Date Filed: September 18, 2026

**Witness: Brendan J. O'Brien, Garrett J. Murray and Michael M. Dorval**
**Request from: Public Utilities Regulatory Authority**

**Question:**

(AC-RENT EXPENSE) Application, Sch. WP C-3.25; Ex. CLP-REVREQ-1, pp.103-104.

a. Explain how the capitalized rent is determined and include an exhibit supporting the calculation of the Test Year capitalized rent of $1.055 million.

b. Explain why the lease was terminated. Provide a copy of the termination letter.

c. Regarding the Rate Year adjustment of $77,000, explain why the net book value and operating costs for the 173 Mechanic St., Danielson, CT property are increasing.

d. Explain if the net book values of other leased properties would decline after the Test Year. Include supporting exhibit.

e. Provide all exhibits that support pre- and post-measurements that resulted in the capitalized true-up adjustment of $345,000.

f. Provide an exhibit that summarizes all cost elements for the Test Year internal rent expense of $5.541 million and a listing of all leased properties and applicable allocation factors.

g. Provide an exhibit that summarizes all cost elements for the Test Year external rent expense of $906,000 and a listing of all leased properties and applicable allocation factors.

**Response:**

a. Employees charge their labor costs in accordance with the Company's cost charging policies, which are designed to assign or allocate costs in accordance with cost-causation principles. Employee benefit costs and other service company charges "follow" labor to the operating company via "indirect" cost rates. Indirect rates are designed to assign the specific costs associated with an employee to the O&M or capital activity that the employee supports.

   More specifically, when employees provide services to support an activity, their labor is charged to that operating company, along with associated costs included in the Payroll Benefits rate ("ZPB"), for CL&P employees, and the General Service Company Overhead

rate ("ZGS"), for service company employees. These costs include employee benefits, payroll taxes, corporate insurance, leases / rent expense, etc., which follow the associated labor to the O&M or capital activity.

The capitalized rent amount of $1.055 million provided in RRU-015, Attachment 1, at page 1 was calculated by comparing the total Test Year employee benefits costs and other service company charges to the total Test Year indirect costs.

b. The lease was terminated because the tenant approached the Company requesting an early buyout of the lease. Please refer to RRU-015, Attachment 2 CONFIDENTIAL, for a copy of the termination letter.

c. In December 2024, new intercompany leases were entered into for the CT locations with an effective date of January 1, 2025. The updated agreements were executed to reduce the administrative burden of annual renewals, as they now automatically renew on a year-to-year basis until terminated if and when a company's use ceases. The rental amount within the new intercompany leases were updated to be consistent with other Eversource owned facilities where the rental revenue requirement calculation is updated annually based on the return on investment, depreciation expense, and property taxes of each leased facility. As discussed in part d. below, the net book value of the leased properties has increased which results in higher rent expense.

d. For internal rent expense, the net book value for the leased properties has increased since the Test Year due to facility improvements.

e. Please refer to RRU-015, Attachment 1, which supports the calculations used to determine the capitalized rent expense for the Test Year, pro forma adjustment of $345,000, and Test Year Proma amounts.

f. Please refer to RRU-015, Attachment 3, at page 1 for the summary of all cost elements for the Test Year internal rent expense of $5.5541 million and RRU-015, Attachment 3, at page 2, for a listing of all leased properties and applicable allocation factors.

g. Please refer to RRU-015, Attachment 4, at page 1, for the summary of all cost elements for the Test Year external rent expense of $906,000 and RRU-015, Attachment 4, at page 2 for a listing of all leased properties and applicable allocation factors.