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Witness: Matthew P. Fallon
Request from: Public Utilities Regulatory Authority

Question:

(DIVIDENDS) Application, Ex. CL&P-REVREQ-2, Sch. D-5.0. Respond to the following:

a. Describe the process that EESCO or Eversource uses to set the dividend obligation from the Company to the parent company. Include all intermediary steps up to Eversource shareholders. Identify the methodology used and the person(s) responsible.

b. Does Eversource target a certain dividend payout ratio (DPR) from its affiliate companies? Does the target vary depending on the type of affiliate (e.g., local distribution company versus an electric distribution company) or by geographic location of the affiliate? Explain.

c. Does Eversource target a certain DPR from CL&P? Is CL&P's targeted DPR the same as or different from Eversource other affiliates? Explain.

d. Does Eversource target a certain DPR to the shareholders? Explain.

e. Does the Company target paying out a certain amount of dollars as dividends to its shareholders? If so, explain how the Company's dividend strategy impacts cash flow in years with reduced cash flow.

Response:

a. Eversource operating subsidiaries are not obligated to make dividend payments to Eversource Parent or any other Eversource affiliate. However, as an operating affiliate within a public utility holding company structure, CL&P expects to distribute a portion of its earnings to Eversource Parent from time to time, while retaining the equity capital necessary to support its distribution system capital requirements and maintain an appropriate capital structure.

   From 2018 through 2025, CL&P paid approximately 59 percent of its aggregate earnings to Eversource Parent as common dividends and retained approximately 41 percent, as reflected in ALLCO-156[i]. The actual amount of dividends paid to Eversource Parent varies from year-to-year based on CL&P's earnings, cash requirements, financing needs and necessity for maintaining an adequate capital structure.

   Each year the Assistant Treasurer for CL&P provides a recommendation to CL&P's Board based on projected earnings, cash flow requirements, liquidity position and financing plans, while maintaining an appropriate regulatory capital structure. The CL&P Board then evaluates

the dividend recommendation and authorizes the dividend if the Board deems the recommendation appropriate.

Both CL&P's and Eversource's common dividends are paid quarterly on the last business day of each quarter and are generally one-quarter of the planned annual common dividend. The regular common dividends, and special dividends if applicable, paid by CL&P to Eversource Parent, as well as the equity infusions (capital contributions) that CL&P receives from Eversource Parent are considered in terms of timing and amount so that CL&P meets an appropriate capital structure over time.

Due to the fixed maturity schedule of CL&P's existing first mortgage bonds ("FMBs"), combined with the dynamic nature of the flow of funds related to the operation of the electric system and the variability of customer payments, it is inevitable that monthly fluctuations in the relative proportions of long-term debt and equity capitalization will occur. Dividend payments and Parent equity contributions therefore are not mechanical consequences of a fixed payout ratio. The timing and amount may be adjusted as financial conditions and cash requirements change so that CL&P preserves liquidity and maintains an appropriate capital structure.

b. Please refer to the Company's response to RRU-093, subpart (a), above.

c. Please refer to the Company's response to RRU-093, subpart (a), above.

d. Eversource Parent does not have a targeted payout ratio. However, Eversource Parent has publicly communicated, subject to Board approval, its intention to keep dividends generally in line with earnings growth, which occurs as a result of increasing asset bases for the distribution companies (and not so much as an increase in earnings per dollar of invested capital). This factors in financial condition, capital requirements, financing needs and other business considerations.

e. CL&P does not target a specific dollar amount of common dividends to pay to Eversource Parent. Rather, dividends are estimated through the financial planning process described above, taking into consideration CL&P's projected earnings, cash requirements, financing needs and maintenance of an appropriate capital structure.

Prior Referenced Response:

[i] ALLCO-156 Question:

(Follow-up to ALLCO-051 — capital structure, double leverage, and the earnings sharing mechanism.) (a) ALLCO-051(a), states that the Company maintained "a higher percentage of equity in its capital structure" to "preserve its

credit ratings" while funding storm and RAM deferrals, and reports a five-quarter-average common equity ratio of 54.56% at December 31, 2025 and 55.26% at June 30, 2026 against a requested 53.86%. State the Company's per-books common equity ratio at each quarter-end from December 31, 2020 through June 30, 2026; identify each decision, memorandum, rating-agency communication, or board or finance-committee material in which the decision to maintain a higher equity ratio to preserve ratings was made or reported, and produce it; and state whether any rating agency has stated, in writing, the equity ratio or FFO/debt or CFO pre-WC/debt level it requires for the Company's current ratings. (b) ALLCO-051(b) did not state the amount of long-term debt outstanding at Eversource Energy (parent only) at December 31, 2025, which the interrogatory asked for and which the parent reports in its Form 10-K. State that amount, the amount of parent-only long-term debt at each year-end 2020 through 2025, the amount of equity contributions made by the parent to the Company in each year 2020 through 2026 to date, and the amount of dividends paid by the Company to the parent in each such year. (c) State whether Moody's or S&P, in any published credit opinion or rating action on the Company or Eversource Energy since January 1, 2023, has referred to holding-company debt, "double leverage," structural subordination, or parent-level leverage as a factor in the Company's ratings, and produce each such document. (d) ALLCO-051(c), states that the Company "does not anticipate that it will over-earn during the term of the PBMRP." State the Company's earned return on common equity, per its annual reports to the Authority and per FERC Form 1, for each year 2018 through 2025, and the authorized return in effect in each year; identify every analysis, model, or scenario the Company or its ROE Witness prepared of the expected value to shareholders of the proposed earnings sharing mechanism, and produce it; and if none exists, so state and explain how the Company concluded that a mechanism with 50/50 sharing above the authorized return and no downside adjustment has no value that should be reflected in the authorized return.

ALLCO-156 Response:

a. Please refer to the Company's response to EOE-062[i], for the Company's reported five quarter-average common equity ratios at year-end for the requested period. Each five quarter-average ratio incorporates five successive quarter-end capitalization measurements and therefore captures changes in capitalization over time rather than at a single point in time. Each ratio captures the cumulative effect of financing decisions, including debt issuances and maturities, equity contributions, retained earnings, and dividends, while reducing fluctuations associated with the timing of individual transactions. Accordingly, the year-end five-quarter-average ratios reflect the Company's capitalization over time and the cumulative financing decisions underlying that capitalization.

   In public disclosures, including investor calls, Eversource Energy's officers have repeatedly emphasized the importance of maintaining strong credit ratings across its operating companies and the role credit quality plays in financing decisions. In that regard, the Company explained in its response to ALLCO-142[ii], that financial metrics are not the sole determinant of credit ratings and the rating agencies consistently identify financial metrics as important, but not exclusive, components of their rating analyses. Therefore, CL&P's financing and capitalization decisions are the clearest indication of management's consideration of its overall financial condition, cash-flow requirements, capital-investment needs, access to capital, and credit quality.

   Moody's identifies CFO pre-working-capital-to-debt thresholds that could contribute to an upgrade or downgrade, while S&P identifies corresponding FFO-to-debt ranges or thresholds. For example, Moody's June 27, 2025 credit opinion states that CL&P could be downgraded if its CFO pre-WC-to-debt ratio falls below 17% on a sustained basis. S&P's July 23, 2026 credit opinion states that CL&P's stand-alone FFO-to-debt ratio is expected to average 20 to 22%. These thresholds do not represent a pre-determined requirement that CL&P maintain a particular equity ratio, nor do these thresholds permit a rating outcome to be determined mechanically from any single metric. As explained in the Company's response to ALLCO-142, the rating agencies consider financial metrics together with qualitative and quantitative factors, including regulatory supportiveness, cost-recovery timeliness, business risk, financial policy, and the agencies' independent judgment.

b. The assertion that the Company did not provide Eversource Energy Parent's outstanding long-term debt balance as of December 31, 2025 in response to ALLCO-051[iii](b), is false. The response specifically stated: "Eversource Energy Parent's outstanding balance of long term debt as of December 31, 2025 was $11,348,927k." Table 1, below, provides Eversource Energy Parent's outstanding long-term debt at each year-end from 2020 through 2025.

Table 1

Year	Eversource Parent Long-Term Debt
2020	$5,602,255k
2021	$6,163,521k
2022	$8,179,851k
2023	$10,317,004k
2024	$11,329,256k
2025	$11,348,927k

Table 2, below, provides CL&P's capital contributions received from Parent, CL&P's common dividends paid to Parent, and CL&P's retained earnings. As Table 2 demonstrates, CL&P has retained and reinvested more than 41 percent of the earnings generated since the start of 2018 rather than distributing those earnings to Parent as dividends. Over the same period, Eversource Parent contributed nearly $1.6 billion of additional equity capital to CL&P. Along with retained earnings, these contributions have provided an essential source of permanent capital to fund CL&P's substantial investment requirements and other financial obligations without creating the fixed interest and repayment obligations associated with additional debt. In doing so, it increases the capital available to support investment while preserving a balanced capital structure and CL&P's financial flexibility to meet its obligations and raise additional capital.

Table 2
($ Thousands)

Year	A per 10K/Q CL&P Net Income	B per 10K/Q CL&P Dividends Paid to Parent	C = A + B CL&P Retained Earnings	D = C / A Earnings % Retained	E per 10K/Q Capital Contributions to CL&P from Parent
2018	$ 377,717	($ 60,000)	$ 317,717	84.1%	$ 300,000
2019	410,852	(341,800)	69,052	16.8%	125,000
2020	457,934	(69,500)	388,434	84.8%	275,000
2021	401,725	(341,400)	60,325	15.0%	200,000
2022	532,920	(292,400)	240,520	45.1%	250,000
2023	518,733	(330,400)	188,333	36.3%	123,500
2024	512,598	(333,800)	178,798	34.9%	300,000
2025	551,329	(430,000)	121,329	22.0%	-
2026 June YTD	269,545	(176,800)	92,745	34.4%	-
Total	**$ 4,033,353**	**($ 2,376,100)**	**$ 1,657,253**	**41.1%**	**$ 1,573,500**

c. There is no reference to "double leverage" in any retrieved Moody's or S&P publication over the specified timeframe. Moody's and S&P consider structural subordination for CL&P and Eversource Energy differently. For CL&P, Moody's systematically applies no adjustment to CL&P for holding-company structural subordination. Moody's CL&P scorecards expressly contain a line for "HoldCo Structural Subordination Notching," which is assigned a value of zero in each of the June 24, 2024, June 27, 2025, and June 30, 2026 CL&P credit opinions.

In terms of credit considerations actually incorporated by the ratings agencies, Moody's has specifically identified Connecticut regulatory decisions that are contentious or unsupportive of credit quality, as well as a more unpredictable regulatory environment that has produced less timely cost recovery. Accordingly, the credit benefits associated with regulatory insulation (including the diversity of regulatory oversight) require an underlying regulatory framework that functions in a sufficiently predictable and credit-supportive manner and provides for timely cost recovery.

S&P considers Eversource's consolidated leverage and structural subordination through its group-credit methodology, recognizing structural and regulatory insulation that permits CL&P to be rated above the parent group credit profile. S&P's July 23, 2026 report on CL&P (filed as CIEC-014, Attachment 2) notes "Our view of Connecticut Light & Power Co. (CL&P) as an insulated subsidiary of its parent Eversource Energy allows us to rate CL&P one notch above Eversource." Additionally, please refer to page 9, of 40, in CIEC 014, Attachment 2, discussing the "Group Influence".

Accordingly, although the rating agencies consider Eversource Energy's parent-level debt and structural subordination in their analysis of Eversource Energy, Moody's applies no structural-subordination notching adjustment to CL&P, while S&P recognizes structural and regulatory protections that insulate CL&P from the parent. Those structural protections, however, do not operate exclusive of the regulatory environment in which CL&P operates. The rating agencies place significant weight on the predictability and credit supportiveness of regulation, including the timeliness of cost recovery, in assessing CL&P's credit quality.

For Eversource Energy, Moody's has expressly identified holding-company debt and structural subordination as factors in Eversource Energy's rating. Moody's stated in its June 27, 2025 credit opinion that Eversource Energy's credit profile reflects "the structural subordination of parent level debt relative to the indebtedness of its operating utilities."

d. Please refer to the Company's response to EOE-062, for its authorized return and reported earned return on equity for the requested years. As stated in the Company's response to ALLCO-158[iv], regarding the proposed ESM:

> *By design, PBR plans are multi-year plans during which the utility waives its right to file a full distribution rate case in order to increase rates. As a result, earnings sharing mechanisms (ESM) are a common feature of PBR to provide a guardrail in the event that rates become misaligned with costs over the course of the plan for reasons not anticipated at the inception of the multi-year plan. Symmetrical ESMs serve to protect both the utility and its customer during the course of the plan from rates being set too high (a customer protection, since sharing is triggered when the utility earns above an established threshold) or too low (a protection for the utility, since sharing is triggered when the utility earns below an established threshold and does not have the ability to file a rate case, given its commitment to waive such right as part of the PBR framework).*
>
> *The Company has developed its proposed PBMRP in an effort to establish a regulatory framework that provides revenue support over the course of the PBR plan that aligns with the Company's costs over the same period, including the cost of equity capital. The Company's Proposed PBMRP is not designed to*

result in a scenario where the Company earns above its authorized ROE, thus triggering the ESM. In fact, the Company's analysis demonstrates that the PBMRP, if approved as proposed with no modification, the Company would earn below the authorized ROE.

In this way, the benefit to customers of an ESM that is triggered only in cases where the company over-earns, is that it ensures that the PBR plan will not inadvertently establish rates that are 'too high' during the course of the PBR plan, by operation of the ESM in that event. The ESM allows for a 'sharing' of any over earnings, as a means to retain the overarching incentive properties of PBR as well as the other administrative benefits of PBR as a framework.

The Company's proposed ESM provides no downside protection to the Company and therefore does not reduce the Company's risk or provide a basis for reducing the independently determined authorized ROE. The asymmetrical ESM instead operates as a customer-protection guardrail in that, if actual earnings exceed the authorized ROE, customers receive 50 percent of the amount above the authorized ROE, while the Company remains exposed to earnings below its authorized ROE. This treatment is consistent with the Proposed Final Decision in Docket No. 21-05-15RE01, where PURA described an ESM as a "guardrail" that permits customers to share in surplus earnings while maintaining the utility's incentives to pursue cost savings. PURA's proposed PBR framework included an asymmetrical, upside-only ESM to further those objectives.

Moreover, the Company's analysis does not project that the proposed PBMRP will produce overearnings requiring sharing. The analysis presented in EOE-156, Attachment 1, used the currently authorized ROE of 9.25 percent and a 53 percent common-equity ratio for illustrative purposes. As shown in that analysis, projected earned returns remain below the authorized return during the plan period. Therefore, the Company's projected financial results do not contemplate the overearnings that would trigger the ESM. If overearnings nevertheless occur, 50 percent of the amount above the applicable threshold would be shared with customers, while the ESM provides no corresponding protection if actual earnings fall below the authorized ROE.