Date Filed: September 03, 2026

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

Question:

Exhibit CLP-ELP-1 Please elaborate on the reasoning for the Company's proposed zero percent floor for the I-Factor. If the I-Factor is intended to reflect external inflationary pressures on the Company's O&M costs, please explain why the I-Factor should not reflect periods in which the applicable inflation index is negative. Please explain how, under the Company's proposal, declining external cost pressures or deflation would be reflected in the Company's allowed revenues.

Response:

The Company proposed a zero-percent floor for the I-Factor because inflation is not the only driver of costs the Company incurs. While some capital investments can reduce future operating and maintenance costs, some capital investment actually requires additional maintenance costs. For example, by replacing equipment nearing the end of its life the Company reduces the maintenance costs the older equipment. However, a new substation installed to improve capacity would require maintenance costs the Company did not incur prior to the new substation. As another example, while the per-hour labor costs of the Company's vegetation management program may correlate with inflation, the rate of tree growth would not. Instead, the costs of the vegetation management program are driven by a combination of the reliability and resiliency objectives the Company and the state of Connecticut target with inflationary pressure on the labor and materials necessary to achieve those targets.

The reason the Company set the I-Factor floor to zero is simply that the Company does not expect its distribution operating costs to decline on an absolute basis in any given year even with its aggressive cost control measures in place. However, the Company's proposal includes a consumer dividend that increases (benefits customers) to the extent the Company is able to beat O&M per customer benchmarks.

Though there are a multitude of factors that drive the Company's operating costs, the Company's PBMRP is not intended to be a framework for dollar-for-dollar cost recovery. Instead, the PBMRP is designed to approximate the level of revenue necessary to provide essential service to customers while maintaining cost-containment and efficiency incentives.