Date Filed: September 22, 2026

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

Question:

In Exhibit CLP-AMI-1, Page 27, Eversource "*proposes to include AMI capital costs as eligible capital costs to be recovered and reconciled in the proposed PBMRP capital funding mechanism*." However, it proposes to recover incremental O&M costs and legacy meter infrastructure costs using securitization. Please explain why AMI capital costs should not also be recovered using securitization.

Response:

Please refer to OCC-571, Attachment 1 and OCC-571, Attachment 2, for a comprehensive discussion on the benefits, costs and appropriate use of securitization as a financing instrument for utility costs.

- Attachment 1 is a report prepared by Atrium Economics that was jointly sponsored by the Company's Massachusetts operating affiliates and other Massachusetts LDCs. The report was prepared for the purpose of explaining why securitization financing is not an appropriate or viable financing vehicle for ongoing utility investments.

- Attachment 2 is a legal memorandum prepared by the Company in relation to draft legislation in Massachusetts contemplating the securitization of electric-system upgrades to support electrification and grid-modernization assets.

Both reports explain the reasons that securitization is generally not appropriate when costs are ongoing, operational, or "business-as-usual." Examples include routine capital investments, annual maintenance, or safety-related replacements that occur every year, which would encompass the new metering system and associated back-office information systems that will constitute Advanced Metering Infrastructure on the Company's system in Connecticut. Outside of certain extraordinary circumstances, ***operating*** utility assets cannot be securitized.

As explained most directly in Attachment 2, securitization requires establishment of a bankruptcy-remote special purpose entity (an "SPE") that acquires the right to impose and collection the rate reduction bond charge from the related utility through a true sale and then issues bonds secured by a first-priority lien on that right. An investor-owned utility cannot transfer physical assets to a securitization SPE because those assets require continuous capital investment that a passive, limited-purpose entity cannot fund. Instead, securitization is a solution that involves an intangible cash flow right that requires no maintenance or reinvestment, such as in the circumstances of storm

restoration costs, stranded meter costs, stranded generating assets or other costs that are essentially one-time costs that constitute a debt owed by customers to the utility with no ongoing maintenance, repair or investment required or applicable.

The primary barrier to the securitization of utility operating assets is the capital maintenance problem. Physical utility infrastructure requires continuous capital investment to maintain operational capability and regulatory compliance. A securitization SPE cannot fund such capital because it cannot raise equity, issue additional debt, borrow, retain earnings, or contract for maintenance work. Physical assets placed in an SPE would inevitably deteriorate and Moody's has specifically identified asset deterioration as a critical credit risk for utility systems. However, transferring assets to an SPE that are required for a utility to operate would prevent the utility from providing service using assets it controls. Moreover, even if physical assets were placed in the SPE, the SPE would not obtain the AAA credit rating that makes it possible to achieve the beneficial cost for customers. Attachment 1 explains other impacts that would occur for the utility's cost of capital in the event that this type of financing would apply for utility assets.

The transfer to an SPE of the intangible property to the rate reduction bond charge right works in relation to large deferred expenses that a utility may have, such as storm costs or the costs of "stranded" assets, no longer used and useful for utility ratepayers because these types of "assets" do not depreciate, require no maintenance or capital and can be cleanly transferred through a true sale, thereby allowing the SPE to remain purely passive—all while the utility retains and continues to operate its physical system.

For AMI, this means that securitization is a possibility for the relatively significant one-time operating expenses that must be incurred to implement AMI across the State of Connecticut, as well as the costs of stranded meter investment. For the remainder of the cost that comes in the form of capital investment, it will not be possible to use securitization as the funding mechanism for that portion of the cost.