Date Filed: October 27, 2026

Witness: Brendan J. O'Brien and Garrett J. Murray
Request from: Office of Education, Outreach, and Enforcement

Question:

(EARNINGS SHARING MECHANISM-ESM) Identify if there are any non-regulated costs included within the ESM calculation to include, but not be limited to, charitable contributions, lobbying costs, and amortization of goodwill. If non-regulated costs are included, identify each of the cost categories, the amounts for each year 2020-2025, and explain why the costs are included.

Response:

Assuming that the reference to "non-regulated costs" means costs that are recorded and maintained "below the line" because the costs have no relation to the provision of utility service to customers, the Company does not include "non-regulated" costs in the ESM calculation. This would include, but not be limited to, "charitable contributions, lobbying costs, and amortization of goodwill." However, this would not include costs that are recorded above-the-line; pertain to the provision of service to customers and may not be recovered in the cost of service due to ratemaking decisions or agreements in the last rate case. If costs are recorded above the line and pertain to the cost of providing service to customers, those costs are included in the Earnings Sharing computation.

Under the terms of the Settlement Agreement approved in Docket No. 17-10-46, earnings at the end of each calendar year above the distribution company's authorized ROE of 9.25% shall be shared with customers and shareholders on a 50/50 basis. To comply with this obligation, the Company performs a calculation that divides the operating income of the distribution company by the rate base of the distribution company to calculate a rate of return (ROR) for the distribution company. The cost of debt is then subtracted from the ROR and the resulting percentage is divided by the equity ratio to arrive at the actual earned ROE for the distribution company. This method is referred to as the cost of capital method. Non-regulated costs such as charitable contributions, lobbying costs, and amortization of goodwill are not included in the operating income of the distribution company, because they are recorded below the line. Thus the numerator of the ROR calculation excludes expenses recorded below the line for purposes of computing the ESM. Costs recorded above the line will be reflected in the operating income of the Company, regardless of whether the costs are included in rates.