Counsel

Question:

Did the Parent Company's $2.4 billion in unregulated losses contribute to the Parent Company's credit rating downgrade in December 9, 2024 from A- to BBB+?

Response:

Please refer to ALLCO-142, Attachment 5, at pages 29-42, for the December 9, 2024 S&P report discussing the downgrade. The Rating Action Rationale on page 2 of the report identifies two contributing factors.

First, the primary factor driving the downgrade, as evidenced by the fact that S&P also downgraded other Connecticut utilities unrelated to Eversource at that time due to such concerns, was the increase in risk resulting from Connecticut regulation. The report states:

> ***We revised downward our assessment of Connecticut's regulatory construct for Eversource's Connecticut utilities***. The assets of CL&P and Yankee Gas that are regulated by Connecticut's Public Utilities Regulatory Authority (PURA) account for about 25% of Eversource's consolidated EBITDA. In recent rate orders for Avangrid subsidiaries Connecticut Natural Gas and Southern Connecticut Gas, the PURA ordered material base rate decreases reflecting reduced depreciation expense, below-average authorized returns on equity (ROE) of 9.15%, and significant reductions in proforma rate base. Additionally, we have assessed PURA's rate orders over the past two years, which were materially lower than we assumed under our base-case forecasts, as not credit supportive. In general, we expect utilities to operate in a regulatory jurisdiction that is supportive of their credit quality by allowing for the full recovery of their operating and capital costs in a timely manner. We also expect the regulatory jurisdiction to provide a consistent and predictable regulatory framework that results in cash flow stability. Given the current trend in Connecticut, we now expect that the PURA will continue to order less-than-credit supportive rate case orders over the longer-term.
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> Additionally, we assessed the 2023 signing of Connecticut Senate Bill 7 into law as negative for the credit quality of utilities because it discontinued the use of the electric system improvement charge in future rate proceedings. The bill also provided PURA with discretion regarding the consistent implementation of

> decoupling, which we expect will decrease the cash flow predictability of the utilities it regulates. Accordingly, we believe business risk has increased for Eversource Energy and its Connecticut-based subsidiaries and expect they will be increasingly subject to below-average ROEs, regulatory lag, and an inconsistent ability to earn their authorized ROEs and achieve credit-supportive regulatory outcomes. We believe these developments will also increase the companies' cash flow volatility, decrease the stability of their financial performances, and weaken their ability to consistently manage regulatory risk over our forecast period.

Second, the report also cited Eversource's weak historical financial metrics. Importantly, Eversource has successfully executed on a plan to improve its financial position. Key steps included the issuance of nearly $1.5 billion of equity during the 2024 – 2026 period and the divestiture of Eversource's offshore wind and water businesses allowing Eversource to focus on its core electric and natural gas operations. The credit rating agencies have acknowledged this improvement. Most recently, on July 9, 2026, Moody's revised Eversource Energy's outlook from negative to stable and noted that "Eversource's stable outlook reflects improved financial performance and financial flexibility" (See Moody's July 9, 2026 report provided in CIEC-014, Attachment 3).