Date Filed: October 14, 2026

Witness: Douglas P. Horton, Leanne M. Landry, John G. Griffin and Danielle Munson
Request from: Office of Consumer Counsel

Question:

Does the Company have clear protocols for allocating Company labor and labor overheads to capitalized projects?

a. Are these protocols in written form? If so, please provide. If not please explain protocols and methods in detail.
b. Are these protocols implemented as part of monthly or regular periodic accounting, or are these determinations only made in preparation for determination of revenue requirements as in the context of a general rate case?
c. How would capitalization of labor and labor overheads be determined and documented within the annual reconciliation proceeding?
d. Please provide an example of the calculation of expensing versus capitalization of labor-related costs that would be filed in an annual reconciliation filing.
e. How did the protocols apply to how the Company quantified Test Year expenditures in this proceeding?
f. Have the Company's standards or protocols changed over time? For example, is the Company's approach in this rate case different to any other rate case? If yes, explain when, why, and how the protocols or standards have changed.

Response:

a. Yes, the Company has clear protocols for allocating Company labor and labor overheads to capitalized projects. These fundamental protocols for labor capitalization are based on Generally Accepted Accounting Principles (GAAP) requirements and the Federal Energy Regulatory Commission (FERC)'s Uniform System of Accounts.

   All employees are required to abide by and follow the corporate "Time Reporting Policy," which informs how base pay is divided among the Eversource Energy operating companies and to ensure the accounting is appropriate, including charging time to capitalized projects. As noted in the policy, "Each subsidiary or business segment should be charged directly, when possible, for employees' time benefiting that subsidiary or business segment." This avoids cross-subsidization between the Operating Companies, including CL&P, and between capitalized projects. This policy also requires that the person authorized to approve the transaction is responsible for ensuring the appropriate work order and rate code

are used to cause the cost to be charged to the correct FERC account (i.e. FERC account 107 in the case of capitalized projects) and to the proper affiliate(s) depending on the subsidiaries or business segments benefitting from the services provided. Please refer to OCC-199 Attachment 1, for this policy.

The Company also adheres to Accounting Policy Statement (APS) 8, which provides guidelines surrounding the decision to capitalize or expense expenditures for plant. Under this policy, once a capital project has been approved by management, a work order is established by the project management team. Generally, all expenditures directly related to the project incurred after this point are capitalized. Please refer to EOE-060 Attachment 3, for this policy.

Certain employees may also charge Engineering & Supervision ("E&S") work orders. The E&S work orders are selected by employees who actively support construction activities directly related to capital projects, but are not readily identified to a specific capital project work order. Having these employees direct charge specific capital project work orders on a daily basis becomes impracticable to decipher for timesheet reporting purposes because of the extensive number of capital projects they support. Therefore, the E&S work order allows for a more practical, effective, and expedient timesheet reporting mechanism for certain employees to capture their time appropriately. E&S is not ascribed to individual capital projects on a discrete, quantifiable basis for individual projects or programs. The labor and labor-related costs associated with the E&S function are ascribable to all eligible capital projects and are pooled into closing accounts that are then applied on an aggregated basis to active work orders on a month-to-month basis as a "clearing rate."

The E&S overhead "pool" captures costs incurred in support of the Company's construction activities that are not readily identified to a specific capital project work order. The nature of these costs includes labor costs/payroll and associated overheads. Such classification is required under the FERC Uniform System of Accounts ("USoA"), which states: "Engineering and supervision includes the portion of the pay and expenses of engineers, surveyors, draftsmen, inspectors, superintendents and their assistants applicable to construction work." Thus, the types of charges included in FERC Account 107ES0 (Construction Work in Progress) are employee labor and external vendor labor costs that support capital project construction activities through engineering and supervisory functions.

Once a capital project is placed in service in FERC Account 101 (Electric Plant in Service), the E&S costs are classified to property units in the same manner as all other capital charges on the project work orders. With the assistance of project managers and engineers, Plant Accounting determines what percentage of the total project each property unit represents. All capital charges to the project work orders, including E&S charges, are ascribed to the

installed property units based on these percentages. An officer's base salary is not discernible as a line item through this process.

The E&S work orders charged may be operating company work orders, which directly assigns costs to specific subsidiaries, or may be Eversource Energy Service Company work orders that utilize rate codes. Please refer to OCC-199[i] for further details of the cost accounting process and the use of work orders that contain rate codes.

Labor overheads (i.e. non-productive time, payroll benefits for operating company employees, and the general service company overhead for service company employees) "follow productive labor charging" to ensure that each employee's total labor in a calendar year is accounted for and charged to the appropriate Eversource Energy companies/business segments and capitalized projects based on the "productive" work performed by each employee. The accounting processes ensure the appropriate 'cost of labor' charge for each employee, follow the assignment of costs to the subsidiaries/business segments and capital projects based on the productive work orders.

b. The corporate and accounting policies described above shall be adhered to for every timesheet that is approved in the normal course of business and not implemented solely in preparation for determination of revenue requirements as in the context of a general rate case. This approach ensures that labor capitalization is not a retrospective exercise but rather an ongoing, systematic process embedded in the Company's regular operations.

c. The Company's proposed annual F-Factor reconciliation contemplates a comprehensive review of capital investments placed in service during the reconciliation period. As reflected in CLP-ADDITIONS-4 and CLP-Additions-5, the reconciliation filing would include project-level information regarding plant additions, associated costs, and supporting documentation sufficient for PURA and stakeholders to evaluate the investments reflected in the F-Factor revenue requirement.

The review of capitalized labor and related overheads would not occur in isolation. Rather, those costs would be evaluated in the context of the underlying project and the documentation supporting the investment. The Company would provide project authorization materials, work order information, plant-in-service records, project closeout documentation, and other supporting materials necessary to evaluate the nature, scope, purpose, timing, and cost of the investment.

In addition, the annual reconciliation process provides PURA and stakeholders with the opportunity through discovery to review the documentation supporting actual project costs and plant additions. That review extends beyond individual cost elements and permits evaluation of the overall prudence of the investment, including the underlying need for the

project, the activities performed, the costs incurred, and whether the resulting facilities are used and useful in providing service to customers. Accordingly, the reconciliation process provides a transparent mechanism for reviewing both the costs and supporting documentation associated with capital investments before those investments are reflected in the F-Factor revenue requirement.

d. The annual reconciliation process also provides PURA and stakeholders with the opportunity to evaluate whether a particular project represented a reasonable and prudent response to the underlying system need. To the extent questions are raised regarding alternative approaches, those issues may be evaluated within the context of the overall project record, including the project objectives, supporting analyses, and information available to the Company at the time decisions were made.

e. The aforementioned protocols were in place throughout the Test Year. The Company's adherence to GAAP and FERC is a standard, stable practice in force at all times, including the Test Year.

f. The Company's labor capitalization protocols represent a stable, well-documented framework that has been consistently applied across multiple rate proceedings. This consistency ensures comparability and reliability in the determination of revenue requirements.

Prior Referenced Response:

[i] OCC-199 Question:

(COMPENSATION) Please refer to Exhibit CLP-EMPLOYEE-1. Please indicate from 2018 to the present how employee compensation (base pay, variable pay, and benefits) has been divided among the Company's operating companies for employees performing tasks for multiple companies, specifically indicating how Eversource ensures that employees performing work for multiple companies have their compensation allocated appropriately.

OCC-199 Response:

All employees are required to abide by and follow the corporate "Time Reporting Policy," which informs how base pay is divided among the Eversource Energy operating companies. As noted in the policy, "Each subsidiary or business segment should be charged directly, when possible, for employees' time benefiting that subsidiary or business segment." This avoids cross-subsidization between the Operating Companies, including CL&P. Please refer to OCC-199, Attachment 1, for this policy.

The following sections labeled "Shared Services and Cost Accounting" and "Shared Service Controls and Reporting" describe how productive labor (i.e. base pay) is assigned to the subsidiary/business segment and the controls in place to ensure employees performing work for multiple companies have their compensation allocated appropriately.

Shared Services and Cost Accounting

Company ("ESC") and CL&P to govern the provision of services provided by the ESC. Please refer to OCC-199, Attachment 2, for the service agreement between ESC and the Company for a description of the services that are provided.

There is intelligence built into accounting work orders that inform the assignment of costs to the operating companies, including CL&P, when time is entered into the Workforce system, which is the Human Resources and Information System ("HRIS") used for reporting time charging. When an ESC employee is providing services to one subsidiary or business segment, the direct methodology is utilized. These are categorized as the "N" rate codes, which will directly assign 100% of the costs to that subsidiary or business segment. For example, the following ESC work order has been established for employees supporting the CL&P distribution rate case proceeding: CL&P: CT260N1.

The last three characters of the work order number contain an alpha followed by two digits. The alpha character in these examples is an "N," which indicates the methodology. In this case, "N" indicates use of the direct-charging methodology, whereby 100% of the charges will be directly assigned to a subsidiary or business segment. The last two digits of a work order number utilizing the direct methodology indicate the entity code, which is the subsidiary or business segment. When ESC employees charge the work orders noted above, the charges are assigned 100% to CL&P (entity 11). Please refer to EOE-065, Attachment 1, for a listing of the Eversource entities.

When costs are incurred to serve the Operating Companies more broadly and cannot be directly assigned by charging an operating company work order or utilizing the ESC direct methodology, costs are allocated based on a specific causal-based methodology. For example, the Plant Accounting team provides accounting services to the Operating Companies and generally allocates their time based on the Gross Plant Assets methodology; whereas members of the Customer Care team generally allocate their time based on the Number of Customers or Customer Handle Time methodologies. Allocations are made only after it is determined that it is not practical or reasonably possible to perform a direct assignment of the costs.

When direct charging is not feasible and a specific causal-based methodology cannot be utilized, common allocators are used to allocate costs. The common methodology is based on the average of net income and gross plant assets. For example, the Corporate Accounting team primarily charges work order ACTG0C04 when supporting the monthly financial close of Eversource Energy. The employees in this organization generally use a common allocator as there is no specific causal driver of the costs or causal-based methodology that may be utilized for providing these corporate accounting services. Please note that the last two characters of rate codes for causal-based and common allocators is not the entity code as it is with the direct methodology, but rather the sequential numbering of rate codes for the combinations of subsidiaries and business segments.

For a listing of the allocation methodologies used as the basis for the applicable rate codes, please refer to the ESC FERC Form 60 annual filings that present these methodologies on Schedule XXI. This Schedule also explains the rationale for the methodologies. Please refer to EOE-066, Attachment 1, for the ESC Cost Allocation Manual and additional details regarding the allocation methodologies as well as a list of rate codes.

Variable pay and employee benefits "follow productive labor charging" to ensure that each employee's total labor in a calendar year is accounted for and charged to the appropriate Eversource Energy companies/business segments based on the "productive" work performed by each employee. The accounting processes ensure the appropriate 'cost of labor' charge for each employee, including variable pay and employee benefits, follow the assignment of costs to the subsidiaries/business segments based on the productive work orders.

Shared Service Controls and Reporting

There are several controls in place to ensure costs are appropriately allocated. All rate codes are updated annually in January, and as needed, and are prepared, reviewed and approved by the Corporate Accounting Allocations team. The Director of the Corporate Accounting Allocations team is responsible for ensuring the corporate rate codes are accurate.

As it relates to the allocation or assignment of costs, whether those costs be employee payroll, invoiced charges, inventory or otherwise, the person authorized to approve the transaction is responsible for ensuring the appropriate work order and rate code are used to cause the cost to be allocated to the proper affiliate(s) depending on the subsidiaries or business segments benefitting from the goods or services provided.
In addition, the internal control structure used by ESC to ensure all costs are properly charged to the affiliates includes a process that is managed by the Corporate Accounting Allocations team. This process involves comparing the allocated charges to a manual calculation of charges eligible to be allocated to the subsidiaries or business segments. Any differences are researched and resolved.

The Corporate Allocations Team also sends out a Monthly Monitoring Report from the PowerPlan system, which houses the enterprise-wide ESC cost records. The Monthly Monitoring Report is a set of approximately 400 reports issued to all ESC Cost Center Managers, or their designees for each ESC cost center. The Monthly Monitoring Report shows the amount of operations and maintenance ("O&M") expense charged by accounting work order and the percentage by work order charged to each Operating Company. The Corporate Allocations Team also sends out a monthly Key Comparison Report that shows the percentage of O&M expense charged to each subsidiary for the current and prior month, quarter to date and the prior 12 months. The Key Comparison Report also shows the total charge to each Operating Company in that current month.

An executive summary is also prepared monthly for the Vice President, Controller and Chief Accounting Officer. This report shows a 13-month comparative analysis of ESC O&M allocated to each Operating Company by each shared service unit through the Executive Vice President level and identifies month-over-month variances within each business area.