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Request from: F T I Consulting

Question:
For all three Companies please detail how O&M budgets are developed year over year, and how long term budgets are developed including their inputs.

Response:

1. The Connecticut Light & Power Company

2. Yankee Gas Services Company

The annual and long-term budget development process for CL&P and YGS are discussed in the following narrative. Please note that Aquarion Water Company of Connecticut (and other Aquarion operating companies) are included in this process as a single operating company, once the process internal to Aquarion (and discussed below) is concluded.

Overview of the Long-Range Planning Process:

The long-range financial and operating planning process takes place on an annual cycle at the Eversource senior management level with the participation of leadership of the operating companies and shared service business units. The process is an ongoing, iterative effort that continues throughout the year with the start of the process occurring in late February of each year when financial systems and models are updated for the final accounting balances from the prior year's close.

The long-range planning process is led by the Corporate Financial Forecast ("CFF") group under the direction of the Chief Financial Officer ("CFO") and typically kicks off in late February with the distribution of a critical-path communication to responsible departments requesting various information and establishing a project timeline. Over the following 8-12 weeks, business units throughout Eversource Energy, in collaboration with the CFF, will develop capital forecast estimates covering the next five years for each respective functional area with participation from area leadership. As explained in response to FTI-023, capital budgets are developed by each business area as part of the Strategic Plan and local property taxes and income taxes are a few examples of the corollary updates under development in this period. The CFF will analyze any changes, corroborate expectations, and work to synchronize across disciplines to ensure strategic business initiatives, regulatory developments, and recent or pending legislation, for example, are properly reflected in the Strategic Plan. From start to finish this process is a collaborative and iterative process in order to properly balance customer, operational and financial capabilities and objectives.

The key objective of the long-range planning process is to develop a financial plan that enables Eversource Energy's commitment to safe and reliable operations and superior customer service, while maintaining financial integrity, promoting local, state and federal energy policy and remains grounded in sound accounting, finance, regulatory and legal practice.

Through this annual process, the strategic forecast and operating plan is correspondingly advanced year-by-year. The subsequent Strategic Plan spans a 6-year period, including the current year and a five-year long-range forecast. Once finalized by the CFF group, the CFO presents the Strategic Plan to the Eversource Energy Board of Trustees ("BOT") each June for review.

Following the Eversource Energy BOT's review, the first year of the Strategic Plan is used to set capital and O&M targets for the coming year's annual budget, as discussed in greater detail in the following sections. For the remainder of the year, the Strategic Plan will be continuously updated for developments, including changes in legislation, regulatory outcomes, changes in prevailing economic conditions, or any other significant events.

Overview of Annual Budget Process:

The first year of the Strategic Plan is used as the basis for the upcoming year's Corporate Operating Plan, including the capital and O&M area budget targets. The Corporate Operating Plan development takes place throughout the summer and early fall. In the August timeframe, the Vice President of Financial Planning & Analysis (FP&A) presents and discusses the proposed targets with each member of the Eversource Senior Team. The Budget & Financial Analysis Group (within FP&A) issues budget instructions to all the FP&A Budget analysts who support the business areas. This process to develop the annual Corporate Operating Plan incorporates a more in-depth review and analysis of both O&M expenses and capital projects. FP&A analysts then work with each organization, down to every cost center, to develop the organizational budgets from the ground up. Workforce requirements are reviewed by each organization as part of the overall budget development process. When all proposed budgets are accepted, the budgets are compiled into the budgeting system and incorporated into the Corporate Operating Plan.

Operating company presidents are responsible for their respective distribution operations budgets. They work closely with their area directors and managers to ensure the details of their budget align with the company goals and requirements. Operating company presidents work with their area directors and managers to review and present their budgets to the Chief Operating Officer, who then has the ultimate responsibility to present the overall Operations budget to the CFO for review and approval.

In the September/October time frame, each organization's senior officer(s) (i.e., Chief Operating Officer with the Operating Presidents and/or Executive Vice President/Senior Vice Presidents)

present their respective, proposed budget to the CFO and the VP of FP&A. As described above, each area will have been provided budget targets for their areas. If the budget targets are not met, the Officer must present the reasons why the target(s) cannot be met, as well as actions needed to meet the target, if necessary. There can be several iterations to this process, and the process will continue until the budgets are deemed acceptable to help position the overall Strategic Plan for success in terms of delivering safe and reliable service to customers.

All through the process, the CEO and CFO are kept up to date on the status of the Strategic Plan, as well as the area budget development progress. The CFO presents the preliminary annual Corporate Operating Plan to the Eversource Energy BOT Finance Committee meeting in December and review of the final annual operating plan is reviewed at the February BOT meeting.

Development of Annual Detailed O&M Budget process:

The annual detailed O&M budget process begins in the summer for the following calendar year with distribution of the budget manual and communication of the O&M budget targets to each functional organization across Eversource Energy. The budget targets are a high-level guide for where each organization should be for their total O&M costs in the upcoming budget year (the budget year aligns with the calendar year, January through December).

IBM Planning Analytics is the database tool used to input and maintain each functional organization's budget information. Information is maintained by functional area, cost category, FERC account, workorder and subsidiary company. Each organization has a dedicated budget analyst(s) who assists in the development of the budget information and supports that organization all year long.

The following are the major functional areas across Eversource:

- Electric Operations CT
- Electric Operations MA
- Electric Operations NH
- Transmission
- Gas Operations
- Engineering
- Operations Services (includes vegetation management)
- Customer Group
- Communications, External Affairs & Sustainability
- Chief Financial Officer
- Human Resources
- Information Technology
- General Counsel

- CEO
- Corporate areas (including employee benefits)

The following are the major categories of cost that each organization will budget for. Categories may differ depending on the nature of the business conducted in the functional area:

- Labor (including straight time, non-productive time, overtime and other)
- Employee Expenses
- Fees & Payments
- Materials
- Outside Services
- Vehicles
- Reimbursements
- Benefits
- Other

Budget information is entered into the database system using a combination of cost center, account, cost category, company and workorder designation.

Work-orders are used to tell the system how and where to allocate certain costs. Costs can be direct charged to a specific operating company workorder or allocated with a Service company workorder if the service provided applies to more than one Operating Company. Service company workorders include rate codes that designate the companies or business segments to receive the charges. For a listing of the allocation methodologies used as the basis for these rate codes, please refer to: (1) FTI-126 and Eversource Energy Service Company FERC Form 60 filings that present these methodologies on Schedule XXI; and (2) FTI-116 and the Eversource Energy Service Company Cost Allocation Manual.

All O&M costs originating at the Service Company are allocated to Eversource operating companies.

The O&M budget is developed using a combination of prior year trends and known information for the upcoming year. Labor budgets are based on a combination of current employed FTEs and salaries, merit increase assumptions and forecasted attrition and hires based on workforce requirements. Labor budgets are specific to each area and accounts for any known labor contract updates or changes.

The O&M budget development is a very detailed process, accounting for any updates to allowed regulatory mechanisms, changes in market conditions, labor developments, impacts to benefit programs and many other factors specific to each organization. The O&M budget goes through a very rigorous review with each organization owner and their subordinates, as well as, Operating Company Presidents, to ensure accuracy and the ability to meet the needs of customers.

For the Operations annual budgets, each Operating Company President is substantially involved in the approval of the detailed operations O&M budgets prior to the overall incorporation into the total Operations budget, which is then approved by the Chief Operating Officer.

The O&M budgets are presented to the Eversource Energy CFO and, once approved, are incorporated into the annual Corporate Operating Plan. The Corporate Operating Plan is presented by the CFO to the Eversource Energy BOT Finance Committee for review on a preliminary basis in December of each year and as a finalized plan in February of each year.

Overview of Monthly Operating Plan Monitoring:

Monthly financial reports are prepared by the VP of FP&A and routinely discussed with the CEO, CFO, and the Controller. The monthly financial report includes detailed analysis of actual monthly financial results (expense and capital) as compared to the Corporate Budget. The VP of FP&A will identify each material budget-to-actual variance and identify a driver for the variance. These drivers are generally related to business-plan changes (e.g., project starts a month ahead of time, especially cold heating month, etc.). The presentation and budget-to-actual comparison are designed to enable close and continuous oversight of the financial results of the Eversource Energy enterprise.

Overview of Monthly Detail O&M and Capital Budget Monitoring:

On a monthly basis, detailed O&M and Capital reports are generated for each functional organization in the Financial Performance System (FPS) dashboard application. These reports can be accessed by the owners of each functional organization, as well as subordinates and analysts that oversee cost control centers within the functional organization. The O&M detail reports provide actual, budget and variance information by cost category. The capital detail reports provide actual, budget and variance information by project category. Budget analysts communicate regularly with the owners of each functional organization to assist in understanding their area financial results and the drivers of variances. In addition, budget analysts meet monthly with the VP and Director of FP&A to review the O&M and Capital detail reports by organization and discuss the major drivers of the variances. Ultimately, through this process, each organization reforecasts the respective budget and the annual Corporate Operating Plan expected year-end results.

Summary

The efficiency of each functional area and business unit within the operating companies and the shared-service units is rigorously promoted through this iterative budget and planning process. When each Organization's Senior Officer is called to present their respective, proposed O&M budget to the CFO and the VP of FP&A and their staff, a thorough review of the functional organization is performed in relation to achievement of the strict budget targets, along with consideration of new funding that may be needed to serve operating and customer-service goals.

This oversight process drives innovation and improves productivity and proficiency from top to bottom of the functional organization and/or business unit. Similarly, development of the short and long-range capital plans go through the same type of exercise so that the investment needs of each individual operating system and/or business unit is met with a high level of efficiency and cost control.

3. Aquarion Water Company of Connecticut

O&M Budgets

The Aquarion O&M budgets are developed each year as part of a comprehensive business planning process. This process encompasses eight inter-related activities conducted at the Aquarion level that are evaluated to develop operating and capital budgets for the coming year. These activities are summarized below together with a timeline and individuals responsible for the various activities for the most recent business plan:

	Activity	Lead	Start	Milestone	Done
1	Dept Bus Plans	DJM	8/11	8/25 - Due to Don/Joy	9/2 - Senior Team Review Mtg
2	KPI Targets	DK	8/11	8/25 - Due to Deb	9/2 - Senior Team Review Mtg
3	Major Initiatives	DK	8/11	8/25 - Due to Deb	9/2- Senior Team Review Mtg
4	Risk Register	MA	8/1	9/12 – Due to Mike A./Meeting	10/3 – Final edits to Mike Appicelli
5	Payroll Budget	BC	8/8	8/17 - Due to Brian	8/26 - Consolidated due to Acctg
6	Capital Budget (+5-year Capex)	DL	8/1	9/2 - Due to E&P	9/15 - Senior Team Review 10/14 – Due to Eversource
7	Operating Budget	DK	8/12	9/9 - Due to Accounting	9/20 – Senior Team Review 10/14 – Due to Eversource
8	1-year Capstone	All	10/3	PowerPoint with one-year financials and overview	10/21 – Presentation to JM and DD 10/28 – Presentation to Joe Nolan

The process begins at the department level, with the preparation of approximately 20 individual department business plans (DBPs) that detail the mission, key suppliers and customers, situation analysis, targets, risks of the department along with department initiatives. Upon completion of these DBP's, the department is prepared to identify the resources, both operating and capital, required for the upcoming year. Through this process, the other Aquarion organization-wide business planning activities are prepared, including: Aquarion Company KPIs, Major Initiatives, Risk Register items, Payroll Budgets, Operating Budget, and a Capstone document that

synthesizes the business plan that is ultimately presented to the Eversource COO, CFO and FP&A for review as part of the Eversource Energy annual process described above.

Long-Range Plans

AQ′s long-range plan is prepared each Spring as part of the overall Eversource Energy long-range planning process. The business plan model includes projected income statements, balance sheets, and statements of cash flows. Various assumptions are used to determine the annual O&M expense projections, along with movements in the balance sheet and cash flows. The model also takes into consideration AQ′s capitalization, along with determining the appropriate earnings, debt, and capital contributions that apply to AQ′s capital program. For the income statement and balance sheet, the current year forecast serves as the starting point for the long-range plan. Budget forecasts and related information is presented to the Eversource CFO and FP&A for review.

Capital Budgets

For AQ′s current capital budget, each department head is responsible for submitting capital budget requests and all supporting details and assumptions used to arrive at the budgeted numbers, as well as justifications, to the Engineering & Planning department. Either the representing Vice President or director, are responsible for presenting their budgets at the Fall budget process, which occurs with the participation of the Operating President, and for addressing any questions that arise in that process. Engineering and Planning has ultimate responsibility for the capital budgeting process. Capital budgets are then presented to the Eversource Chief Operating Officer for review and, ultimately, the Chief Operating Officer presents it to the CFO.

Capital Long-Range Plans

AQ′s 5-Year strategic plan is prepared each Spring, as part of the overall Eversource Energy long-range planning process. Engineering and Planning uses variety of sources including Water Supply Plans, Master Plans, Water Quality Master Plan, Water Quality Master Plan, Capital Improvement Plans and applicable regulatory commitments to assist in the development of the 5-Year Plan, as well as including input from various departments. The 5-Year Plan consists of estimated projected spending by year. All capital forecasts and related information are presented to the Eversource Energy Chief Operating Officer for review who, in turn, presents the 5-Year Plan to the CFO, once it is finalized for his review