Date Filed: September 16, 2026

Witness: Brendan J. O'Brien and Garrett J. Murray
Request from: ALLCO

Question:

With respect to every carrying charge, return on unamortized balance, or similar time-value amount the Company proposes to collect from customers in this docket — including the approximately $396.7 million of carrying charges on 2018-2023 storm costs and $27.6 million on 2024-March 2025 storm costs (Exhibit CLP-REVREQ-2 (Storms A) and (Storms B)), carrying charges on deferred assets, and carrying charges proposed on RAM, decoupling, and SCRAF over/under-recoveries: (a) state the rate applied, whether it is pre-tax or after-tax, the compounding convention, the date from which carrying charges accrue, and the balance to which the rate is applied (including whether the balance is net of customer contributions, insurance recoveries, and amounts disallowed in any docket); (b) identify the statute, regulation, or PURA decision authorizing each (Allco does not repeat OCC-522, which addresses the choice of index for SCRAF carrying charges); and (c) separately identify every context in which the Company holds funds of customers or third parties — including customer deposits, developer and interconnection-customer deposits and security, unpaid interconnection refunds, and over-recovered rate adjustment mechanism balances — and state the interest rate the Company pays (or credits) on each, so that the rates the Company charges when it is owed money can be compared with the rates it pays when it owes money.

Response:

Please refer to ALLCO-032, Attachment 1, for the requested information. Please refer to the Company's response to OCC-522[i].

Prior Referenced Response:

[i] OCC-522 Question:

Leadership Panel Exhibit CLP-ELP-1 – Storm Cost Recovery
(Carrying charges applied to SCRAF) In its proposal, the Company notes, "should PURA implement the SCRAF, which provides for more timely review and recovery of storm and pre-staging costs, the Company accepts the Prime rate from the date of cost incurrence, applied to the net balance of the storm fund and pre-staging reserve fund 6 for storms occurring after March, 2025." (p.143) Did the company consider or analyze setting carrying charges on costs recovered through SCRAF to be equal to the commercial paper index or the utility's actual cost of short-term debt, rather than the prime rate?

a. If yes, provide the analysis conducted and the rationale for proposing the use of the Prime rate instead.

b. If not, explain why the Company did not consider proposing that the carrying charges on SCRAF recovery to be set at either the commercial paper index or actual cost of short-term debt.

OCC-522 Response:

a. and b.

Carrying costs are the mechanism by which the Company recovers its cost of money. Thus, carrying costs must be tied to the actual cost that the Company is incurring to carry the storm deferral. When the storm deferral is relatively larger and carried for a relatively extended time period, then the Company's weighted average cost of capital ("WACC") is its actual carrying cost. If PURA establishes a ratemaking mechanism that provides more systematic reviews and more timely recovery, then the cost of money may be susceptible to approximation with lower cost sources of funds.

The relationship between time and quantity and the cost of capital is clearly demonstrated through a utility's cost of service whereby a utility's rate base (comprised mainly of the Company's plant which is paid back by customers over many years) receives a return at the Company's authorized WACC. Applying the Company's WACC to long-term assets aligns the carrying charge calculation with the manner in which comparable long-term assets are reflected for ratemaking purposes.

Similarly, the WACC is the appropriate rate for calculating carrying charges on long-term funded regulatory assets because it reflects the Company's actual cost of funding those customer "debts," including storm restoration costs, over an extended period of time. Financing obligations – certainly obligations of this magnitude – cannot be supported exclusively through debt financing, whether short-term or long-term. Instead, the Company must balance its capital requirements through a reasonable mix of both debt and equity to ensure financial stability and continued access to reasonably priced capital.

With respect to the appropriate carrying charge rate to utilize for the Storm Cost Recovery Adjustment Factor ("SCRAF"), the Company provided a thorough response to this question in response to LFE-031, in Docket No. 25-12-13. The Company is providing that response as OCC-522, Attachment 1. The analysis shows that: (1) necessary uses of cash routinely exceed available sources of cash, creating a persistent funding gap; (2) commercial paper is a tool to maintain liquidity, not to finance investments or deferred expenses; and (3) short-term borrowing capacity is limited, and the Company cannot plan to operate at or near its short-term debt capacity without putting its ability to operate the system in severe jeopardy.

Given all of the considerations elucidated by Attachment 1, the Company recognizes that the appropriate treatment of carrying charges may vary based on the regulatory framework established within each jurisdiction. Different regulatory constructs reflect differing policy objectives and mechanisms designed to balance the Company's financing needs with customer impacts. In establishing a going-forward framework for storm cost recovery, the Company agrees that it would be within PURA's discretion to strike a balance between the Company's costs of financing storm costs while ensuring that the Company is not 'profiting' on a force majeure event like a storm. This is the Company's experience in Massachusetts, as well, where the MDPU has authorized a carrying charge rate that is different from and generally less than the Company's WACC, but that still recognizes that the Company is using its longer-term capital resources to finance storm costs (not its shorter term commercial paper source of liquidity). Thus, the Company stated that "should PURA implement the SCRAF, which provides for more timely review and recovery of storm and pre-staging costs, the Company accepts the Prime rate from the date of cost incurrence, applied to the net balance of the storm fund and pre-staging reserve fund for storms occurring after March, 2025."