Date Filed: August 27, 2026

Witness:
Request from: Office of Education, Outreach, and Enforcement

Question:

(2Q-4Q25 CATASTROPHIC STORM EVENTS) Discuss the impact that would result with respect to the Company's revenue requirements (i.e., for a proposed rate year) if a catastrophic storm event occurred during the test year (i.e., 2025) but the underlying costs were not deferred as permitted. Specifically explain if the revenue requirements could be overstated based on the higher O&M expenses for the test year.

Response:

The ratemaking framework for storm events revolves around the central point of this question, which is that the incremental operating and maintenance ("O&M") expenses caused by larger, more sporadic weather events need to be ***excluded*** from base rates so that the recurring base rates that customers pay do not include the large, "one-time" costs that are non-recurring and cannot be captured as a "representative" cost for the Rate Year revenue requirement. The method by which storm events are classified as catastrophic, non-catastrophic or pre-staging events – and the ratemaking treatment for each category of weather event – are important regulatory decisions to assure that (1) customers are not paying for storm costs that are not incurred in relation to actual storm events; and (2) actual, prudently incurred storm costs have a path for recovery consistent with law and appropriate ratemaking policy.

Without an appropriate mechanism for recovery of costs outside of base rates (or in base rates as an after-the-fact amortization), there is a high likelihood that customers would either pay too much storm costs, or that the Company will not have a fair and reasonable opportunity to recover its prudently incurred costs. For example, given the Company's historical experience, PURA would have to include an amount in the range of $150 million annually to cover the costs of storm restoration for major weather events, which is a significant amount of money for customers to pay in base rates without specific knowledge or expectations about when, or to what extent, the actual underlying costs would be incurred. Moreover, if included in base rates as a normally recurring cost item rather than deferred to a regulatory asset, no prudence review would be applicable after setting that amount in base rates, which does not make sense for storm costs.

Accordingly, as identified by the question, an increase to base distribution rates of $150 million would likely mean that the resulting revenue requirement would be overstated or understated in future years, even though the amount imputed into base rates would be informed by actual

historical storm data and would attempt to impute a level of costs into rates that would reflect the expected costs in future years. Thus, even at the level of $150 million included in base rates, PURA would need to provide for a deferral mechanism because storms are completely unique in nature and severity and any amount built into base rates would require adjustment based on actual circumstances. For example, Storm Isaias in 2020 and Storm Henri in 2021 were each approximately $150M or more in costs by themselves, so that even an allowance of that magnitude in rates would not be sufficient to cover the costs that were actually incurred.

Please refer to the Company's response to OCC-055[i], which states that the Company's proposals for base distribution rate funding for non-catastrophic storm/non pre-staging events, catastrophic storms and pre-staging events are based on a catastrophic storm threshold of $5.4 million, calculated by escalating the prior authorized threshold of $4 million using the GDP-PI from 2018 through the Rate Year. Importantly, if the $5.4 million threshold proposed by the Company is modified in this proceeding, the historical level of storm activity would need to be re-evaluated as well to determine if a level of reserve funding in base rates different than what the company has proposed is necessary. In addition, if the $5.4 million threshold is adjusted in this proceeding, the base level of non-catastrophic expense in base rates likewise need to be adjusted.

Lastly, although it may be counterintuitive, maintaining a reasonable threshold for the major storm reserve is the best approach for customers because the Company's base distribution revenue requirement would then, consequently, have a lower amount of *non*-catastrophic storm/non pre-staging event costs incorporated into it and customers would pay only for those costs that actually occur, at the time those costs occur, reducing the risk to both customers and the Company as more costs would be funded at exactly the amount that's deemed prudent by PURA, no more and no less.

Prior Referenced Response:

[i] OCC-055 Question:
(Storm Reserves) Referring to Exhibit CL&P-RevReq-2 Schedule C-3.0, lines 43-44. Provide a detailed explanation why the Company is asking for increases in the rate years for the a) storm reserve accrual and b) pre-staging reserve accrual.

OCC-055 Response:

a) The Company presented its proposal for catastrophic storm reserve accrual in Exhibit CLP-REVREQ-1, pages 104 through 107. According to that testimony, the Company's average annual catastrophic storm activity is approximately $151.5 million (see Exhibit CLP-REVREQ-2, WP C-3.26, lines 27 through 35). However, the Company proposes to maintain catastrophic storm funding at approximately the same level, recognizing that annual activity is variable and difficult to predict. This approach aims to mitigate customer bill impacts amid the myriad factors described in that testimony and more broadly

throughout the filing that are putting upward pressure on the cost of service and customers' electric bills. Therefore, the Company proposes a modest increase in the level of base rate catastrophic storm funding, from $57.516 million to $60 million. The overall storm cost recovery proposal, including a new Storm Cost Recovery Adjustment Factor ("SCRAF"), is described in detail in Exhibit CLP-ELP-1.

b) The Company presented its proposal for pre-staging event reserve accrual in Exhibit CLP-REVREQ-1, pages 107 through 108. The testimony calculated an average annual prestaging event expense of $4.097 million (see Exhibit CLP-REVREQ-2, WP C-3.27, lines 27 through 35), based on actual pre-staging event costs at $4.229 million in 2021, $6.350 million in 2022, $6.183 million in 2023, $0 in 2024, and $3.723 million in 2025 (using Gross Domestic Product – Price Index ("GDP-PI") to escalate costs to the Rate Year amounts). This average annual expense of $4.097 million supports the Company's proposed adjustment, increasing annual base distribution funding for pre-staging events from $3 million to $4 million.

It is important to note that the Company's proposals are based on a catastrophic storm threshold of $5.4 million, calculated by escalating the prior authorized threshold of $4 million using the GDP-PI from 2018 through the Rate Year. If the $5.4 million threshold is modified in this proceeding, the historical level of storm activity should be re-evaluated as well to determine if a level of reserve funding in base rates different than what the company has proposed is necessary. In addition, if the $5.4 million threshold is adjusted in this proceeding, the base level of non-catastrophic expense in base rates likewise need to be adjusted.