Date Filed: November 12, 2026

Witness: Danielle J. Munson
Request from: Public Utilities Regulatory Authority

Question:
(BUDGETED LABOR ALLOCATORS) Audit Plan No. 12 (Onsite follow up). Regarding rate codes M03 and M04 and each other rate code allocated on Service Company Budgeted Distributed Labor plus Operating Company Budgeted Labor:

a. Provide each rate code recalculated using actual 2025 payroll by company, and the resulting CL&P percentage against the percentage applied in the Test Year.
b. State, by company, the budgeted labor and the actual labor for each of calendar years 2021 through 2025 and the variance between them.
c. State the effect on each SFR schedule of applying the recalculated percentages to the Test Year EESCO charges.
d. Explain the basis for the statement in PURA Audit-in-Person-22 that budgeted labor is a better indicator than historical actuals, given the variances in subpart b.

Response:

a. Please refer to RRU-161, Attachment 1, for rate codes M03 and M04 recalculated using actual 2025 payroll by company and the resulting CL&P percentages compared with the percentages applied in the Test Year.

b. Please refer to RRU-161, Attachment 2, for budgeted and actual labor for each of calendar years 2021 through 2025. Please note that in 2021, Eversource Gas Company of Massachusetts ("EGMA") was under a transition services agreement following Eversource Energy's acquisition of EGMA. EGMA was fully transitioned onto Eversource's financial systems in December 2021 and labor amounts from November 2021 and prior are not comparable to other Eversource subsidiaries.

c. The Company interprets subpart c to the request that the Company recalculate the Test Year ESC charges allocated with rate codes M03 and M04, but using the percentages resulting from subpart a. above instead of the budgeted labor costs used in accordance with the ESC Cost Allocation Manual and those charges included in the cost of service in this rate case proceeding. If this is the correct interpretation, the Company appreciates the objective of the request however, it is not feasible for the Company to create this hypothetical analysis, as it would require the recalculation of hundreds of thousands of transactions to determine the financial impact on the Company's Test Year amounts using

rate codes that would not be appropriate to use because it would not align with the allocations actually applicable to the business in a "generic" operating year.

This is an important point because Eversource goes to great lengths to assure that the cost allocations across the enterprise are accurately and appropriately reflecting cost causation, through the cost-center regimen. Using actual labor costs for a particular fiscal period to drive the allocations in the next fiscal period will ultimately have the impact of changing the allocations in a way that *deviates from*, not aligns with actual cost causation. This is because there are always anomalies from year to year in how labor may be charged and using actual labor costs will inject the allocation percentages with the impact of those anomalies, rather than assuring that the cost allocations remain aligned with how resources are planned and implemented across the organization.

For example, in 2026, Eversource Energy Service Company and CL&P employees involved in the rate case are direct charging to a work order for the CL&P rate case. Next year, in 2027, these employees may not spend as much time on the CL&P rate case, or even any time at all. However, if the charges allocated through rate codes M03 and M04 for 2027 followed the actual labor costs in 2026, then those allocators would capture the impact of that direct-charging to the rate case and function mathematically to allocate more costs to CL&P in the future (following the historical direct charge), even though the rate case will no longer be utilizing that labor. Consequently, utilizing actual labor to drive the allocations will cause a deviation from actual cost causation, not an alignment, which the hypothetical analysis appears to be testing.

Another pertinent example of how actual labor costs would result in allocating more costs to CL&P Distribution in a future fiscal period would be the impacts of direct charging for services provided to support storm restoration activities. Using actual labor costs as the basis for the rate code allocations for a particular fiscal period to drive the allocations in the next fiscal period rather than budgeted labor, would result in higher costs charged to the electric distribution companies and would be unduly penalized while the gas, transmission and unregulated companies would unduly benefit.

Lastly please note that, based on the results of the analysis requested in subpart (a), the cost of service proposed by the Company in this case would <u>increase</u> for CL&P Distribution based on rate codes M03 and M04 if the Company used actual 2025 service company and operating company labor costs.

d. As noted throughout this proceeding, ESC employees are instructed to direct charge services to the appropriate business segment or affiliate whenever possible. For example, throughout 2026, ESC employees have been supporting this rate case proceeding and direct charging CL&P Distribution for that work. The ESC rate codes are updated annually in

January with the most recent information. In January 2027, the Allocations team will update all 2027 rate codes and unless there is a significant change to the business segments and subsidiaries, the rate codes will be used throughout the calendar year. If the Company utilized actual 2026 labor, in lieu of 2027 budgeted labor to calculate 2027 rate codes, CL&P Distribution would be unduly penalized in 2027, based on the prior year rate case, and would be allocated more labor than it should be for normal operations (without a rate case). To ensure the fair and equitable assignment of costs to the business segments and affiliates, ESC first instructs employees to direct charge their time, whenever possible, to ensure the proper assignment of costs to the affiliates and minimize the amount of costs that are allocated; and second utilizes budgeted labor, which is a better indicator of future time charging than historical actuals.