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Witness: Douglas P. Horton and Julia Frayer
Request from: Office of Consumer Counsel

Question:

(Customer dividend) In Exhibit CLP-PBR-1, LEI states that approved Consumer Dividends or stretch factors in other North American jurisdictions generally range from 0.15% to 0.60%, as reflected in Figure 12 of Exhibit CLP-PBR-3:

a. Please provide a list of each utility and jurisdiction included in deriving this range, including the applicable PBR plan or regulatory proceeding, the approved Consumer Dividend/stretch factor, and the year(s) in which it applied.
b. Please explain the criteria used to select the utilities and PBR plans included in this comparison, including whether the comparison includes all relevant North American PBR plans reviewed by LEI or a subset.
c. Please explain how the 0.15%–0.60% range, and CL&P's position within that range, informed the selection of the proposed 0.30% Consumer Dividend, including any quantitative or qualitative analysis used to determine that 0.30% was appropriate for CL&P.

Response:

a. Figure 16 (not Figure 12) in CLP-PBR-3, which we are also including below, provides the jurisdictions, utilities, approved Consumer Dividends/stretch factors, applicable terms, and regulatory sources considered by LEI. The comparison includes, among others, Alberta's 2024–2028 PBR3 plan; FortisBC's 2025–2027 Rate Setting Framework; Massachusetts PBR plans for Massachusetts Electric/Nantucket Electric, NSTAR Electric, and Fitchburg Gas and Electric; New Hampshire's 2026–2029 alternative regulation plan for Public Service Company of New Hampshire; and the Ontario Energy Board's stretch-factor framework for Ontario electricity distributors.

Jurisdiction and EDC	Approved S Factor / Consumer Dividend	Term	Source
Alberta (ATCO Electric Ltd.; FortisAlberta Inc.; ENMAX Power Corp.; EPCOR Distribution & Transmission Inc.; ATCO Gas and Pipelines Ltd.; and Apex Utilities Inc.)	0.1% = Industry TFP + stretch factor 0.30% = "benefit-sharing premium" (X Factor premium)	2024-2028	Alberta Utilities Commission, *2024–2028 Performance-Based Regulation Plan for Alberta Electric and Gas Distribution Utilities*, Decision 27388-D01-2023, Proceeding 27388 (October 4, 2023)
British Columbia — FortisBC Inc.	0.25% Stretch Factor	2025-2027	British Columbia Utilities Commission, *FortisBC Energy Inc. and FortisBC Inc. 2025 to 2027 Rate Setting Framework*, Orders G-69-25 and G-70-25 (March 18, 2025)
Massachusetts — Massachusetts Electric Company and Nantucket Electric Company	0.40% Consumer Dividend (applicable only when inflation is at least 2%; 0.20% when inflation is between 1% and 2%; and 0% when inflation is 1% or lower.	2020-2024	Massachusetts Department of Public Utilities, *Petition of Massachusetts Electric Company and Nantucket Electric Company for Approval of General Increases in Base Distribution Rates for Electric Service*, D.P.U. 18-150 (September 30, 2019)
Massachusetts — NSTAR Electric Company	0.25% Consumer Dividend (applicable only when inflation exceeds 2%)	2023-2027	Massachusetts Department of Public Utilities, *Petition of NSTAR Electric Company for Approval of a General Increase in Base Distribution Rates and a Performance Based Ratemaking Plan*, D.P.U. 22-22 (November 30, 2022)
Massachusetts — Fitchburg Gas and Electric Light Company	0.25% Consumer Dividend (applicable only when inflation exceeds 2%)	2024-2029	Massachusetts Department of Public Utilities, *Petitions of Fitchburg Gas and Electric Light Company for Approval of General Increases in Base Distribution Rates and Performance-Based Ratemaking Plans*, D.P.U. 23-80 and D.P.U. 23-81 (June 28, 2024)
Massachusetts — Massachusetts Electric Company and Nantucket Electric Company	0.40% (applicable only when the composite inflation index exceeds 2%)	2024-2029	Massachusetts Department of Public Utilities, *Petition of Massachusetts Electric Company and Nantucket Electric Company for Approval of a General Increase in Base Distribution Rates, a Performance-Based Ratemaking Plan, and a Capital Recovery Mechanism*, D.P.U. 23-150 (September 30, 2024)
New Hampshire — Public Service Company of New Hampshire d/b/a Eversource Energy	0.15% (applicable only when GDP-PI inflation exceeds 2%)	2026-2029	New Hampshire Public Utilities Commission, *Public Service Company of New Hampshire d/b/a Eversource Energy – Request for Change in Distribution Rates: Order Establishing Permanent Rates and Alternative Regulation Through July 31, 2029*, Order No. 28,170, Docket DE 24-070 (July 25, 2025)
Ontario - All utilities	Based on benchmarking performance and ranges between 0.00% and 0.60%		Ontario Energy Board. *2025 PEG Benchmarking Report to the Ontario Energy Board*. Prepared by Pacific Economics Group LLC. August 18, 2025

b. Figure 16 was intended to provide an illustrative sample, rather than an exhaustive survey, of relatively recent North American PBR frameworks employing a formulaic revenue or rate-adjustment mechanism and an explicit Consumer Dividend, stretch factor, or comparable benefit-sharing component. LEI selected these examples to provide regulatory context for the magnitude of CL&P's proposed Consumer Dividend and to illustrate how

such factors have been incorporated into PBR frameworks in other North American jurisdictions. The comparison was not intended to include every North American PBR plan reviewed by LEI or to establish the minimum and maximum Consumer Dividend. Indeed, some jurisdictions have approved PBR frameworks without an explicit Consumer Dividend, stretch factor, or comparable benefit-sharing component, further demonstrating that the range shown in Figure 16 should not be interpreted as establishing regulatory minimum or maximum values.

c. LEI did not mathematically derive the proposed 0.30% Consumer Dividend from the 0.15%–0.60% range, nor was 0.30% selected specifically because it reflects the midpoint of that range. Rather, CL&P's modest above-benchmark OM&A costs historically indicated potential for additional efficiency improvements in the future and supported a positive, moderate Consumer Dividend. It is important to keep in mind that the benchmarking results on their own do not establish the annual rate at which those improvements can reasonably be achieved. The Company has therefore proposed an incentive-rich mechanism by which the 0.3% Consumer Dividend is just a starting point, and if efficiency improvements are achieved then the Consumer Dividend would grow over time to ensure that customers are immediately sharing in the financial benefits of achieved cost efficiencies.

LEI considered the regulatory precedents in Figure 16 as a reasonableness check on the magnitude of the proposed starting value for the Consumer Dividend. CL&P's 0.30% falls within the observed range, and between the 0.25% FortisBC stretch factor and the 0.40% Massachusetts Electric/Nantucket Electric Consumer Dividend in the more directly comparable OM&A-focused frameworks. LEI therefore concluded that 0.30% was reasonable in light of CL&P's benchmarking results and relevant regulatory precedent. Please also refer to the responses to OCC-443[i] and OCC-539[ii].

Prior Referenced Responses:

[i] OCC-443 Question:

Exhibit CLP-PBR-1 PBR Testimony Please explain quantitatively how LEI's benchmarking results support a 0.30% Consumer Dividend. Please explain how the Company's proposed 0.30% Consumer Dividend was derived from or otherwise informed by:

a. The Company's 22.9% average OM&A cost gap under the unit cost benchmarking analysis;
b. The Company's 11.9% average OM&A cost gap under the 2015–2024 econometric benchmarking analysis; and
c. The Company's 16.4% average OM&A cost gap under the 2021–2024 econometric benchmarking analysis.

d. Please provide any calculations, assumptions, analyses, or methodologies used to translate the identified efficiency gap into an annual achievable improvement.
e. Please explain why the widening gap does not support a Consumer Dividend greater than 0.30%, and provide all analyses relied upon in reaching that conclusion.

OCC-443 Response:

LEI did not derive the proposed 0.30% Consumer Dividend by applying a mathematical formula to any of the benchmarking gaps identified in parts (a) through (c). LEI's quantitative analysis was focused on the benchmarking itself. As explained in Exhibit CLP-PBR-3, LEI performed a unit cost analysis followed by an econometric analysis of the Company and the other 88 peers nationally. The benchmarking results measure CL&P's relative cost position compared with the average of all utilities (for the unit cost benchmarking) or a model-predicted benchmark for the Company's costs (for the econometrics benchmarking). A benchmarking study will report out relative efficiency, but it cannot measure the amount of cost reduction that can reasonably and sustainably be achieved in any particular year of the PBMRP, as explained in Exhibit CLP-PBR 1. Therefore, LEI examined what other jurisdictions have approved for stretch factor/consumer dividend, especially when the target utility is an average performer like CL&P. Please see Section 5 of Exhibit CLP-PBR-3.

The 22.9% result represents the average amount by which CL&P's OM&A cost per customer exceeded that of the national industry average under the unit cost benchmarking analysis. As LEI explains in Section 1.1 of Exhibit CLP-PBR-3, the unit cost analysis is an initial step in benchmarking analysis. Unit cost benchmarking does not control for differences in operating conditions and important business factors among utilities that will impact costs, such as the scale of business, the network composition, local costs of labor, etc. For that reason, the unit cost benchmarking results are not directly informative of a stretch factor for a utility, especially if the data allows for more rigorous econometric analysis.

The 11.9% result provides a more refined measure of CL&P's relative OM&A cost performance. Indeed, the econometric analysis takes account of such factors such as input prices, scale, and network characteristics. As the 11.9% remains a measure of the level of CL&P's costs relative to the model-predicted benchmark over the historical period (2015 2024), it does not provide guidance on future efficiency gains and must be interpreted cautiously. In addition, LEI considered the broader peer distribution in looking at the OM&A benchmarking results. CL&P ranked 54th out of 88 utilities based on its average result over the 10-year period, placing it within the broad middle of the group. Accordingly, its above benchmark OM&A costs represent an area for potential improvement, but are not an unusually large or extreme result relative to its peers. Those observations support a positive but modest Consumer Dividend, which based on LEI's collation of data from other jurisdictions, would be 0.30% as discussed in Section 5 of Exhibit CLP-PBR-3.

The 16.4% result comes from the econometric analysis of CL&P's OM&A costs against model-predicted benchmark, but for a much shorter period (2021-2024). Importantly, the recent-period results continue to show favorable overall cost performance: capital costs averaged 16.5% below benchmark (see Figure 15 in Exhibit CLP-PBR-3) and total costs averaged 3.1% below benchmark. As discussed in the Company's testimony, recent O&M cost pressures may include labor and vegetation management, as well as storm-related expenditures. Nevertheless, these provide context for the more recent period but do not establish the extent to which any individual cost category contributed to the 16.4% econometric benchmarking result or whether the same conditions will persist during the PBMRP term. Thus, the 16.4% OM&A result implies that additional operating-efficiency opportunities may exist, but does not give us any direct indication for how to size the Consumer Dividend.

LEI did not perform a calculation that converts the 22.9%, 11.9%, or 16.4% benchmarking differences into an annual achievable productivity improvement, and therefore there are no such calculations to provide. Such a calculation

would not be methodologically appropriate because the benchmarking analysis looks at various measures of productivity at a given point of time, and does not say anything about the prospective rate at which cost differences can reasonably and sustainably be eliminated over the next few years. LEI used the benchmarking results as empirical evidence of relative efficiency and confirmation that there is some room for improvement. LEI then considered regulatory precedent for Consumer Dividends and stretch factors, which suggested that regulators have used values ranging from 0.15% to 0.60% for other EDCs, with lower values for those that are more efficient and higher values for those that are very inefficient. LEI then finds the value of 0.30% as a reasonable starting point for the Company's proposed Consumer Dividend.

Two further points place the proposed 0.30 percent in context. First, as shown in Figure 16 of Exhibit CLP-PBR-3, the Consumer Dividends and stretch factors approved in other jurisdictions range from 0.15 percent to 0.60 percent. The Massachusetts consumer dividends in Figure 16 are also conditional on inflation: those mechanisms pay 0.25 to 0.40 percent only when inflation exceeds two percent, reduced amounts at lower inflation, and nothing in low inflation years. The Company's proposed 0.30 percent applies in all inflation conditions, so the guaranteed minimum benefit to customers is at or above the effective minimum of every mechanism in the comparison.

Second, the comparison is most direct when each mechanism is measured against the base to which it applies. The Company's S-Factor applies to the Core Operating Expense revenue requirement only, because capital is recovered through the separate Capital Funding Mechanism (Exhibit CLP-IAP-1 at 73). The most directly similar plans — an apples-to-apples comparison — are those in which regulators approved an OM&A-only revenue cap: National Grid in Massachusetts, with a 0.40 percent consumer dividend payable only when inflation is at least two percent, and FortisBC in British Columbia, with a 0.25 percent stretch factor (Exhibit CLP-PBR-1 at 47; Exhibit CLP-PBR-3, Figure 16).

Finally, the proposed design bounds its own ceiling. Because the S-Factor begins the first rate year at 0.30 percent and each year's result adjusts the level applied in the following rate year, the level can adjust no more than three times over the four-year term, and the highest level the mechanism can reach is 0.60 percent.

The illustrative calculation of how the Consumer Dividend operates over the PBMRP term is provided in OCC-432, Attachment 1.

[e] Q: *Please explain why the widening gap does not support a Consumer Dividend greater than 0.30%, and provide all analyses relied upon in reaching that conclusion.*

As discussed above in a – d, a benchmarking difference represents a measure of relative cost performance and should not be translated directly into an annual Consumer Dividend. Finally, 0.30% is the floor, not the ceiling, under CL&P's proposed mechanism. As explained in Exhibit CLP-PBR-1 at page 64, the Consumer Dividend can increase during the PBMRP term if the Company outperforms the applicable controllable O&M benchmark. Thus, the proposed design provides customers with additional benefits if CL&P achieves greater operating efficiencies than assumed in establishing the initial Consumer Dividend.

The Consumer Dividend is an affordability mechanism. As such, it must be evaluated for both providing a benefit to customers, as well as for sustainability. A dividend set too low forgoes customer benefit, while a dividend set beyond sustainably achievable efficiency would function as a rate reduction unsupported by actual cost performance. The proposed design addresses the scale question through movement rather than starting magnitude. The level begins at 0.30 percent, can never fall below that level or become a surcharge (Exhibit CLP PBR-1 at 64), rises automatically as the Company demonstrates efficiency, and is applied against the Company's O&M revenue requirement under the PBMRP. Unlike an earning sharing mechanism, which provides customer benefits only when earnings exceed the allowed return on equity, this mechanism will share the costs the Company controls, even when under its allowed rate

of return. The consumer dividend design provides customers with efficiency gains during the plan term without waiting for the next rate case, and at the next rate case all achieved efficiencies are reflected in rebased rates in full.

[ii] OCC-539 Question:

Performance Based Ratemaking Panel Exhibit CLP-PBR-1
Please explain the relationship, under the Company's proposed framework, between a utility's relative cost efficiency and the appropriate level of the Consumer Dividend.

a. Specifically, all else equal, would a utility whose OM&A costs are materially above its peer benchmark warrant a higher, lower, or unchanged Consumer Dividend relative to a utility whose OM&A costs are below its benchmark?
b. Please explain the economic rationale for the Company's answer and how that rationale was applied to the Company's proposal.

OCC-539 Response:

a. All else equal, a utility whose OM&A costs are materially above the benchmark would generally warrant a higher Consumer Dividend than a utility whose costs are below benchmark, because the former has greater potential for catch-up efficiency improvements. As explained in Section 2 of Exhibit CLP-PBR-3 and illustrated in Figure 4, a relatively less efficient utility may have greater opportunities to "catch up" to the industry's efficiency trajectory by adopting technologies or practices already implemented by more efficient peers. The Consumer Dividend reflects the potential for such improvements beyond the industry productivity trend.

   However, the "benchmark gap" or the percentage difference between CL&P's actual costs and the applicable benchmark cost, does not mechanically determine the annual Consumer Dividend. As explained in Section 5 of Exhibit CLP-PBR-3, benchmarking identifies relative cost performance and potential opportunities for improvement; it does not establish the annual rate at which those improvements can reasonably be achieved or that the entire gap can be eliminated within a single PBR term.

   For CL&P, the above-benchmark OM&A results support a modest Consumer Dividend in its OM&A-only revenue adjustment mechanism, as discussed in Exhibit CLP-PBR-3. In determining the appropriate magnitude, LEI also considered CL&P's favorable overall cost performance and relevant regulatory precedents. Please refer also to the Company's responses to OCC-431[i] and OCC-443[ii].

b. The economic rationale for this response is that benchmarking identifies relative cost performance and potential opportunities for improvement, but the actual Consumer Dividend earned is based on measured results. The Company applied this rationale in two steps, because the proposed Consumer Dividend is not a fixed number. The Company's relative cost position determined where the dividend starts, as described in part (a) and in the Company's responses to OCC-431 and OCC-443. The Company's actual performance as part of a performance-based rate determines whether it increases or stays at the floor.

   The dividend begins at 0.30 percent and moves each year based on measured results: up 0.10 percentage points in a year when the Company's Core Operating Expense per customer is below the inflation-adjusted benchmark, down 0.05 percentage points when it is not, and never below the 0.30 percent floor. The steps are deliberately asymmetric in customers' favor: the dividend rises twice as fast on demonstrated efficiency as it declines otherwise, and it can never fall below its starting level. The level customers receive therefore reflects how the Company actually performs, not a one-time judgment made before the period begins. An

illustration of the mechanism's operation is provided in the Company's response to OCC-423[iii], and a historical illustration in the Company's response to OCC-432[iv].

The efficiency incentive in the Revenue Cap Formula is the I minus X structure, combined with the power of the stay-out requirement. The Consumer Dividend supplements that structure and is deliberately sized small enough to preserve the incentive that produces the gains to be shared. The design shares efficiency -- as it is demonstrated -- rather than assuming it in advance. If the Company outperforms the benchmark, the dividend rises automatically during the term, up to the top of the approved range; if it does not, customers keep the guaranteed minimum every year. Because the rate at which efficiency gains can be sustainably achieved cannot responsibly be set in advance (please refer to OCC-443, parts (d) and (e)), the mechanism determines it from actual results, and an efficiently operating company returns more to customers than a fixed value would, both during the term and through the full rebasing of its relatively lower cost level at the next rate case. The design protects customers on the downside, and any reduction in Core Operating Expense per customer that improved near-term earnings would register against the benchmark and increase the dividend, converting that reduction into an automatic, growing customer credit.