Date Filed: September 15, 2026

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

Question:

Leadership Panel Exhibit CLP-ELP-1 – Storm Cost Recovery
If adopted, the SCRAF review process will be used to recover prudently incurred, incremental catastrophic storm and pre-staging costs in excess of base rates for each calendar year (i.e., "reserve fund"). If storm costs do not exceed the amounts incorporated into base rates, the Company will not file any cost recovery via the SCRAF for that calendar year. The amount trued-up annually through the SCRAF process, will be amortized over a period of 1-5 years, subject to PURA decision based on the circumstances at the time of the SCRAF. Costs recovered through SCRAF would be subject to carrying charges equal to 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.

a. Is this characterization of the Company's proposal accurate? If not, please explain any mischaracterizations of the Company's proposal.

b. Clarify the distinction, if any, between the "reserve funds" for catastrophic storms and pre-staging events and the amounts incorporated into base rates for catastrophic storms and pre-staging events.

Response:

a. Yes, the statements regarding the Company's proposal are correct. The Company's proposal regarding future catastrophic storm and pre-staging event cost recovery through the Storm Cost Recovery Adjustment Factor ("SCRAF") is two-fold. First, the Company's proposal is to submit annual prudence filings on September 1st through the SCRAF mechanism for the prior year's storms regardless of any over or under-recovery. This annual filing will include all supporting documentation for the prior year's catastrophic storm and pre-staging event costs. This approach would allow PURA and other parties to undertake and complete a more timely and administratively efficient review because the filings will be closer in time and more narrow in scope (i.e., encompassing fewer storms). This annual review is necessary for PURA to make a determination on what costs are prudently incurred and may be recovered through the SCRAF.

   For additional detail, the Company is proposing a flexible approach to potential rate changes between rate cases in order to avoid the accumulation of significant balances of

catastrophic storm and pre-staging event costs depending on the circumstances at the time of each annual filing. The Company recognizes that storm costs can fluctuate significantly from year to year and a one-size-fits-all approach may not be in the interests of customer or the Company. As noted in the Company's testimony at Exhibit CLP-ELP-1, pages 137-138, the Company has proposed that PURA "not impose a strict period over which over or under recoveries will be collected or refunded, but rather [the period] will be based on the facts and circumstances at each particular time of the proposed rate change." The Company's proposed amortization period range of one to five years is intended to allow PURA the discretion to implement rate changes that balance the interests of customers and the Company based on the facts and circumstances that exist each year.

b. The Company's use of the term "reserve funds" in Exhibit CLP-ELP-1, page 156, is intended to refer to the customer contributions to the catastrophic storm and pre-staging reserves funded through base distribution rates. As noted in Exhibit CLP-REVREQ-1, at page 104, the Company is proposing to establish a level of reserve funding for catastrophic storm costs of $60 million annually, and in Exhibit CLP-REVREQ-1, at page 108, the Company is proposing to establish a pre-staging event funding level of $4 million. Please refer to the Company's response to OCC-521[i], for a discussion on the proposed catastrophic storm and pre-staging event reserve funding levels in base distribution rates.

Prior Referenced Response:

[i] OCC-521 Question:

Leadership Panel Exhibit CLP-ELP-1 – Storm Cost Recovery
At page 134, testimony states, "The Company's current base distribution rates include $3 million annually for pre-staging events and $3 million annually for catastrophic storms." At page 135, testimony states, "the Company is proposing to include $60 million in base rates as a level of annual funding to the catastrophic storm reserve fund and $4 million as a level of annual funding for pre-staging events." If the PURA were to approve the Company's proposal to implement an annual SCRAF, explain the rationale for also increasing the base distribution rates from $3 million to $60 million for catastrophic storms and from $3 million to $4 million for pre-staging event reserve funding.

OCC-521 Response:

As a point of clarification, although this question correctly quotes the Company's Leadership Panel testimony (Exhibit CLP-ELP-1), this question ignores an important part of the testimony regarding the current level of catastrophic storm reserve funding on the same referenced page 134. The Company's Leadership Panel testimony at Exhibit CLP-ELP-1, page 134, also notes that "[i]n addition to the $3 million for catastrophic storms, the Company was authorized to utilize expired storm amortizations from Docket Nos. 17-10-46, and 17 18-11-12, to provide additional storm reserve funding in the amount of $54.516 million for a total catastrophic storm reserve funding of $57.516 million and total reserve funding including pre-staging events of $60.516 million."

As a result, the Company is proposing to *maintain* $60 million of storm funding in base rates that is already recovered currently (in the amount of $57.516 million), not as compared to the $3 million initially in base distribution rates authorized back in 2018 as contemplated by this question. In addition, it is necessary to provide this funding for storm response if carrying costs are not going to be allowed on deferred amounts. If the goal is to minimize or eliminate the need for carrying costs, then more current recovery needs to be included in rates.

The purpose of the Company's proposed Storm Cost Recovery Adjustment Factor ("SCRAF") is to annually reconcile the actual incurred level of catastrophic storm and pre-staging event costs to the amount of storm funding included in base distribution rates. Ideally, base distribution rates would be set to recover the exact amount of storm costs incurred each year, however, because the frequency of storms and magnitude of the impact is indeterminate, storm costs are not susceptible to recovery solely through base rates. This base rate funding paired with the Company's proposed SCRAF aims to mitigate customer bill impacts amid the myriad factors described in the Company's testimony and more broadly throughout the Company's application that are putting upward pressure on the cost of service and customers' electric bills.

The Company evaluated the level of base rate funding for catastrophic storm and pre-staging event costs separately. Please refer to the Company's response to OCC-055, which discusses how the Company's proposed $60 million catastrophic storm reserve funding and $4 million pre-staging event reserve funding amounts were determined. As described therein and at Exhibit REVREQ-1, pages 104 through 107, the Company's average annual catastrophic storm activity is approximately $151.5 million (see Exhibit CLP-REVREQ-2, WP C-3.26, lines 27 through 35). However, the Company proposes to maintain catastrophic storm funding at approximately the same level as is currently in base rates, recognizing that annual activity is variable and difficult to predict. This approach aims to mitigate customer bill impacts amid the myriad factors described in that testimony and more broadly throughout the filing that are putting upward pressure on the cost of service and customers' electric bills. If, as posed by the question, base rate funding were reduced to $3 million and the Company were to experience catastrophic storm costs at its average level of approximately $150 million per year, that would result in 1) customers experiencing greater bill impacts associated with storms (i.e., by having to increase rates to collect $150 million, rather than $90 million, regardless the time period of recovery) 2) customers experiencing greater carrying charges than under the Company's proposal, since maintaining a level of funding will offset the amounts necessary to be financed by the Company between incurrence and collection, and 3) mitigate intergenerational equity by having some amount in rates for storms that occur each year, rather than having nothing, only to be recovered in full at a later point in time.

Date Filed: September 15, 2026

Witness: Donald J. Scacco, Jr. Christopher E. Colorio, Mark P. Baldwin, Douglas P. Horton, Brendan J. O'Brien, John G. Griffin, Leanne M. Landry, and Garrett J. Murray
Request from: Office of Consumer Counsel

Question:

Leadership Panel Exhibit CLP-ELP-1 – Storm Cost Recovery
The Company states that it would be inappropriate to consider the amount of catastrophic storm and pre-staging costs that is authorized for inclusion in base rates as a cap. If it were treated as a cap, it, "would only 'lessen any financial disincentive' to pre-stage for events up until the point annually that it had incurred pre-staging costs up to the level allowed in rates." (p.136).

a. Describe all financial disincentives the utility has to pre-stage for events beyond the level allowed in rates.

b. Describe all incentives the utility has to be cost-efficient in its pre-staging efforts and catastrophic storm response?

c. For the last 10 Rate Years, in which years did the Company incur pre-staging costs in excess of the level allowed in rates? For each applicable Rate Year, provide:
   i. the amount included in base rates,
   ii. the excess costs the Company requested for recovery,
   iii. the amount the PURA authorized as prudent for recovery.

d. For the last 10 Rate Years, in which years did the Company incur catastrophic storm costs in excess of the level allowed in rates? For each applicable Rate Year, provide:
   i. The amount included in base rates,
   ii. The excess costs the Company requested for recovery,
   iii. The amount the PURA authorized as prudent for recovery.

Response:

a. The sentence simply refers to the fact that, where PURA sets mandates that drive cost, without providing a path for the cost recovery, it is creating an inherent financial obstacle to the achievement of its own objectives, i.e., a "financial distinctive" for the utility to execute on the pre-staffing plans in the same way as it would where funding is available. Simply put, where funding is available, focus will be on matching resources with expected damage, whereas where funding is *not* available, there would naturally be a focus on limiting financial exposure within the context of the pre-staging exercise. An economically

rational utility will naturally be focused on limiting financial exposure within the context of the pre-staging exercise where cost recovery is not provided.

The reality is that storm response imposes numerous dimensions of risk on the electric company and pre-staging should not be an area that PURA seeks to impose "incentives" on the electric company. Importantly, one of the criteria for obtaining funding for pre-staging crews is that the Company must have found it necessary to declare an ERP event, which means that pre-staging only applies when the oncoming weather system is generating the risk of widespread customer outages, beyond what the system can manage on its own without the use of external crews. In these circumstances, pre-staging is 100% an effort to position the system for expeditious restoration of customer outages – directly in the customer interest.

Conversely, in these circumstances, Eversource assumes substantial risk from both an operational and financial perspective. In particular, the Company is required to meet PURA's comprehensive storm-response directives established in Docket No. 20-08-03 (Storm Isaias), and related dockets or risk exposure to substantial monetary penalties. Moreover, the Company must commit all kinds of financial, logistical and human resources before actual damage is known; expeditiously resolve public-safety events and other demands for up to 150 affected communities all looking to be "first;" address the needs of customers experiencing service outages; fund all expenditures long before cost recovery will occur; and face rigorous after-the-fact regulatory scrutiny regarding the prudence of all of its decisions on an after-the-fact basis when the exigent circumstances of the storm events are forgotten. In this context, cutting the funding for pre-staging activities is unwarranted and unreasonable.

b. This question appears to imply that recovery of pre-staging costs is not a necessary "incentive" for the Company given that there would be serious (negative) financial consequences for Eversource if it did not comply with PURA's requirements for a "heightened state of readiness … within the first 48 hours of a storm event to ensure the public safety."[1] However, where PURA has established a rigorous framework for emergency response and set parameters for a "heightened state of readiness," minimum staffing levels, and other comprehensive performance standards, combined with warnings of significant negative consequences for inadequate staffing from the "onset" of the storm and within the first 48 hours, then the costs of meeting those mandates should be

[1] See, e.g., Docket No. 20-08-03, Decision, April 28, 2021, at 3, stating "the Authority reiterates previous orders for the EDCs ***to develop a heightened state of readiness***, and to ensure that ***adequate field and support resources are available*** to support emergency response actions by the onset of the storm and ***within the first 48 hours of a storm*** event to ensure the public safety."

recoverable in rates, absent any finding of imprudence. These mandates reflect a conclusion that the interests of customers are served by a robust, expeditious and efficient storm response, and where this level of service is expected by customers, then rates must reflect the cost of providing that service.

Moreover, as noted in subpart (a), Eversource has significant incentive to be cost-efficient during the entire process of storm restoration, including throughout the year when storms are *not* happening because the Company finances all storm costs upfront and will not obtain full recovery for many years, even in a system (like Massachusetts) where storm costs are reviewed on a one-year cycle. At a minimum, each storm event requires up to one year to assemble the documentation and prepare the regulatory filing; at least one year for the regulator to conduct the prudence review and issue a final decision, and then up to five years to obtain full recovery through amortization – totaling a *minimum* of seven years for every dollar that the Company incurs to meet customer and regulatory expectations on storms (historically for CL&P, the Company has recovered storm costs over a six year period, once recovery commenced, after documentation had been compiled and filed with PURA and the impending regulatory review proceeding completed). Creating a recovery framework that automatically docks the Company for storm costs, so that the Company cannot recover its full costs no matter what it does will therefore create a financial incentive that is diametrically opposed to the outcome that PURA has identified is beneficial to customers.

c.

i. Please refer to OCC-520, Attachment 1, for the amount of pre-staging event costs included in base rates.

ii. Please refer to OCC-520, Attachment 2, for the excess pre-staging event costs the Company requested for recovery.

iii. Please refer to OCC-520, Attachment 2, for the amount of pre-staging event costs authorized as prudent by PURA.

d.

i. Please refer to OCC-520, Attachment 1, for the amount of catastrophic storm costs included in base rates.

ii. Please refer to OCC-520, Attachment 3, for the excess catastrophic storm costs the Company requested for recovery.

iii. Please refer to OCC-520, Attachment 3, for the amount of catastrophic storm costs authorized as prudent by PURA.

Date Filed: September 15, 2026

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

Question:

Leadership Panel Exhibit CLP-ELP-1 – Storm Cost Recovery
At page 134, testimony states, "The Company's current base distribution rates include $3 million annually for pre-staging events and $3 million annually for catastrophic storms." At page 135, testimony states, "the Company is proposing to include $60 million in base rates as a level of annual funding to the catastrophic storm reserve fund and $4 million as a level of annual funding for pre-staging events." If the PURA were to approve the Company's proposal to implement an annual SCRAF, explain the rationale for also increasing the base distribution rates from $3 million to $60 million for catastrophic storms and from $3 million to $4 million for pre-staging event reserve funding.

Response:

As a point of clarification, although this question correctly quotes the Company's Leadership Panel testimony (Exhibit CLP-ELP-1), this question ignores an important part of the testimony regarding the current level of catastrophic storm reserve funding on the same referenced page 134. The Company's Leadership Panel testimony at Exhibit CLP-ELP-1, page 134, also notes that "[i]n addition to the $3 million for catastrophic storms, the Company was authorized to utilize expired storm amortizations from Docket Nos. 17-10-46, and 18-11-12, to provide additional storm reserve funding in the amount of $54.516 million for a total catastrophic storm reserve funding of $57.516 million and total reserve funding including pre-staging events of $60.516 million."

As a result, the Company is proposing to *maintain* $60 million of storm funding in base rates that is already recovered currently (in the amount of $57.516 million), not as compared to the $3 million initially in base distribution rates authorized back in 2018 as contemplated by this question. In addition, it is necessary to provide this funding for storm response if carrying costs are not going to be allowed on deferred amounts. If the goal is to minimize or eliminate the need for carrying costs, then more current recovery needs to be included in rates.

The purpose of the Company's proposed Storm Cost Recovery Adjustment Factor ("SCRAF") is to annually reconcile the actual incurred level of catastrophic storm and pre-staging event costs to the amount of storm funding included in base distribution rates. Ideally, base distribution rates would be set to recover the exact amount of storm costs incurred each year, however, because the frequency of storms and magnitude of the impact is indeterminate, storm costs are not susceptible

to recovery solely through base rates. This base rate funding paired with the Company's proposed SCRAF aims to mitigate customer bill impacts amid the myriad factors described in the Company's testimony and more broadly throughout the Company's application that are putting upward pressure on the cost of service and customers' electric bills.

The Company evaluated the level of base rate funding for catastrophic storm and pre-staging event costs separately. Please refer to the Company's response to OCC-055[i], which discusses how the Company's proposed $60 million catastrophic storm reserve funding and $4 million pre-staging event reserve funding amounts were determined. As described therein and at Exhibit REVREQ-1, pages 104 through 107, the Company's average annual catastrophic storm activity is approximately $151.5 million (see Exhibit CLP-REVREQ-2, WP C-3.26, lines 27 through 35). However, the Company proposes to maintain catastrophic storm funding at approximately the same level as is currently in base rates, recognizing that annual activity is variable and difficult to predict. This approach aims to mitigate customer bill impacts amid the myriad factors described in that testimony and more broadly throughout the filing that are putting upward pressure on the cost of service and customers' electric bills. If, as posed by the question, base rate funding were reduced to $3 million and the Company were to experience catastrophic storm costs at its average level of approximately $150 million per year, that would result in 1) customers experiencing greater bill impacts associated with storms (i.e., by having to increase rates to collect $150 million, rather than $90 million, regardless the time period of recovery) 2) customers experiencing greater carrying charges than under the Company's proposal, since maintaining a level of funding will offset the amounts necessary to be financed by the Company between incurrence and collection, and 3) mitigate intergenerational equity by having some amount in rates for storms that occur each year, rather than having nothing, only to be recovered in full at a later point in time.

Prior Referenced Response:

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[i] OCC-055 Question

(Storm Reserves) Referring to Exhibit CL&P-RevReq-2, Schedule C-3.0, lines 43-44. Provide a detailed explanation why the Company is asking for increases in the rate years for the a) storm reserve accrual and b) pre-staging reserve accrual.

OCC-055 Response

a) The Company presented its proposal for catastrophic storm reserve accrual in Exhibit CLP-REVREQ-1, pages 104 through 107. According to that testimony, the Company's average annual catastrophic storm activity is approximately $151.5 million (see Exhibit CLP-REVREQ-2, WP C-3.26, lines 27 through 35). However, the Company proposes to maintain catastrophic storm funding at approximately the same level, recognizing that annual activity is variable and difficult to predict. This approach aims to mitigate customer bill impacts amid the myriad factors described in that testimony and more broadly throughout the filing that are putting upward pressure

on the cost of service and customers' electric bills. Therefore, the Company proposes a modest increase in the level of base rate catastrophic storm funding, from $57.516 million to $60 million. The overall storm cost recovery proposal, including a new Storm Cost Recovery Adjustment Factor ("SCRAF"), is described in detail in Exhibit CLP-ELP-1.

b) The Company presented its proposal for pre-staging event reserve accrual in Exhibit CLP-REVREQ-1, pages 107 through 108. The testimony calculated an average annual prestaging event expense of $4.097 million (see Exhibit CLP-REVREQ-2, WP C-3.27, lines 27 through 35), based on actual pre-staging event costs at $4.229 million in 2021, $6.350 million in 2022, $6.183 million in 2023, $0 in 2024, and $3.723 million in 2025 (using Gross Domestic Product – Price Index ("GDP-PI") to escalate costs to the Rate Year amounts). This average annual expense of $4.097 million supports the Company's proposed adjustment, increasing annual base distribution funding for pre-staging events from $3 million to $4 million.

It is important to note that the Company's proposals are based on a catastrophic storm threshold of $5.4 million, calculated by escalating the prior authorized threshold of $4 million using the GDP-PI from 2018 through the Rate Year. If the $5.4 million threshold is modified in this proceeding, the historical level of storm activity should be re-evaluated as well to determine if a level of reserve funding in base rates different than what the company has proposed is necessary. In addition, if the $5.4 million threshold is adjusted in this proceeding, the base level of non-catastrophic expense in base rates likewise need to be adjusted.

Date Filed: September 15, 2026

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

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.

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."

Date Filed: September 15, 2026

Witness: Donald J. Scacco Jr., Digaunto Chatterjee and Douglas P. Horton
Request from: Office of Consumer Counsel

Question:

Leadership Panel Exhibit CLP-ELP-3 – Performance Incentive Mechanisms and Metrics
Exhibit CLP-ELP-3, summarizes the Company's proposed PBR performance portfolio. Please explain how the Company determined that the proposed set of PIMs represents the appropriate performance areas to which financial incentives and/or penalties should be attached during the PBMRP term. In your response, please identify the criteria the Company used to determine which performance measures warranted financial incentives or penalties and explain how those criteria were applied to the potential PIMs identified in the Performance Evaluation System adopted in the Proposed Final Decision in Docket No. 21-05-15RE02.

Response:

When developing its proposed performance metrics, the Company sought to ensure that its proposed metrics would provide meaningful insight into the Company's performance in terms of service quality and customer service during the PBR term. The Company's proposed PBR performance portfolio, including PIMs, is designed as a balanced portfolio of measurable performance outcomes that reflect the quality, reliability, accessibility and responsiveness of electric service provided to customers and over which the Company has meaningful operational influence.

The approach is consistent with the broader evolution of performance-based regulations in the electric utility industry where reliability and customer service have traditionally been recognized as core service-quality areas appropriate for performance measurements and, in some jurisdictions, financial incentives or penalties. Similar to the proposed final decision in Docket No. 21-05-15RE02, the Company has included system and customer reliability in its PIMs proposal, while also expanding the customer experience related PIMs to represent a more well-rounded and holistic measurement of customer-facing performance.

The proposed PIMs address both system and customer reliability, customer service and customer experience. Collectively, these measures recognize that reliable electric service encompasses more than system wide outage performance. The measures also include the reliability experienced by individual customers and the quality, accessibility, timeliness and effectiveness of the Company's interactions with customers.

When determining whether a metric should include a financial penalty or incentive, the Company considered whether the metric (1) can be objectively measured; (2) has an established baseline against which performance can be measured; and (3) whether it will measure "performance" that is actually within the Company's control. PIMs that lack these foundational elements could result in unintended consequences of penalizing a utility for performance that is not actually substandard, nor a product of the utility's own efforts.

The proposed PIM financial incentives and penalties are appropriate because the measures establish clear, objective and measurable expectations for outcomes that are important to customers and sustainably within the Company's ability to influence through its operational practices, resource allocation and management decisions.

The asymmetrical application of incentives and penalties is intended to promote sustained performance, providing an opportunity for the Company to earn an incentive when it exceeds established expectations while creating accountability when performance falls below expectations. Taken together, the PIMs provide a comprehensive framework that aligns the Company's financial interests with customer interests while maintaining a balanced focus on reliability, affordability, customer service, efficiency, accessibility and the overall customer experience.

Date Filed: September 15, 2026

Witness: Elli Ntakou and Lavelle A. Freeman
Request from: Office of Consumer Counsel

Question:

Targeted System Performance Plan Exhibit CLP-TSP-1: Reliability PIMs
The Company proposes a sliding penalty structure for each Blue-Sky SAIDI and Blue-Sky SAIFI PIM, with penalties beginning at one standard deviation above the five-year average and increasing through two standard deviations.

a. Please explain how the Company developed this penalty structure and provide any analysis demonstrating how the proposed financial consequences are expected to maintain or improve reliability performance, consistent with the company's stated goals.

b. Were any other five-year periods considered for the five-year average threshold? If yes, explain why the period 2022-2026 was selected for the calculation of the five-year average.

Response:

a. The Company developed this penalty structure consistent with industry standards for non-symmetrical PIMs and with considerations for yearly deviations of blue-sky SAIDI and blue-sky SAIFI.

Major events are excluded from blue-sky reliability metrics because these events are significant outliers for the purposes of determining reliability. However, the reliability metrics maintain volatility because of the inclusion of impacts from the numerous minor storm events that occur across a year and that do not reach the exclusionary threshold. A well-designed PIM should base a penalty on the degree to which a value exceeds the threshold, and whether deviations are driven by factors within the Company's control or exogenous factors. For example, slight deviations due to weather patterns should be penalized less or not at all, as compared to larger deviations indicative of influence by the Company's own actions. Therefore, the Company's proposal accounts for normal deviations by establishing a standard for performance and gradual penalties, starting at the threshold of "average plus one standard deviation" and full penalty for performance exceeding "average plus two standard deviations".

In addition, although, PIMs set standards for performance, the penalty structure does not drive reliability performance. The PIM objectives or deadbands set the expectation for what level of performance the Company should target; however, absent regulatory approval of

a commensurate spending level that enables the Company to achieve the identified objectives, penalties alone, regardless of their size or structure, will not be able to drive performance relative to PIM objectives.

b. No, the Company did not consider other 5-year periods. The 2022-2026 timeframe is the most recent complete 5-year data set at the time the PIMs and their penalties are expected to become applicable (i.e., 2027). Selecting a recent time period as a baseline has the benefit of incorporating the most recent system performance measures, with the associated standards and asset types. In contrast to resilience, where time periods further back may be needed in the baseline to capture major events that rarely occur, selecting the most recent time period for use as reliability baseline is necessary for a valid metric.

Date Filed: September 15, 2026

Witness: Elli Ntakou and Lavelle A. Freeman
Request from: Office of Consumer Counsel

Question:

Targeted System Performance Plan Exhibit CLP-TSP-1: Reliability PIMs
The final RE02 Performance Evaluation System identifies a potential Customer Reliability PIM based on CEMI-5, the percentage of repeat CEMI-5 customers, CELID-6, and the percentage of repeat CELID-6 customers. The Company instead proposes to use the average count of repeat CEMI-5 and repeat CELID-6 customers. Please explain why the Company selected this methodology and how it is expected to better incentivize improved reliability for customers experiencing frequent or long-duration outages.

Response:

The Company's proposed Customer Reliability PIM shares the same core purpose as the customer reliability PIM in the RE02 Proposed Final Decision, which is that this PIM should encourage the Company to reduce repeat customers that experience long-duration interruptions and/or frequent interruptions.

As explained in Exh. CLP-TSP-1, at 81-83, the Company proposes that the customer reliability PIM be calculated as the total number of repeat CEMI-5 customers and repeat CELID-6 customers. This slightly deviates from the customer reliability PIM in the RE02 Proposed Final Decision to ensure that the PIM measures performance based on factors within the Company's control and encourages the Company to reduce the repeat customers with long-duration interruptions and frequent interruptions. The RE02 Proposed Final Decision contemplated Customer Reliability PIM based on a composite of four sub-metrics: (1) total number of CEMI-5 customers; (2) the percent of repeat CEMI-5 customers; (3) total number of CELID-6 customers; (4) and the percent of repeat CELID-6 customers.

The Company's Customer Reliability PIM is focused on repeat customers because the frequency and/or duration of interruptions for CEMI-5 and/or CELID-6 customers in a particular year can be due to one-off events without repeat in a subsequent year. In other words, while CEMI-5 and CELID-6 represent edge cases of performance, isolated events that result in CEMI-5 or CELID-6 customers should not all be actionable as those events would drive investment to resolve largely isolated or infrequent events. However, customers that experience long duration or frequent service interruptions in multiple years should be addressed by the Company, since these situations are more likely to be due to systemic issues. Accordingly, the Company has designed the PIM to focus on repeat CEMI-5 and CELID-6 customers.

In addition, the composite metric proposed in the RE02 Proposed Final Decision could have unintended consequences due to the disproportionate scale of the submetrics. The percent of repeat CEMI-5 and repeat CELID-6 are numerically much smaller than submetric (a) and do not meaningfully impact the value of the composite metric. Therefore, the proposed customer reliability PIM in the RE02 Proposed Final Decision would be driven by annual CEMI-5 and CELID-6 customers, rather than repeat customers. The Company's historical data shows that annual CEMI-5 and CELID-6 customer counts are orders of magnitude higher than repeat CEMI-5/CELID-6 customers, because of the isolated events discussed above.

Also, Company data shows that annual CEMI-5 and CELID-6 customers have large year-to-year variability. Therefore, the customer PIM identified in the RE02 Proposed Final Decision could reward the Company for CEMI-5 and/or CELID-6 reductions driven by random events rather than driven by targeted investments to reduce repeat service interruptions, which is more tailored result that the Company's proposed customer reliability PIM would achieve.

Date Filed: September 15, 2026

Witness: Elli Ntakou and Lavelle A. Freeman
Request from: Office of Consumer Counsel

Question:

Targeted System Performance Plan Exhibit CLP-TSP-1: Reliability PIMs
Please provide any analysis comparing the Company's proposed Customer Reliability PIM methodology with the methodology identified in RE02. In particular, please identify whether the Company could earn an incentive under its proposed methodology in a year in which:

a. the total number or percentage of customers experiencing CEMI-5 increases;
b. the total number or percentage of customers experiencing CELID-6 increases; or
c. either measure worsens for particular customer groups or geographic areas.

Response:

As explained in response to OCC-525[i], the Company's proposed Customer Reliability PIM methodology is intended to encourage the Company to reduce the number of repeat CEMI-5 and CELID-6 customers, while avoiding the unintended consequence of RE02 PIM, such as rewarding the Company for random events that impact the number of CEMI-5 or CELID-6 customers in a single year.

a. Based on the Company's proposed PIM, if the total number of CEMI-5 customers increases, but there are fewer repeat CEMI-5 customers, then the Company can earn an incentive, assuming all else remains equal. This is reasonable because increased CEMI-5 annual customers with reduced overlap with the previous year's CEMI-5 customers means that the additional CEMI-5 customers are not due to long-term underperformance, which aligns with what a well-designed customer reliability PIM should target, per the RE02 Proposed Final Decision. However, under the RE02 PIM, an increase of CEMI-5 customers can also lead to the Company earning an incentive if the CELID-6 customer reduction is higher than the CEMI-5 customer increase. As explained in OCC-525, the reductions of these annual metrics are not necessarily tied to Company investments. The components of the proposed composite metric reflecting repeat customers in the RE02 Proposed Final Decision are mathematically insignificant to the calculated value of the metric.

b. Based on the Company's proposed PIM, if the total number of CELID-6 customers increases, while there are less repeat CELID-6 customers, then the Company can earn an incentive, assuming all else remains equal. This is reasonable; increased CELID-6 annual customers with reduced overlap with the previous year's CELID-6 customers means that the additional CELID-6 customers are not due to long-term underperformance, which

aligns with what a well-designed customer reliability PIM should target, per the RE02 Proposed Final Decision. However, under the RE02 PIM an increase of CELID-6 customers can also lead to the Company earning an incentive if the CEMI-5 customer reduction is higher than the CELID-6 customer increase. As explained in OCC-525, the reductions of these annual metrics are not necessarily tied to Company investments. The components of the proposed composite metric reflecting repeat customers in the RE02 Proposed Final Decision are mathematically insignificant to the calculated value of the metric.

c. Yes, because both the Company's proposed Customer Reliability PIM and the customer reliability PIM in the RE02 Proposed Final Decision are calculated for the Company's territory and across all customers. As explained above, as a composite metric, both the Company's proposed PIM and the RE02 PIM, could result in an incentive, in circumstances where performance under any one submetric worsens and performance in other submetrics significantly improves. The primary difference between the Company's proposed Customer Reliability PIM and the RE02 Proposed Final Decision is under the Company's proposed PIM, the Company cannot earn an incentive unless there is a reduction in either the repeat CEMI-5 or CELID-6 customers. Under the RE02 PIM, however, the Company could earn an incentive if there is an increase in repeat CEMI-5 and CELID-6 customers because the RE02 metric is driven by total number of CEMI-5 and CELID-6 customers. As discussed in response to OCC 525, the RE02 PIM can be influenced heavily by random events, rather than Company investments to reduce otherwise repeat CEMI-5 and CELID-6 customers.

   Further, it is not clear what the phrase "particular customer groups and geographic areas" refers to. Customer reliability PIMs based on repeat CEMI-5 and CELID-6 should not be calculated more granularly than at the Company level and across all customers. Multiple PIMs per customer groups or small geographic areas would be largely impractical and inactionable, as circuits and projects to improve customer reliability include various customer groups and could span multiple geographic areas. PIMs also typically need large enough numbers to establish a baseline and a meaningful decrease. In other words, targeting to decrease single digits of customers is not conducive to PIMs and incentives.

Prior Referenced Response:

[i] OCC-525 Question:
Targeted System Performance Plan Exhibit CLP-TSP-1: Reliability PIMs
The final RE02 Performance Evaluation System identifies a potential Customer Reliability PIM based on CEMI-5, the percentage of repeat CEMI-5 customers, CELID-6, and the percentage of repeat CELID-6 customers. The Company instead proposes to use the average count of repeat CEMI-5 and repeat CELID-6 customers. Please explain why the Company selected this methodology and how it is expected to better incentivize improved reliability for

customers experiencing frequent or long-duration outages.

OCC-525 Response:

The Company's proposed Customer Reliability PIM shares the same core purpose as the customer reliability PIM in the RE02 Proposed Final Decision, which is that this PIM should encourage the Company to reduce repeat customers that experience long-duration interruptions and/or frequent interruptions.

As explained in Exh. CLP-TSP-1, at 81-83, the Company proposes that the customer reliability PIM be calculated as the total number of repeat CEMI-5 customers and repeat CELID-6 customers. This slightly deviates from the customer reliability PIM in the RE02 Proposed Final Decision to ensure that the PIM measures performance based on factors within the Company's control and encourages the Company to reduce the repeat customers with long-duration interruptions and frequent interruptions. The RE02 Proposed Final Decision contemplated Customer Reliability PIM based on a composite of four sub-metrics: (1) total number of CEMI-5 customers; (2) the percent of repeat CEMI-5 customers; (3) total number of CELID-6 customers; (4) and the percent of repeat CELID-6 customers.

The Company's Customer Reliability PIM is focused on repeat customers because the frequency and/or duration of interruptions for CEMI-5 and/or CELID-6 customers in a particular year can be due to one-off events without repeat in a subsequent year. In other words, while CEMI-5 and CELID-6 represent edge cases of performance, isolated events that result in CEMI-5 or CELID-6 customers should not all be actionable as those events would drive investment to resolve largely isolated or infrequent events. However, customers that experience long duration or frequent service interruptions in multiple years should be addressed by the Company, since these situations are more likely to be due to systemic issues. Accordingly, the Company has designed the PIM to focus on repeat CEMI-5 and CELID-6 customers.

In addition, the composite metric proposed in the RE02 Proposed Final Decision could have unintended consequences due to the disproportionate scale of the submetrics. The percent of repeat CEMI-5 and repeat CELID-6 are numerically much smaller than submetric (a) and do not meaningfully impact the value of the composite metric. Therefore, the proposed customer reliability PIM in the RE02 Proposed Final Decision would be driven by annual CEMI-5 and CELID-6 customers, rather than repeat customers. The Company's historical data shows that annual CEMI-5 and CELID-6 customer counts are orders of magnitude higher than repeat CEMI-5/CELID-6 customers, because of the isolated events discussed above.

Also, Company data shows that annual CEMI-5 and CELID-6 customers have large year-to-year variability. Therefore, the customer PIM identified in the RE02 Proposed Final Decision could reward the Company for CEMI-5 and/or CELID-6 reductions driven by random events rather than driven by targeted investments to reduce repeat service interruptions, which is more tailored result that the Company's proposed customer reliability PIM would achieve.

Date Filed: September 15, 2026

Witness: Warren R. Boutin and Andrew C. Belden
Request from: Office of Consumer Counsel

Question:

Exhibit CLP-CUSTOMER-1: Customer PIM Suite
(Level 1 DER Interconnection Processing) The RE02 Performance Evaluation System identifies Level 1 DER Interconnection as a standalone potential PIM. The Company instead proposes to include Level 1 DER Interconnection Processing as one of five components of its Customer PIM Suite. Please explain why the Company selected a composite structure rather than the standalone PIM identified in RE02, including how incorporating Level 1 DER Interconnection performance into the Customer PIM Suite is expected to improve interconnection performance.

Response:

The Company selected a composite PIM structure for its customer metrics, including Level 1 DER Interconnection Processing, because customer experience is multidimensional and more appropriately evaluated through a balanced set of performance measures rather than singularly measuring customer metrics in isolation. The five components of the customer PIM suite collectively reflect different aspects of the Company's service to customers and provide a more comprehensive measure of customer performance. Including Level 1 DER Interconnection Processing as one component of the composite PIM suite recognizes the importance of timely and effective interconnections processing, while avoiding placing disproportional emphasis on a single customer facing operational measure.

A standalone PIM for Level 1 DER Interconnection Processing could inadvertently prioritize focus on performance for this metric at the possible expense of other important customer outcomes. The composite structure instead encourages the Company to maintain balanced performance across a full range of customer-focused objectives.

The use of the composite PIM does not diminish the significance of Level 1 DER Interconnection Processing performance but rather recognizes that it is one of several important dimensions of customer service. The composite approach provides a more comprehensive performance framework that is less susceptible to unintended consequences for measuring, penalizing and/or rewarding customer performance versus a stand-alone PIM approach.

Date Filed: September 15, 2026

Witness: Jared A. Lawrence and Elizabeth N. Jones
Request from: Office of Consumer Counsel

Question:

Exhibit CLP-CUSTOMER-1: Customer PIM Suite
(Digital Customer Engagement) RE02 treats customer data engagement as a Metric rather than a PIM. The Company states that digital transactions have increased from approximately 88% to more than 92% over the past five years and that its proposed 92.18% target reflects performance that is already "nearing the performance ceiling." Please explain why performance above the proposed target warrants contributing to a positive financial incentive, including the incremental customer benefit expected from further increases in digital engagement and why such performance would not occur absent the incentive.

Response:

With digital customer engagement now over 90%, the Company has reached a point of digital saturation. Future gains in digital customer engagement will be difficult to come by, and with so many customers using digital channels already, there do not remain large opportunities to increase the number of customers who use the digital channels. Conversely, there will always be reasons why customers need to call in and transact on non-digital channels, so that the Company's expectation is that digital customer engagement will never reach 100 Percent. In this context, customer expectations and security needs do continue to evolve in the digital space and the Company must continue to invest in the digital space in order to maintain the current digital customer engagement rate. Therefore, performance above the proposed target will require a significantly higher investment on the Company's part compared to just maintaining the digital customer engagement rate. Digital channels increasingly play a part in providing a strong customer experience, particularly as technology advances.

Including the Digital Customer Engagement measure within the PIM suite, and allowing for a positive financial incentive, as well as financial penalty, is appropriate because it provides the Company with an additional mechanism to encourage continuous improvement to the quality of customer interactions and reinforce behaviors that contribute to a positive customer experience. The five components of the customer PIM suite collectively reflect different aspects of the Company's service to customers and provide a more comprehensive measure of customer performance as discussed in response to OCC 527[i].

Prior Referenced Response:

[i] OCC-527 Question:

(Level 1 DER Interconnection Processing) The RE02 Performance Evaluation System identifies Level 1 DER Interconnection as a standalone potential PIM. The Company instead proposes to include Level 1 DER Interconnection Processing as one of five components of its Customer PIM Suite. Please explain why the Company selected a composite structure rather than the standalone PIM identified in RE02, including how incorporating Level 1 DER, Interconnection performance into the Customer PIM Suite is expected to improve interconnection performance.

OCC-527 Response:

The Company selected a composite PIM structure for its customer metrics, including Level 1 DER Interconnection Processing, because customer experience is multidimensional and more appropriately evaluated through a balanced set of performance measures rather than singularly measuring customer metrics in isolation. The five components of the customer PIM suite collectively reflect different aspects of the Company's service to customers and provide a more comprehensive measure of customer performance. Including Level 1 DER Interconnection Processing as one component of the composite PIM suite recognizes the importance of timely and effective interconnections processing, while avoiding placing disproportional emphasis on a single customer facing operational measure.

A standalone PIM for Level 1 DER Interconnection Processing could inadvertently prioritize focus on performance for this metric at the possible expense of other important customer outcomes. The composite structure instead encourages the Company to maintain balanced performance across a full range of customer-focused objectives.

The use of the composite PIM does not diminish the significance of Level 1 DER, Interconnection Processing performance but rather recognizes that it is one of several important dimensions of customer service. The composite approach provides a more comprehensive performance framework that is less susceptible to unintended consequences for measuring, penalizing and/or rewarding customer performance versus a stand-alone PIM approach.

Date Filed: September 15, 2026

Witness: Jared A. Lawrence and Timothy W. McGrath
Request from: Office of Consumer Counsel

Question:

Exhibit CLP-CUSTOMER-1: Customer PIM Suite
(Controllable Average Call Handle Time) RE02 includes Average Handle Time among the Existing Customer Service Metrics and does not identify it as a potential PIM. Please explain why reducing hold and post-call work time warrants contributing to a positive financial incentive, including why performance above the proposed target represents performance beyond ordinary operational efficiency and identifying any incremental customer benefits expected to result.

Response:

At Eversource, Average Handle Time consists of three components – Average Talk Time, Average Hold Time and Average Post-Call Work time. Within these components, customer communication with agents – quality time spent interacting and discussing concerns or questions, has high value. Customer Service Representatives must engage and communicate effectively, taking time to get to know the issue being discussed and ensuring customer understanding of very complex items. This valuable time is measured as Average Talk Time – a component of Average Handle Time which the Company does *not* want to limit or pressure agents to rush.

What remains is Average Hold time and Average Post-Call Work time. These categories are an area of focus for efficiency gains, without imposing any negative impact to customers. Each reduced second of Average Handle time results in savings and improved answer times for customers. The faster one call is finished, the sooner the next can be answered. The faster each call is answered, the less resources needed to handle the volume received. By incentivizing reductions in these two areas, costs in the contact center are managed and customer satisfaction improved.

The ability to resolve customer concerns in an efficient manner also correlates positively to a customer's overall satisfaction with their phone experience within the Company's Post Transaction Survey. Correlation measures the degree to which variables are related and tend to change together. A strong correlation is generally indicated by a correlation coefficient close to +1.00 or -1.00. When examining the correlation between a customer's overall phone experience satisfaction and their rating of the attribute "Timeliness of resolving your problem, question, or request," we see a correlation score of +0.83 among CL&P customers in 2025, demonstrating a strong nexus.

Including the Controllable Average Call Handle Time measure within the PIM suite, and allowing for a positive financial incentive, as well as financial penalty, is appropriate because it provides the Company with an additional mechanism to encourage continuous improvement to the quality of customer interactions and reinforce behaviors that contribute to a positive customer experience. The five components of the customer PIM suite collectively reflect different aspects of the Company's service to customers and provide a more comprehensive measure of customer performance as discussed in response to OCC 527[i].

Prior Referenced Response:

[i] OCC-527 Question:

Exhibit CLP-CUSTOMER-1: Customer PIM Suite
(Level 1 DER Interconnection Processing) The RE02 Performance Evaluation System identifies Level 1 DER Interconnection as a standalone potential PIM. The Company instead proposes to include Level 1 DER Interconnection Processing as one of five components of its Customer PIM Suite. Please explain why the Company selected a composite structure rather than the standalone PIM identified in RE02, including how incorporating Level 1 DER Interconnection performance into the Customer PIM Suite is expected to improve interconnection performance.

OCC-527 Response:
The Company selected a composite PIM structure for its customer metrics, including Level 1 DER interconnection processing, because customer experience is multidimensional and more appropriately evaluated through a balanced set of performance measures rather than singularly measuring customer metrics in isolation. The five components of the customer PIM suite collectively reflect different aspects of the Company's service to customers and provide a more comprehensive measure of customer performance. Including Level 1 DER interconnection processing as one component of the composite PIM suite recognizes the importance of timely and effective interconnections processing, while avoiding placing disproportional emphasis on a single customer facing operational measure.

A standalone PIM for Level 1 DER interconnection processing could inadvertently prioritize focus on performance for this metric at the possible expense of other important customer outcomes. The composite structure instead encourages the Company to maintain balanced performance across a full range of customer-focused objectives.

The use of the composite PIM does not diminish the significance of Level 1 DER interconnection processing performance but rather recognizes that it is one of several important dimensions of customer service. The composite approach provides a more comprehensive performance framework that is less susceptible to unintended consequences for measuring, penalizing and/or rewarding customer performance versus a stand-alone PIM approach.

Date Filed: September 15, 2026

Witness: Jared A. Lawrence and Shamus O'Brien
Request from: Office of Consumer Counsel

Question:

Exhibit CLP-CUSTOMER-1: Customer PIM Suite
(Post Transaction Survey – CSR Attributes) The Company's proposed Post Transaction Survey component measures customer ratings of CSR courtesy, friendliness, knowledge, and concern for customer needs following telephone interactions. The RE02 Customer Satisfaction Scorecard measures customer satisfaction across customer service support, DER interconnection, and service interruptions, including satisfaction with issue resolution and overall interaction quality. Please explain why the Company proposes to attach a positive financial incentive to its Post Transaction Survey measure rather than the customer satisfaction measures developed in RE02. In your response, please explain why performance above the proposed 8.43 target represents exemplary performance warranting a shareholder incentive and identify any analysis demonstrating that improvement in the proposed CSR attributes is associated with improved customer outcomes.

Response:

Including the Post Transaction Survey – CSR Attributes measure within the PIM suite, and allowing for a positive financial incentive, as well as financial penalty, is appropriate because it provides the Company with an additional mechanism to encourage continuous improvement to the quality of customer interactions and reinforce behaviors that contribute to a positive customer experience. The five components of the customer PIM suite collectively reflect different aspects of the Company's service to customers and provide a more comprehensive measure of customer performance as discussed in response to OCC 527[1].

Aside from Level 1 DER interconnection processing metric, the RE02 Proposed Final Decision received on July 27, 2026 did not propose any other PIMS related to customer satisfaction. Combining Post Transaction Survey – CSR Attribute metric with the other four components of the customer PIM suite incorporates the differing aspects of the Company's service to customers.

Further, the proposed Customer PIM Suite, which evaluates customer satisfaction with customer service support and measures DER interconnection performance, complements the System and Customer Reliability PIMs, which measure the frequency and duration of service interruptions and their impact on customer.

Collectively, these PIMs provide a balanced and comprehensive framework for assessing the Company's performance of its delivery of reliable, responsive service to customers.

The target of 8.43 for the Post Transaction Survey – CSR Attributes does not represent the threshold at which the company would earn an incentive. The target represents the level of performance the Company seeks to maintain (equal to 2025 actual). On-target performance in this metric itself doesn't guarantee an incentive, as it would require exemplary above-target performance in the other metrics included in the Composite Index of the Customer PIM Suite.

Customer perception of a customer service representative's courtesy, friendliness, knowledge, and concern for customer needs are strongly correlated with their overall satisfaction with their phone interaction. Correlation measures the degree to which variables are related and tend to change together. A strong correlation is generally indicated by a correlation coefficient close to +1.00 or -1.00. All four customer service representative attributes in question have a correlation coefficient of +0.77 to +0.84, demonstrating a strong correlation. The benefit of utilizing these attributes is that they are all an indication of the Company's success in training customer service representatives to successfully assist customers with their questions or concerns.

Prior Referenced Response:

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[i] OCC-527 Question:

Exhibit CLP-CUSTOMER-1: Customer PIM Suite
(Level 1 DER Interconnection Processing) The RE02 Performance Evaluation System identifies Level 1 DER Interconnection as a standalone potential PIM. The Company instead proposes to include Level 1 DER Interconnection Processing as one of five components of its Customer PIM Suite. Please explain why the Company selected a composite structure rather than the standalone PIM identified in RE02, including how incorporating Level 1 DER Interconnection performance into the Customer PIM Suite is expected to improve interconnection performance.

OCC-527 Response:

The Company selected a composite PIM structure for its customer metrics, including Level 1 DER interconnection processing, because customer experience is multidimensional and more appropriately evaluated through a balanced set of performance measures rather than singularly measuring customer metrics in isolation. The five components of the customer PIM suite collectively reflect different aspects of the Company's service to customers and provide a more comprehensive measure of customer performance. Including Level 1 DER interconnection processing as one component of the composite PIM suite recognizes the importance of timely and effective interconnections processing, while avoiding placing disproportional emphasis on a single customer facing operational measure.

A standalone PIM for Level 1 DER interconnection processing could inadvertently prioritize focus on performance for this metric at the possible expense of other important customer outcomes. The composite structure instead encourages the Company to maintain balanced performance across a full range of customer-focused objectives.

The use of the composite PIM does not diminish the significance of Level 1 DER interconnection processing performance but rather recognizes that it is one of several important dimensions of customer service. The composite

approach provides a more comprehensive performance framework that is less susceptible to unintended consequences for measuring, penalizing and/or rewarding customer performance versus a stand-alone PIM approach.

Date Filed: September 15, 2026

Witness: Jessica B. Cain and Daniel M. Traynor
Request from: Office of Consumer Counsel

Question:

Exhibit CLP-CUSTOMER-1: Customer PIM Suite
(Average Discount Rate Enrollment Time) Please explain why a financial incentive for faster manual LIDR enrollment is necessary to advance customer affordability given the substantial enrollment already achieved through DSS data sharing and automatic enrollment. Please identify any analysis showing that faster manual processing would materially increase LIDR participation beyond levels achieved through those enrollment pathways.

Response:

Timely processing of proof of eligibility for, and enrollment in, the low-income discount rate ("LIDR") is important for eligible customers. The Company's proposed "Average Discount Rate Enrollment Time" metric[1] intends to measure and incentivize prompt LIDR enrollment *for customers who provide proof of eligibility directly to the Company for manual review and processing*. Achieving the proposed two-day turnaround takes a significant amount of resources and forecasting to plan for surge staff resources during annual peak times of year.

The Company clarifies this proposed metric:

- is *not* intended (or expected) to have *any* impact on LIDR participation and;
- would *not* include LIDR enrollment performed through DSS data-matching or Community Action Agencies (via Social Agency portal or receipt of LIHEAP) because those are automated and do *not* require a team of Company resources for manual review and processing.

Including the "*Average Discount Rate Enrollment Time*" measure within the PIM suite, and allowing for a positive financial incentive, as well as financial penalty, is appropriate because it provides the Company with an additional mechanism to encourage continuous improvement in the quality of customer interactions and reinforce behaviors that contribute to a positive customer experience. The five components of the customer PIM suite collectively reflect different aspects of the Company's service to customers and provide a more comprehensive measure of customer performance as discussed in response to OCC 527[1].

[1] The Company notes that it has this as a PBR metric in one if its Massachusetts Companies as well.

Prior Referenced Response:

[i] OCC-527 Question:

Exhibit CLP-CUSTOMER-1: Customer PIM Suite
(Level 1 DER Interconnection Processing) The RE02 Performance Evaluation System identifies Level 1 DER Interconnection as a standalone potential PIM. The Company instead proposes to include Level 1 DER Interconnection Processing as one of five components of its Customer PIM Suite. Please explain why the Company selected a composite structure rather than the standalone PIM identified in RE02, including how incorporating Level 1 DER Interconnection performance into the Customer PIM Suite is expected to improve interconnection performance.

OCC-527 Response:
The Company selected a composite PIM structure for its customer metrics, including Level 1 DER interconnection processing, because customer experience is multidimensional and more appropriately evaluated through a balanced set of performance measures rather than singularly measuring customer metrics in isolation. The five components of the customer PIM suite collectively reflect different aspects of the Company's service to customers and provide a more comprehensive measure of customer performance. Including Level 1 DER interconnection processing as one component of the composite PIM suite recognizes the importance of timely and effective interconnections processing, while avoiding placing disproportional emphasis on a single customer facing operational measure.

A standalone PIM for Level 1 DER interconnection processing could inadvertently prioritize focus on performance for this metric at the possible expense of other important customer outcomes. The composite structure instead encourages the Company to maintain balanced performance across a full range of customer-focused objectives.

The use of the composite PIM does not diminish the significance of Level 1 DER interconnection processing performance but rather recognizes that it is one of several important dimensions of customer service. The composite approach provides a more comprehensive performance framework that is less susceptible to unintended consequences for measuring, penalizing and/or rewarding customer performance versus a stand-alone PIM approach.

Date Filed: September 15, 2026

Witness: Jared A. Lawrence, Jessica B. Cain and Andrew C. Belden
Request from: Office of Consumer Counsel

Question:

Exhibit CLP-CUSTOMER-1: Customer PIM Suite
(Customer PIM Suite Composite Index) The Company proposes to determine incentives and penalties based on the average of the five component index. Please identify whether performance above target on one or more Customer PIM Suite components could offset performance below target on another component, including Level 1 DER Interconnection Processing or Average Discount Rate Enrollment Time, such that the Company would avoid a penalty or earn an incentive. If so, please provide illustrative examples and explain why the Company considers such outcomes appropriate given the objectives of the affected components.

Response:

As the Customer PIM Suite evaluates financial penalty or incentive based on a Composite Index reflecting the average performance for the entire Customer PIM Suite, it is possible that above average or below average performance in one component could offset the below or above average performance of other components within the Customer PIM Suite. An illustrative example was included in Exhibit CLP-CUSTOMER-1, page 43, in which above target performance in Level 1 DER Interconnection Processing was offset by below target performance in Controllable Average Call Handle Time and Average Discount Rate Enrollment (Days).

The Customer PIM Suite is intended to provide a holistic assessment of the Company's performance across a variety of customer engagement points to ensure focus on continuing to provide a high-level of customer service across its breadth of customers.

If using the same illustrative example provided in the Exhibit noted and only changing the actual performance for Level 1 DER Interconnection Processing, performance for that one component would have to improve to an index of 188 before the Company could offset the on target and below target performance of the other four (4) components enough to trigger an incentive. The index of 188 for this measure represents actual performance of 4.3 average days against the target of 35.0 average days.

	Performance				Composite Index
	Actual	Target	Direction	Index	
Level 1 DER Interconnection Processing	4.3	35.0	Down is Good	188	
Digital Customer Engagement	92.18%	92.18%	Up is Good	100	
Controllable Average Call Handle Time	86.2	76	Down is Good	87	
Post Transaction Survey - CSR Attributes	8.43	8.43	Up is Good	100	
Average Discount Rate Enrollment Time (Days)	2.5	2.0	Down is Good	75	
Total Score				550	110

With regard to the offset, it is worth noting that Digital Customer Engagement cannot achieve an index greater than 108, as this measure cannot exceed 100% in actual performance. This limits the above target offset potential for this component.

Date Filed: September 15, 2026

Witness: Jessica B. Cain and Daniel M. Traynor
Request from: Office of Consumer Counsel

Question:

Exhibit CLP-CUSTOMER-1: Customer PIM Suite
(Customer Receivables Greater than 60 Days) RE02's Accounts Receivable and Uncollectibles Scorecard includes five sub-metrics addressing residential arrears, accounts receivable, write-offs, and uncollectibles. The Company instead proposes to report only receivables greater than 60 days and to exclude hardship accounts. Please explain the basis for this narrower approach, including why the Company excludes hardship accounts and the other RE02 sub-metrics.

Response:

For the purposes of the metric, in the arrears area the Company's proposal focused on "Non-Hardship Receivables Greater than 60 Days" *as a percentage of 60-day lagged revenue* because sixty days of aging provides a more consistent indication of delinquency. Ultimately, unpaid bills measured in arrears will be written off if not paid overtime. However, while write-offs are measured and reported across dockets**Error! Bookmark not defined.**, write-offs occur much later than sixty-day old arrears and consider whether service is active or not. Generally, in a metric intended to evaluate arrears trends, collection effectiveness over financial hardship and/or medical protected customer arrears primarily reflects Connecticut's legislative and regulatory policies, which are outside the Company's control and became even more restricted in recent years. For these reasons, the Company focused on non-hardship arrears as a metric.

Date Filed: September 15, 2026

Witness: Julia Frayer
Request from: Office of Consumer Counsel

Question:

Performance Based Ratemaking Panel Exhibit CLP-PBR-1
Please explain the statement in Exhibit CLP-PBR-1, that the average OM&A PFP growth rate for 2015–2024 is -0.03% (page 64), with the results reported in Figure 5, LEI's Industry TFP results (2005-2024), which report an average OM&A PFP growth rate of -0.03% for 2005–2024, 0.30% for 2010–2024, and -0.35% for 2015–2024. In your response:

a. Identify the study period and OM&A PFP result actually relied upon to establish the proposed -0.03% X Factor;

b. Explain the basis for selecting that study period over the alternative periods presented in Exhibit CLP-PBR-1;

c. State whether the reference to 2015–2024 in Exhibit CLP-PBR-1, is an error and, if so, provide the corrected testimony; and

d. Explain whether selection of a different study period would change the Company's proposed X Factor and, if not, why not.

e. Please provide all calculations, workpapers, and supporting data used to derive the –0.03% X Factor in an Excel format.

Response:

a. The Company relied on the 20-calendar-year period from 2005 through 2024, which encompasses a total of 19 annual year-over-year growth observations. Please refer to Figure 22, on page 47, of Exhibit CLP-PBR-2.

b. As stated in Section 2.4, of Exhibit CLP-PBR 2, "the 20-year study period overcomes the high variability of year-on-year trends but is also not so long term as to capture "stale" industry trends that would not likely repeat themselves in the future." Further, as discussed in that section, the "last 20 years reflect the changing business circumstances in the electric distribution industry, which are also going to continue to drive productivity in the next several years." Please also refer to OCC-441[i].

c. Yes. The phrase "2015-2024" in the identified sentence contains a typographical error. The corrected sentence should read: "Based on LEI's Industry TFP Study, the average OM&A PFP growth rate for **2005-2024** is negative 0.03% (or -0.03%), which is the proposed X Factor." No numerical correction to the proposed X Factor is required.

d. A different study period would produce a different measured historical OM&A PFP rate, as shown in Figure 22, of Exhibit CLP-PBR-2. However, LEI would not recommend using a different study period for purposes of setting the X Factor. As discussed in response to part (b) and Section 2.4, of Exhibit CLP-PBR-2, LEI considers the 2005–2024 period appropriate because it is sufficiently long enough to reduce the influence of short-term volatility and one-off events, while remaining recent enough to reflect industry conditions relevant to the prospective PBR term. Accordingly, LEI continues to recommend a -0.03% value for the X factor that would be applied to the OM&A portion of revenue requirement.

e. Please refer to Exhibit CLP-PBR-2a, the native workpapers supporting the Industry TFP Study.

Prior Referenced Response:

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[i] OCC-441 Question:

Exhibit CLP-PBR-1 PBR Testimony Please explain in detail why LEI and the Company rely on the national 2005–2024 OM&A PFP estimate of -0.03% to establish the proposed X Factor rather than the Northeast Region OM&A PFP estimates presented in Exhibit CLP-PBR-2.

a. Exhibit CLP-PBR-2, (page 23), states: "However, if the range of data is too long, the estimated average trend may be irrelevant for the purposes of informing future ratemaking initiatives. The timeframe should ideally incorporate more recent data that captures the latest trends in the industry while eliminating earlier time periods with productivity growth drivers that are no longer relevant." Please explain why the 2005–2024 period is more representative of expected OM&A productivity during the proposed PBMRP term than the more recent periods.

OCC-441 Response:

As described in Section 2.4, of Exhibit CLP-PBR-2, TFP studies for electric distribution utility sector are typically covering a timeframe of the most recent 20 years (subject to data availability) in order to capture a complete spending and investment cycle. The use of a long-term horizon is also important because it allows for averaging and normalization of the productivity trend for outliers that can occur in costs (inputs) or customer trends (output) over shorter periods of time. LEI used comprehensive data spanning 20 years for the bulk of investor-owned utilities operating in the U.S., to perform the productivity study.

In addition to trends in TFP over time, the study yielded partial factor trends for OM&A and capital. LEI concluded that the conditions reflected in the 2005–2024 period—including aging infrastructure replacement, grid

modernization, resilience investment, renewable integration, electrification, and load growth—remain relevant to the prospective PBMRP term. Accordingly, the 20-year period captures recent industry experience while reducing short-term volatility without extending so far back as to incorporate "stale" trends unlikely to recur.

LEI's national sample consists of 88 EDCs representing approximately 90% of customers served by U.S. investor-owned electric utilities (as of 2024). As explained in Exhibit CLP-PBR-1, (page 29), "[f]or an industry TFP to be useful for PBR formula design purposes, it should capture the trends in productivity across all EDCs," rather than the historical productivity experience of a particular utility or a narrower subset of utilities. Exhibit CLP-PBR-2, (page 13), similarly explains that EDCs "can vary widely in size, efficiency, and operational practices" and that a broad sample makes the analysis more representative of the diversity of the EDC industry and supports more reliable conclusions regarding industry trends. LEI evaluated the Northeast Region as a sensitivity to the national Industry TFP Study, which provides useful information regarding whether the estimated productivity trends are sensitive to geographic scope. The national 2005–2024 OM&A PFP estimate of -0.03% indicates a less negative OM&A PFP trend than the directly comparable Northeast region PFP for this same period (estimate of -0.45%).

Date Filed: September 15, 2026

Witness: Julia Frayer
Request from: Office of Consumer Counsel

Question:

Performance Based Ratemaking Panel Exhibit CLP-PBR-1
Please explain why LEI determined that an aggregate chained Fisher Ideal index is the appropriate methodology for estimating the industry OM&A PFP used to establish the Company's X Factor, rather than calculating utility-level OM&A productivity growth and then aggregating those utility-level results. In your response:

a. State whether LEI calculated annual OM&A PFP growth for each of the 88 individual EDCs included in the study and, if so, provide those results;
b. Provide the resulting industry OM&A PFP growth rates for the 2005–2024, 2010–2024, and 2015–2024 periods using
    i. an even-weighted average of utility-level OM&A PFP growth and
    ii. a cost-weighted average of utility-level OM&A PFP growth;
c. Compare results with the aggregate chained Fisher results reported in Exhibit CLP-PBR-2; and
d. Explain why LEI believes the aggregate chained Fisher result is more appropriate for setting the Company's X Factor than either of the alternative utility-level aggregation methods.
e. Please provide all underlying data and calculations in an unlocked Excel workbook with formulas intact.

Response:

LEI determined that the aggregate Fisher Ideal Index provides the most representative measure of industry-wide OM&A productivity growth, rather than aggregating utility-level productivity results (Section 2.3 of Exhibit CLP-PBR-2).

a. No, LEI did not calculate annual OM&A PFP growth rates for each of the 88 individual EDCs included in the Industry TFP Study. LEI's Industry TFP Study was designed to estimate the OM&A productivity trend for the U.S. electric distribution industry based on the aggregate of the 88 EDCs in the national sample. Accordingly, and consistent with the mathematical properties of an index-based approach to measuring industry productivity trends, LEI identified and estimated the inputs and outputs for each EDC and aggregated those before calculating the trend in partial factor productivity for OM&A over time.

b. LEI did not calculate industry OM&A PFP growth as an average of utility-level OM&A PFP growth rates. In addition, OCC's references to an "even-weighted average" and a

"cost-weighted average," which are undefined calculations, in terms of the basis and timing of any proposed cost weights and other parameters. Accordingly, LEI cannot identify or provide the specific alternative calculations requested. As explained in subpart(a), LEI instead calculated industry OM&A PFP using aggregate industry inputs and outputs.

c. LEI did not perform the alternative utility-level aggregation calculations referenced in subpart (b). Moreover, because the proposed "even-weighted" and "cost-weighted" methodologies are undefined, LEI cannot calculate the requested alternatives.

d. The chained Fisher index is the index-number methodology, as described in Section 2.3 of Exhibit CLP-PBR-2. This request therefore appears to conflate the choice of index with the aggregation approach used to derive an industry metric, which are separate elements. LEI's objective was to perform an industry TFP study; thus, LEI chose an approach for aggregation that would most closely reflect the natural composition of the U.S. EDC industry. The alternative approaches – such as using weighting schemes – as suggested in the question - would create distortions away from the natural composition and therefore LEI did not use such an approach for aggregating to industry.

e. LEI did not perform the alternative utility-level calculations requested in subparts (b) and (c) and no such workpapers exist. The native workpapers supporting LEI's actual Industry TFP calculation are provided in Exhibit CLP-PBR-2a.

Date Filed: September 15, 2026

Witness: Julia Frayer
Request from: Office of Consumer Counsel

Question:

Performance Based Ratemaking Panel Exhibit CLP-PBR-1
Please explain in detail how differences in utility size affect each EDC′s influence on the aggregate chained Fisher OM&A input index and OM&A PFP result reported in Exhibit CLP-PBR-2. In your response:

a. Describe how each EDC′s OM&A input price, OM&A input quantity, and relative expenditure or value share enter the Laspeyres, Paasche, and Fisher Ideal index calculations;
b. Explain whether, and to what extent, larger EDCs have greater influence on the resulting industry OM&A PFP than smaller EDCs and EDCs that have similar size to the Company have greater influence on the resulting industry OM&A PFP than other EDCs
c. Provide, for each EDC and year, the data necessary to identify its relative contribution to the aggregate OM&A input index and customer output index; and
d. Explain how LEI evaluated whether the resulting weighting is representative of the productivity trend relevant to the Company.

Response:

Utility size does not enter the aggregate chained Fisher Ideal index through an explicit utility-level weighting scheme. Rather, EDC-level real OM&A quantities and customer counts are aggregated to form the industry OM&A input and output quantities before the industry indexes are calculated. Accordingly, an EDC′s influence arises from its contribution to those industry aggregates, rather than from a separately assigned, size-based weight.

This aggregation approach is consistent with the productivity literature and electricity-sector TFP studies. For example, Quantonomics, in its TFP analysis prepared for the Australian Energy Regulator, applies its TFP index to the aggregated annual time-series data for the electricity distribution industry as a whole[1]. Von Brasch and Raknerud similarly explain that firm-level

[1] Quantonomics, "Economic Benchmarking Results for the Australian Energy Regulator's 2024 DNSP Annual Benchmarking Report," October 2024, Appendix A, Section A1.1. < https://www.aer.gov.au/system/files/2024-11/Quantonomics%20-%20Benchmarking%20results%20for%20the%20AER%20-%20distribution%20-%20October%202024_1.pdf>

outputs can be aggregated into an industry-level composite and that the same principle applies to inputs[2].

The use of the Fisher Ideal index and a chained formulation is also consistent with standard index-number theory. The Bureau of Economic Analysis ("BEA") defines the Fisher index as the geometric mean of the corresponding Laspeyres and Paasche indexes and explains that its chain-type indexes use information from adjacent periods rather than fixed weights[3]. Diewert also provides the theoretical basis for using Fisher Ideal indexes to measure changes in aggregate inputs and outputs and discusses the desirable aggregation properties of superlative and chained indexes[4].

a. Laspeyres, Paasche, and Fisher Ideal are standard index-number methods used to measure changes over time in the quantity or price of a group of inputs or outputs. Laspeyres uses prior-period prices as weights, Paasche uses current-period prices as weights, and the Fisher Ideal index combines the two measures by taking their geometric mean. As discussed in Section 2.3 of Exhibit CLP-PBR-2, LEI selected the Fisher Ideal index because of its desirable index-number properties and used a chained formulation in which each year is compared with the immediately preceding year.

   For each EDC and year, LEI divides nominal OM&A expense by the EDC-specific OM&A input price index to derive the EDC's real OM&A input quantity. As described in Section 3.2 of Exhibit CLP-PBR-2, the EDC-specific OM&A price index reflects the utility's individual labor and non-labor cost shares. The resulting real OM&A quantities are then summed across EDCs to derive the aggregate industry OM&A input quantity.

   Once the EDC-level quantities are aggregated, OM&A is treated as a single industry input. LEI calculates the Laspeyres and Paasche measures of the year-over-year change in aggregate OM&A input quantity and takes their geometric mean to derive the Fisher Ideal OM&A input index. LEI then uses the Fisher Ideal OM&A input index, together with the Fisher Ideal output index, to calculate OM&A PFP, which measures the change in output relative to the change in OM&A inputs.

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2 Thomas von Brasch and Arvid Raknerud, "The Impact of New Varieties on Aggregate Productivity Growth," Scandinavian Journal of Economics, Vol. 124, No. 3 (2022), pp. 646–676. < https://onlinelibrary.wiley.com/doi/full/10.1111/sjoe.12464>

3 Bureau of Economic Analysis, "Fisher Index,"< https://www.bea.gov/help/glossary/fisher-index; Bureau of Economic Analysis>, "Chain-type Indexes," <https://www.bea.gov/help/glossary/chain-type-indexes>

4 W. Erwin Diewert, "Fisher Ideal Output, Input and Productivity Indexes Revisited," Journal of Productivity Analysis, Vol. 3, No. 3 (1992), pp. 211–248, <https://link.springer.com/article/10.1007/BF00158354>.

An EDC's OM&A input price affects the calculation by determining its real OM&A quantity, and that quantity contributes directly to aggregate industry OM&A. There is no separate EDC-level expenditure or value-share weight in the Fisher calculation.

b. For the OM&A input measure, EDCs with larger real OM&A quantities generally have greater influence because they account for a larger share of aggregate industry OM&A. This influence arises naturally from the aggregation of the underlying EDC data rather than from weights separately assigned by LEI. Customer output is calculated separately by aggregating customer counts. EDCs that are similar in size to CL&P do not receive greater weight merely because of that similarity.

c. Exhibit CLP-PBR-2A provides the underlying EDC-level data used to construct the aggregate industry amounts. In the "TFP_Data" tab, columns AD, AH, AI, and AQ provide, for each EDC and year, the nominal OM&A expense, EDC-specific OM&A price index, real OM&A input quantity, and number of customers used in the analysis, respectively. The corresponding year and EDC are provided in columns AA–AB for OM&A, and AN–AO for customer data.

   LEI did not calculate a separate EDC-specific contribution or weight. Rather, real OM&A quantities and customer counts are aggregated across EDCs by year before the industry indexes are calculated. These annual aggregates are shown in the "TFP_Calc" tab in cells D15:D34 for real OM&A and F15:F34 for customers. The resulting chained Fisher OM&A input and customer output indexes are shown in columns AT and BB, respectively.

d. LEI did not separately evaluate whether a size-based weighting was representative because no such weighting was applied. The purpose of the Industry TFP Study is to measure the productivity trend of the electric distribution industry, rather than the productivity trend of utilities that are similar in size to CL&P.

   This approach is consistent with the economic theory underlying I-X regulation. As Bernstein and Sappington explain, "Price cap regulation is intended to replicate the discipline of competitive market force"[5]. Consistent with this principle, the productivity benchmark is intended to reflect external industry performance rather than be tailored to the regulated utility based on characteristics such as its size. LEI therefore did not treat similarity in size to CL&P as a basis for assigning greater influence to particular EDCs.

[5] Jeffrey I. Bernstein and David E.M. Sappington, "How to Determine the X in RPI-X Regulation: A User's Guide," Telecommunications Policy, Vol. 24, No. 1 (2000), pp. 63–68. < https://www.sciencedirect.com/science/article/abs/pii/S0308596199000671>

Date Filed: September 15, 2026

Witness: Julia Frayer
Request from: Office of Consumer Counsel

Question:

Performance Based Ratemaking Panel Exhibit CLP-PBR-1
Please explain why LEI determined that GDP-FSDP is an appropriate price measure for the entirety of the non-labor component of OM&A expense. In your response:

a. Identify the principal categories of expense included in the non-labor OM&A component and quantify the share attributable to outside services, contractors, and other labor-intensive purchased services, to the extent available;

b.Explain how LEI's methodology accounts for the labor component embedded in outsourced or contracted services that are classified as non-labor OM&A expense;

c.State whether LEI evaluated alternative materials-and-services or non-labor price indices, including any measure designed to reflect the labor intensity of purchased services, and provide the results of any such analysis; and

d. Provide a sensitivity analysis showing the effect on industry OM&A input growth, OM&A PFP, and the proposed X Factor of using any alternative non-labor input-price measure considered by LEI.

Response:

LEI selected Gross Domestic Product- Final Sales to Domestic Purchasers ("GDP-FSDP") as a broad proxy for price changes in the aggregate non-labor component of OM&A. GDP-FSDP is related to the more commonly referenced Gross Domestic Product Implicit Price Index ("GDP-IPI"). Both are broad BEA price measures, but GDP-FSDP measures prices associated with final purchases by domestic purchasers, whereas GDP-IPI measures prices associated with goods and services produced domestically.

As explained in Section 3.2 of Exhibit CLP-PBR-2, because electric distribution utilities procure both domestically produced and imported materials, equipment, and services to support their operations, GDP-FSDP provides a more representative measure of inflation in utility input purchases than GDP-based measures focused on domestic production.

a. As discussed in Section 3.2, page 27 of Exhibit CLP-PBR-2, the OM&A inputs included in LEI's Industry TFP Study reflect non-capital expenses associated with the (i) distribution, (ii) customer accounts, (iii) customer service, (iv) sales, and (v) allocated administrative and general ("A&G") functions reported in FERC Form 1.

FERC Form 1 data is not reported in such a way as to provide the share attributable to outside services, contractors, and other labor-intensive purchased services.

Under FERC's Uniform System of Accounts, Account 923, "Outside Services Employed," applies to general outside services that are not attributable to a particular operating function or other account; contracted services associated with a specific function may therefore be recorded in the applicable functional expense account.[1] In addition, the standardized FERC Form 1 data used in LEI's Industry TFP Study do not separately identify the portion of payments to outside service providers attributable to the contractor's labor as distinguished from other components of the purchased service. FERC Form 1 separately reports utility salaries and wages by functional category, while payments for outside services are reported as expenses without a corresponding breakdown of the service provider's underlying labor and non-labor costs.[2][2] LEI therefore did not quantify the share of modeled non-labor OM&A attributable specifically to labor embedded in outsourced or contracted services.

b. LEI's methodology does not separately reclassify the labor embedded in purchased or contracted services. Please refer to subpart (a), above. FERC Form 1 separately identifies the utility's own salaries and wages, which LEI uses as the measured labor component.

c. LEI did not perform a quantitative evaluation of an alternative materials-and-services index, or of a special index designed to reflect the labor intensity of purchased services, for the non-labor OM&A component.

d. LEI did not perform the requested alternative non-labor input-price sensitivity and therefore has no existing results showing the effect on OM&A input growth, OM&A PFP, or the proposed X Factor.

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1 18 C.F.R. Part 101, Uniform System of Accounts, Account 923, "Outside Services Employed"; FERC Form No. 1, Electric Customer Accounts, Service, Sales, Administrative and General Expenses, p. 325.

2 FERC Form No. 1, p. 354, "Distribution of Salaries and Wages"; 18 C.F.R. Part 101, Uniform System of Accounts, Account 923, "Outside Services Employed.

Date Filed: September 15, 2026

Witness: Julia Frayer
Request from: Office of Consumer Counsel

Question:

Performance Based Ratemaking Panel Exhibit CLP-PBR-1
Please provide a sensitivity analysis showing the effect of unusually volatile pandemic-period observations on LEI's reported 2005–2024 average OM&A PFP growth rate of -0.03%. At a minimum, please provide:

a. The average OM&A PFP growth rate excluding the 2019–2020 observation;
b. The average OM&A PFP growth rate excluding both the 2019–2020 and 2020–2021 observations;
c. The median annual OM&A PFP growth rate over the 2005–2024 study period; and
d. An explanation of whether LEI performed any outlier, structural-break, or other sensitivity analysis to determine whether the long-run OM&A PFP result is representative of expected productivity during the Company's proposed PBMRP term.

Response:

a. Please refer to OCC-445[i]. As mentioned, "LEI does not consider excluding the 2019–2020 observation to be an appropriate sensitivity for purposes of estimating the industry OM&A PFP trend. The purpose of the TFP/PFP study is to measure industry productivity performance over time".

b. Please refer to the response to subpart (a).

c. The median annual OM&A PFP observation over the time horizon of 2005 to 2024 is approximately 0.02%. Please refer to Exhibit CLP-PBR-2A, TFP_Calc tab, cells BN16:BN34.

d. LEI did not perform a formal structural-break or outlier test for the TFP study. As explained in OCC-445 and OCC-446[ii], LEI does not consider selective exclusion of individual observations as an appropriate basis for estimating the long-run industry productivity trend.

Prior Referenced Responses:

[i] OCC-445 Question:

Exhibit CLP-PBR-1 PBR Testimony Please provide a sensitivity analysis showing the US industry OM&A PFP over the 2005–2024 study period excluding the 2019–2020 observation. Please provide the resulting average annual OM&A PFP and corresponding X Factor.

OCC-445 Response:

LEI does not consider excluding the 2019–2020 observation to be an appropriate sensitivity for purposes of estimating the industry OM&A PFP trend. The purpose of the TFP/PFP study is to measure industry productivity performance over time. As explained in Exhibit CLP-PBR-2, productivity trends are inherently long term and the use of 20 years of data is intended specifically to reduce the influence of unusual individual years, numerical outliers and one-time events.

Selectively excluding particular years, as suggested by this request, would undermine the objective of this analysis and could introduce selection bias. Industry productivity is affected over time by a variety of unusual conditions such as economic cycles and there is no objective basis for excluding one particular period while retaining other years that may also reflect unusual circumstances. A consistently defined study period allows both favorable and unfavorable annual observations to contribute to the measured long-run trend.

As discussed in Exhibit CLP-PBR-2, the 20-year period was selected to reduce the effects of year-to-year variability while remaining sufficiently recent to reflect industry conditions relevant to the prospective PBR period.

[ii] OCC-446 Question:

Exhibit CLP-PBR-1 PBR Testimony Please explain the extent to which the 2019–2020 observation affected the magnitude and direction of the 2005–2024 average OM&A PFP. Did LEI evaluate whether productivity changes during the COVID-19 pandemic period is representative of the productivity trends that may reasonably be expected during the proposed PBMRP term? If yes,

a. Please provide all underlying data and calculations in an unlocked Excel workbook with formulas intact.

OCC-446 Response:

Please refer to response OCC-445i, which explains why LEI does not consider the selective exclusion of the 2019–2020 observation as an appropriate or relevant analysis.

LEI did not evaluate any adjustments to the cost or customer count data during the COVID-19 pandemic period.

In LEI's professional opinion, and consistent with the theoretical foundation of TFP analysis, the annual productivity changes observed in 2019–2020, viewed in isolation, is not representative of productivity that could be expected during the proposed PBMRP term. However, it is equally invalid to remove those years from the sample as discussed in response to OCC-445.

Date Filed: September 15, 2026

Witness: Douglas P. Horton, Julia Frayer, Matthew Nelson and Michael Goldman
Request from: Office of Consumer Counsel

Question:

Performance Based Ratemaking Panel Exhibit CLP-PBR-1
Please explain the relationship, under the Company's proposed framework, between a utility's relative cost efficiency and the appropriate level of the Consumer Dividend.

a. Specifically, all else equal, would a utility whose OM&A costs are materially above its peer benchmark warrant a higher, lower, or unchanged Consumer Dividend relative to a utility whose OM&A costs are below its benchmark?

b. Please explain the economic rationale for the Company's answer and how that rationale was applied to the Company's proposal.

Response:

a. All else equal, a utility whose OM&A costs are materially above the benchmark would generally warrant a higher Consumer Dividend than a utility whose costs are below benchmark, because the former has greater potential for catch-up efficiency improvements. As explained in Section 2 of Exhibit CLP-PBR-3 and illustrated in Figure 4, a relatively less efficient utility may have greater opportunities to "catch up" to the industry's efficiency trajectory by adopting technologies or practices already implemented by more efficient peers. The Consumer Dividend reflects the potential for such improvements beyond the industry productivity trend.

   However, the "benchmark gap" or the percentage difference between CL&P's actual costs and the applicable benchmark cost, does not mechanically determine the annual Consumer Dividend. As explained in Section 5 of Exhibit CLP-PBR-3, benchmarking identifies relative cost performance and potential opportunities for improvement; it does not establish the annual rate at which those improvements can reasonably be achieved or that the entire gap can be eliminated within a single PBR term.

   For CL&P, the above-benchmark OM&A results support a modest Consumer Dividend in its OM&A-only revenue adjustment mechanism, as discussed in Exhibit CLP-PBR-3. In determining the appropriate magnitude, LEI also considered CL&P's favorable overall cost performance and relevant regulatory precedents. Please refer also to the Company's responses to OCC-431[i] and OCC-443[ii].

b. The economic rationale for this response is that benchmarking identifies relative cost performance and potential opportunities for improvement, but the actual Consumer Dividend earned is based on measured results. The Company applied this rationale in two steps, because the proposed Consumer Dividend is not a fixed number. The Company's relative cost position determined where the dividend starts, as described in part (a) and in the Company's responses to OCC-431 and OCC-443. The Company's actual performance as part of a performance-based rate determines whether it increases or stays at the floor.

   The dividend begins at 0.30 percent and moves each year based on measured results: up 0.10 percentage points in a year when the Company's Core Operating Expense per customer is below the inflation-adjusted benchmark, down 0.05 percentage points when it is not, and never below the 0.30 percent floor. The steps are deliberately asymmetric in customers' favor: the dividend rises twice as fast on demonstrated efficiency as it declines otherwise, and it can never fall below its starting level. The level customers receive therefore reflects how the Company actually performs, not a one-time judgment made before the period begins. An illustration of the mechanism's operation is provided in the Company's response to OCC-423[iii], and a historical illustration in the Company's response to OCC-432[iv].

The efficiency incentive in the Revenue Cap Formula is the I minus X structure, combined with the power of the stay-out requirement. The Consumer Dividend supplements that structure and is deliberately sized small enough to preserve the incentive that produces the gains to be shared. The design shares efficiency -- as it is demonstrated -- rather than assuming it in advance. If the Company outperforms the benchmark, the dividend rises automatically during the term, up to the top of the approved range; if it does not, customers keep the guaranteed minimum every year. Because the rate at which efficiency gains can be sustainably achieved cannot responsibly be set in advance (please refer to OCC-443, parts (d) and (e)), the mechanism determines it from actual results, and an efficiently operating company returns more to customers than a fixed value would, both during the term and through the full rebasing of its relatively lower cost level at the next rate case. The design protects customers on the downside, and any reduction in Core Operating Expense per customer that improved near-term earnings would register against the benchmark and increase the dividend, converting that reduction into an automatic, growing customer credit.

Prior Referenced Responses:

[i] OCC-431 Question:

Exhibit CLP-ELP-1 Please explain in detail how the Company determined that a minimum of 30 basis points for the S Factor (Customer Dividend) is appropriate, including all analyses, assumptions, benchmarks, or other considerations relied upon in selecting 30 basis points. Please identify and compare the stretch factors adopted in other jurisdictions

that the Company considered in developing its proposed 30-basis-point minimum, including the jurisdiction, utility, applicable percentage or basis-point adjustment, and date and docket of adoption.

OCC-431 Response:

Please refer to Exhibit CLP-PBR-3, particularly Section 5, at pages 36-37, Figure 16 at page 38, and page 58, of Exhibit CLP-PBR 1. As discussed there, LEI concluded that the proposed 0.30% Consumer Dividend is reasonable in light of CL&P's benchmarking results. Moreover, LEI reviewed the other jurisdictions in Figure 16 of Exhibit CLP-PBR-3, as a reasonableness check and CL&P's proposed 0.30% falls within the range of Consumer Dividends or stretch factors adopted in other North American PBR frameworks.

[ii] OCC-443 Question:

Exhibit CLP-PBR-1 PBR Testimony Please explain quantitatively how LEI's benchmarking results support a 0.30% Consumer Dividend. Please explain how the Company's proposed 0.30% Consumer Dividend was derived from or otherwise informed by:

a. The Company's 22.9% average OM&A cost gap under the unit cost benchmarking analysis;
b. The Company's 11.9% average OM&A cost gap under the 2015–2024 econometric benchmarking analysis; and
c. The Company's 16.4% average OM&A cost gap under the 2021–2024 econometric benchmarking analysis.
d. Please provide any calculations, assumptions, analyses, or methodologies used to translate the identified efficiency gap into an annual achievable improvement.
e. Please explain why the widening gap does not support a Consumer Dividend greater than 0.30%, and provide all analyses relied upon in reaching that conclusion.

OCC-443 Response:

LEI did not derive the proposed 0.30% Consumer Dividend by applying a mathematical formula to any of the benchmarking gaps identified in parts (a) through (c). LEI's quantitative analysis was focused on the benchmarking itself. As explained in Exhibit CLP-PBR-3, LEI performed a unit cost analysis followed by an econometric analysis of the Company and the other 88 peers nationally. The benchmarking results measure CL&P's relative cost position compared with the average of all utilities (for the unit cost benchmarking) or a model-predicted benchmark for the Company's costs (for the econometrics benchmarking). A benchmarking study will report out relative efficiency, but it cannot measure the amount of cost reduction that can reasonably and sustainably be achieved in any particular year of the PBMRP, as explained in Exhibit CLP-PBR-1. Therefore, LEI examined what other jurisdictions have approved for stretch factor/consumer dividend, especially when the target utility is an average performer like CL&P. Please see Section 5 of Exhibit CLP-PBR-3.

The 22.9% result represents the average amount by which CL&P's OM&A cost per customer exceeded that of the national industry average under the unit cost benchmarking analysis. As LEI explains in Section 1.1 of Exhibit CLP-PBR-3, the unit cost analysis is an initial step in benchmarking analysis. Unit cost benchmarking does not control for differences in operating conditions and important business factors among utilities that will impact costs, such as the scale of business, the network composition, local costs of labor, etc. For that reason, the unit cost benchmarking results are not directly informative of a stretch factor for a utility, especially if the data allows for more rigorous econometric analysis.

The 11.9% result provides a more refined measure of CL&P's relative OM&A cost performance. Indeed, the econometric analysis takes account of such factors such as input prices, scale, and network characteristics. As the 11.9% remains a measure of the level of CL&P's costs relative to the model-predicted benchmark over the historical

period (2015-2024), it does not provide guidance on future efficiency gains and must be interpreted cautiously. In addition, LEI considered the broader peer distribution in looking at the OM&A benchmarking results. CL&P ranked 54th out of 88 utilities based on its average result over the 10-year period, placing it within the broad middle of the group. Accordingly, its above-benchmark OM&A costs represent an area for potential improvement, but are not an unusually large or extreme result relative to its peers. Those observations support a positive but modest Consumer Dividend, which based on LEI's collation of data from other jurisdictions, would be 0.30% as discussed in Section 5 of Exhibit CLP-PBR-3.

The 16.4% result comes from the econometric analysis of CL&P's OM&A costs against model-predicted benchmark, but for a much shorter period (2021-2024). Importantly, the recent-period results continue to show favorable overall cost performance: capital costs averaged 16.5% below benchmark (see Figure 15 in Exhibit CLP-PBR-3) and total costs averaged 3.1% below benchmark. As discussed in the Company's testimony, recent O&M cost pressures may include labor and vegetation management, as well as storm-related expenditures. Nevertheless, these provide context for the more recent period but do not establish the extent to which any individual cost category contributed to the 16.4% econometric benchmarking result or whether the same conditions will persist during the PBMRP term. Thus, the 16.4% OM&A result implies that additional operating-efficiency opportunities may exist, but does not give us any direct indication for how to size the Consumer Dividend.

LEI did not perform a calculation that converts the 22.9%, 11.9%, or 16.4% benchmarking differences into an annual achievable productivity improvement, and therefore there are no such calculations to provide. Such a calculation would not be methodologically appropriate because the benchmarking analysis looks at various measures of productivity at a given point of time, and does not say anything about the prospective rate at which cost differences can reasonably and sustainably be eliminated over the next few years. LEI used the benchmarking results as empirical evidence of relative efficiency and confirmation that there is some room for improvement. LEI then considered regulatory precedent for Consumer Dividends and stretch factors, which suggested that regulators have used values ranging from 0.15% to 0.60% for other EDCs, with lower values for those that are more efficient and higher values for those that are very inefficient. LEI then finds the value of 0.30% as a reasonable starting point for the Company's proposed Consumer Dividend.

Two further points place the proposed 0.30 percent in context. First, as shown in Figure 16 of Exhibit CLP-PBR-3, the Consumer Dividends and stretch factors approved in other jurisdictions range from 0.15 percent to 0.60 percent. The Massachusetts consumer dividends in Figure 16 are also conditional on inflation: those mechanisms pay 0.25 to 0.40 percent only when inflation exceeds two percent, reduced amounts at lower inflation, and nothing in low-inflation years. The Company's proposed 0.30 percent applies in all inflation conditions, so the guaranteed minimum benefit to customers is at or above the effective minimum of every mechanism in the comparison.

Second, the comparison is most direct when each mechanism is measured against the base to which it applies. The Company's S-Factor applies to the Core Operating Expense revenue requirement only, because capital is recovered through the separate Capital Funding Mechanism (Exhibit CLP-IAP-1 at 73). The most directly similar plans — an apples-to-apples comparison — are those in which regulators approved an OM&A-only revenue cap: National Grid in Massachusetts, with a 0.40 percent consumer dividend payable only when inflation is at least two percent, and FortisBC in British Columbia, with a 0.25 percent stretch factor (Exhibit CLP-PBR-1 at 47; Exhibit CLP-PBR-3, Figure 16).

Finally, the proposed design bounds its own ceiling. Because the S-Factor begins the first rate year at 0.30 percent and each year's result adjusts the level applied in the following rate year, the level can adjust no more than three times over the four-year term, and the highest level the mechanism can reach is 0.60 percent.
The illustrative calculation of how the Consumer Dividend operates over the PBMRP term is provided in OCC-432, Attachment 1.

[e] Q: *Please explain why the widening gap does not support a Consumer Dividend greater than 0.30%, and provide all analyses relied upon in reaching that conclusion.*

As discussed above in a – d, a benchmarking difference represents a measure of relative cost performance and should not be translated directly into an annual Consumer Dividend.

Finally, 0.30% is the floor, not the ceiling, under CL&P's proposed mechanism. As explained in Exhibit CLP-PBR-1 at page 64, the Consumer Dividend can increase during the PBMRP term if the Company outperforms the applicable controllable O&M benchmark. Thus, the proposed design provides customers with additional benefits if CL&P achieves greater operating efficiencies than assumed in establishing the initial Consumer Dividend.

The Consumer Dividend is an affordability mechanism. As such, it must be evaluated for both providing a benefit to customers, as well as for sustainability. A dividend set too low forgoes customer benefit, while a dividend set beyond sustainably achievable efficiency would function as a rate reduction unsupported by actual cost performance. The proposed design addresses the scale question through movement rather than starting magnitude. The level begins at 0.30 percent, can never fall below that level or become a surcharge (Exhibit CLP-PBR-1 at 64), rises automatically as the Company demonstrates efficiency, and is applied against the Company's O&M revenue requirement under the PBMRP. Unlike an earning sharing mechanism, which provides customer benefits only when earnings exceed the allowed return on equity, this mechanism will share the costs the Company controls, even when under its allowed rate of return. The consumer dividend design provides customers with efficiency gains during the plan term without waiting for the next rate case, and at the next rate case all achieved efficiencies are reflected in rebased rates in full.

[iii] OCC-423 Question:

Exhibit CLP-ELP-1 Please explain in detail why the Company believes its proposed treatment of capital expenditures under the PBMRP, including the use of forecasted capital expenditures and the F-Factor, is preferable to including capital expenditures within the Revenue Cap Formula framework as proposed in the Docket No. 21-05-15RE01 Proposed Final Decision. In your response,

a. Please explain why the Company believes O&M expenses are appropriately subject to an externally indexed revenue cap, while capital expenditures require separate recovery through an F-Factor based on a fixed annual capital investment forecast.
b. Please explain how the Company's proposed treatment of capital expenditures is expected to produce customer cost savings or otherwise improve customer affordability relative to including capital expenditures within a revenue cap formula.
c. Please explain how the proposed F-Factor mitigates or avoids any incentive to favor capital expenditures over O&M solutions, including in circumstances where either a capital or O&M solution could be used to address the same system need.

OCC-423 Response:

The Company appreciates OCC's thoughtful and analytical questions on the Company's proposed performance based multi-year rate plan ("PBMRP") and looks forward to further discussion on the development of a workable PBR framework for the Company's customers.

To cover the issues raised in the question, the Company's response is organized as follows:

1. Review of relevant aspects of the Company's PBMRP.
2. Considerations on the design of capital-driven revenue support.

3. Specific responses to parts (a), (b) and (c), above.

1. Review of the Relevant Aspects of the Company's PBMRP

Ultimately, the Company's goal in this proceeding is to establish a sustainable, cohesive ratemaking framework that advances electric utility service in the State of Connecticut in an affordable manner for customers, over a long term. This is the Company's goal because the CL&P system needs investment for reliability, resiliency and modernization. For this investment to be affordable for customers, a coherent ratemaking plan needs to be instituted that will consider the interests of customers over a longer term than just the next rate case. That framework needs to balance: (1) the reliability and performance requirements of the Company's customers and the broader State of Connecticut; (2) customer rate stability and affordability; (3) incentives for cost efficiency in utility operations; and (4) implementation of a revenue support mechanism sufficient to cover the cost of delivering these objectives to customers.

The Company's PBMRP is designed to address these objectives in a holistic, balanced way. To do this, the Company started with the ratemaking framework under discussion in PURA's PBR docket (Docket No. 21-05-15RE01), while also introducing certain new elements to remediate the flaws that would ultimately hinder PURA's (draft) PBR model from supporting the necessary stay-out terms.

For any multi-year rate plan to be successful, it needs to be grounded in the reality of the utility's costs, while also incorporating features that innately push the utility to be more efficient. That is not to say every dollar of the utility's costs will be (or should be) recovered. Rather, the allowed revenues need to be sufficient to afford the utility a reasonable opportunity to cover its cost of service to customers, including a reasonable rate of return on equity ("ROE") where the utility is operating prudently and efficiently, as required by state law. A framework in which the utility has *no* reasonable opportunity to earn its ROE, regardless of how hard it strives for efficiency, simply becomes self-defeating because the utility will exercise its statutory rights to a distribution rate proceeding, thereby muting the most powerful efficiency feature of a multi-year rate plan, which is the stay-out term.

A framework that underestimates the actual cost to run the system and/or affords the utility no reasonable chance to earn its allowed ROE, year after year, also results in under-investment and a system that not only lacks innovation, but falls further and further behind at a significant – albeit potentially unseen – cost to customers. As a result, a lasting, productive framework is one that is soundly informed by – not detached from – the drivers of the utility's real cost of service, including its cost of capital.

In this context, the two most critical features of the Company's PBMRP are as follows:

- A going-in revenue requirement that reasonably reflects the Company's actual operating expenses and cost of investment in the Rate Year, so that through effective management and prudent decision making, the Company can achieve the true efficiency gains that will be needed to stretch the approved revenue requirement over the stay-out term. Without a reasonable opportunity to maintain financial integrity over a stay-out period, as measured by the authorized ROE, the utility cannot focus on innovation and efficiency gains – and will instead file for the next rate case to make up ground. To accomplish this goal, the overall paradigm must "hang" together, making the base revenue requirement a pivotal element. The many components of a PBR plan, including going-in rates, as well as the subsequent rate adjustments, must work in concert with performance objectives and the capital investment requirements expected of the Company – for the benefit of customers, i.e., the entire framework must work to the benefit of customers, not only in relation to the price they will pay, but also in relation to supporting the level of service that they need and expect.

- Revenue support for incremental capital investment to support long-term system goals. The Company operates in a capital-intensive industry and has a substantial need to acquire cash on a systematic basis to operate its business. As annual capital investments regularly exceed net cash from operations (i.e. cash receipts from customers net of operating cash outflows), the Company must look to other capital sources to fund those investments. Those sources are the debt and equity investors supplying the cash to capital markets. This means the Company must compete with all other entities participating in those markets to attract capital. It is simply not possible for the Company to go to those markets and demand cash for free, or at below-market rates relative to the investor's risk when other entities participating in the same capital markets offer compensation for the use of funds over time.

The Company provided extensive analysis and discussion on the cost of capital throughout Docket No. 21-05-15RE01, including specifically as it relates to CT-Bar. PURA's treatment with respect to going-in revenue requirements as well as any ongoing capital-driven revenue support mechanism, such as CT-Bar, is paramount to whether the Company, with effective management and sound decision-making, can responsibly cede its right to file for a rate amendment, whereas that is otherwise the only tool the utility has to align its revenues and costs and have a reasonable chance at earning its authorized ROE, which, over time, is necessary in order to attract the capital necessary to meet the standards of service expected of the Company's customers.

The lack of a valid revenue requirement component within the CT-Bar that would allow recovery of the cost of capital associated with incremental capital investment over the term of the PBMRP is a non-starter from a policy perspective, creating an obstacle that would block a utility from giving up its right to file for rate modifications over the multi-year period in question. This is particularly accurate in the present environment in which significant increases in the level of necessary system investments are expected (and planned). Simply put, the CT-Bar, as previously envisioned in PURA's draft PBR decision, fully prevented the Company from having any practical chance at staying out of a rate case, and therefore, would never work to create a reasonable PBR framework.

The Company's proposed PBMRP in this docket is designed to track the design of the CT-Bar as closely as possible, given that this was PURA's developing framework. However, the Company's PBMRP addresses the two primary faults in PURA's RE01 framework that would prevent the implementation of a workable PBR framework, which are (1) the deviations from ratemaking fundamentals that grossly understate the "going in" revenue requirement; and (2) modification of the CT-Bar to reflect the revenue requirement applicable to capital investment, which would include recovery of the cost of capital and the cost of removal over the course of the PBMRP term. The Company's F-Factor also corrects for the mechanical error of deducting depreciation expense from new plant additions, rather than from rate base.

In particular, the Company's proposed F-Factor is designed to recover no more than the revenue necessary to support a discrete amount of ongoing system investment, recognizing that the cost of capital is a lawful and factual cost of service that must be incorporated into the revenue requirement calculation for the Company, as it is for any utility.

2. Considerations on the Design of Capital-Driven Revenue Support

CT-Bar, as defined in PURA's Proposed Final Decision, issued in Docket No. 21-05-15RE01, on July 14, 2025 (the "RE01-PFD"), had several sensible qualities that the Company supported. However, those "sensible" qualities were overcome by certain critically flawed concepts that would need to be modified or eliminated in order for the Company to consider committing to a stay-out. The positive and negative CT-Bar qualities are outlined briefly here and discussed in greater detail below, including with respect to similarities or differences to the Company's proposed F-Factor.

Summary of constructive features of PURA's RE01-PFD:
1) Acknowledgement that current revenue support for *ongoing* investment is essential;
2) No category of capital investment was summarily or preemptively excluded from CT-Bar;
3) CT-Bar takes effect with Rate Year 1; and
4) CT-Bar aligns capital revenue support with the capital investments of the DSP.

Summary of unworkable features of PURA's RE01-PFD:
1) Exclusion of the recognition in the CT-Bar of the cost of capital between rate cases.
2) Exclusion of cost of removal in the CT-Bar.
3) Application of depreciation expense as a reduction to plant additions rather than rate base.

Constructive features of PURA's RE01-PFD:

1) **Positive #1: Acknowledgement that current revenue support for *ongoing* investment is essential to the integrity of the PBR framework.**

First, that the CT-Bar even existed in PURA's RE01-PFD is genuine acknowledgement that some form of revenue support for rate year investment is essential to support a PBR framework. As discussed at length in that docket, the Company anticipates significant system investment over the next five years to advance the state's clean energy and reliability goals. Revenue support for *ongoing* system investment is crucial for any multi-year rate plan, whether in the form of the Company's proposed PBMRP, step increases, or any other ratemaking framework. CT-Bar's inclusion in RE01-PFD is a clear indication that incremental revenue support for ongoing system investments is a necessity.

2) **Positive #2: No category of capital investment was summarily or preemptively excluded from CT-Bar.**

Second, the RE01-PFD did not exclude particular categories of capital investment. For example, capital investments in facilities, fleet and information technology are viewed as permissible categories for revenue support in the CT-Bar framework. This is consistent with the Company's proposed F-Factor in this proceeding.

3) **Positive #3: CT-Bar takes effect as of Month 1 of Rate Year 1.**

The Company provided extensive discussion and analysis throughout Docket No. 21-05-15RE01 technical sessions and data responses regarding the "going-in" revenue requirement and the detrimental financial consequences of limiting capital investments to a period of time removed from the rate year. Ignoring for a moment the CT-Bar's deficiencies, having the mechanism take effect Month 1 of Rate Year 1 minimizes or eliminates those detrimental timing consequences, particularly in light of the fact that PURA has in recent years moved away from its prior practice of implementing future-test years in base rate proceedings, instead favoring a strict historical test year practice as it relates to plant additions.

Revenue decoupling is a factor to consider here because the revenue decoupling mechanism ("RDM") subsumes all sales growth to the extent that it is occurring, funneling incremental sales revenues back to customers. RDM is supported by valid policy reasons; however, the fact is that there are capital costs associated with adding new customers. Historically, when consistent and steady levels in the range of ~3$ per year of annual growth in sales and revenues was available to a utility to help offset the cost of incremental capital additions between rate cases, the pressing need for incremental revenue support was mitigated. Without the ability to capture that sales growth, and combined with the absence of an ongoing revenue support mechanism such as an F Factor taking effect on Month 1 of Rate Year 1, the Company would not be in a position to commit to a stay-out of any duration. This is because the Company would never be in a position to cover its cost of service (inclusive of its authorized cost of capital) because its rates would be set on a historical level of plant additions, despite the fact that its capital expenditures are higher

than historical levels of depreciation, and because revenue decoupling ensures that even if load growth exists (and even if such load growth is enabled by the Company's increased level of capital expenditures) the Company is unable to retain additional revenues contributed by new customers, or new load.

4) **Positive #4: CT-Bar was designed to align capital revenue support with the DSP.**

Ignoring its deficiencies, the CT-Bar's connection to the Distribution System Plan ("DSP") constituted an essential link between ongoing system investments necessary to meet the objectives of the DSP with the revenues necessary to support those investments. Throughout Docket No. 21-05-15RE01, the Company advocated strongly for clearly defined linkages across all three tracks (RE01, RE02 and RE03), including proposing what would be the final technical session touching upon revenue requirements, in which those linkages were discussed. The Company's F-Factor is similarly aligned with the capital investment forecast provided in this proceeding for the DSP. The Company's capital investment forecast serves as the basis for a cap on the level of investment for the F-Factor.

Unworkable Features of PURA's RE01-PFD:

1) **Negative #1: No recovery of cost of capital in the revenue requirement for capital investment between rate cases.**

The single-most problematic feature of the CT-Bar was its intentional exclusion of the cost of capital associated with completing capital plant additions to the benefit of customers. Costs of capital are real costs of providing electric distribution service to customers in the State of Connecticut (or anywhere) and are recognized in statute. Although the cost of capital may be a more challenging cost to conceptualize, it is nonetheless as real as vegetation management, insurance, customer service, or any other cost of service. Cash is not free, a fact arising from its scarcity. Fundamentally, capital markets are where people, banks, corporations and other institutions provide their surplus of cash -- which is limited, to those entities that have cash needs -- which are generally unlimited. Consequently, and unsurprisingly, those entities providing the cash for some period of time expect to be compensated for providing it, thus establishing real cost to acquire capital.

The Company, operating in the capital-intensive industry of regulated utilities, is one of those entities that needs to acquire cash to operate its business. As annual capital investments regularly exceed its net cash from operations (i.e. cash from customers), the Company must look to other sources to fund those investments. Those sources are the debt and equity investors supplying the cash to capital markets. This means the Company must compete with ALL other entities participating in those markets. It is simply not possible for the Company to go to those markets and demand cash for free (or for below-market rates, relative to market expectations of risk and reward) when other entities participating in those capital markets offer adequate compensation for the use of funds over time. Therefore, there is a real and tangible cost to acquiring that capital. Please refer to the Company's pre-filed cost of capital testimony for in-depth discussion of the cost of capital.
The Company provided extensive analysis and discussion on the cost of capital throughout Docket No. 21-05-15RE01, including specifically as it relates to CT-Bar. PURA's treatment with respect to going-in revenue requirements as well as any ongoing capital revenue support mechanism, such as CT-Bar, is paramount to whether the Company, with effective management and sound decision-making, has the opportunity, but not a guarantee, to cover its cost of service to customers, and to earn its allowed return. The absence of the cost of capital from the CT-Bar, particularly in the present environment where significant increases in the level of necessary system investments are expected, prevents the Company from having any practical opportunity to commit to a stay-out to avoid the next rate case.

As discussed in the Company's response to OCC-435, based on the Company's current assessment of system investment needs in the near future, the revenue requirement associated exclusively with the cost of capital pertaining to future capital additions (*excluding* GET and Uncollectible) would amount to an incremental $15.6 million for Rate

Year 1; an incremental $32.8 million for Rate Year 2; an incremental $36.4 million for Rate Year 3; and an incremental $39.5 million for Rate Year 4, or $124.1 million in total.

This means that -- even if 100% of those future plant additions were only partially supported with CT-Bar revenues (i.e. revenue covering depreciation expense and property taxes only); and even if the Company's future cost of service otherwise was 100% supported with rates; and even with perfect operational decision making -- the Company would still need to find $124.1 million of *annual* savings by Rate Year 4 in order to offset the loss of revenue associated with carrying costs on incremental investment over the term of the PBMRP, which would be necessary to commit to a stay-out term.

For perspective, the total O&M expense included in the Company's cost of service filed in this proceeding is $547.5 million. Thus, to earn its authorized ROE, all else equal, the Company would have to generate cost savings amounting to $124.1 million, or nearly 23%, of its Rate Year O&M level by Year 4, to offset the impact of the accumulating carrying costs on the incremental capital additions completed on the system *after* base rates are set in this case. This is nearly 34% of operating expense, excluding vegetation management and storm restoration costs, which is a very substantial proportion of the cost of service.

For example, the amount of $124M is nearly two-thirds of the Company's labor and labor-related operating expense, or 60% more than the entire vegetation management program. It simply is not possible for the Company to cut this level of O&M expense without grossly debilitating the Company's ability to provide service to customers. In fact, it is not plausible to expect that the Company could generate even 10% in annual incremental O&M savings in the face of 2-3% annual inflation and, as a result, the Company could not agree to a stay out under circumstances where there is no recovery of the cost of capital on incremental investment over the PBMRP term.

Moreover, even if the Company were somehow able to find such remarkable cost savings, the going-in revenue requirement of the subsequent multi-year rate plan would capture those cost savings. Assuming continuation of the same PBR framework and required system investment, the Company would again be in the position of having to find *an additional* 34% of O&M savings (i.e. more than 60% cumulatively from Rate Year 1) in order to sustain itself over the next PBR term. Clearly, a framework that does not provide revenue supporting the full cost of incremental investment over a four-year period, as well as the next four-year period, is not a plausible or lasting framework. Thus, exclusion of the cost of capital from a capital support mechanism in an environment in which significant increases in capital investments are expected all but ensures the Company has no realistic opportunity to survive the PBR term without a critical need for a rate case to realign costs and rates. Consequently, the overall framework as outlined in the REO1-PFD had no practical chance of sustaining the Company financially for the four-year term, nor would the Company have been able to even agree to a stay-out.

To address this indelible flaw, the Company's proposed PBMRP in this docket is designed to produce the revenue necessary to support ongoing system investment through the F-Factor, which calculates a revenue requirement inclusive of the costs of capital unlike the CT-Bar, while preserving the customer benefits and inherent incentives of a PBR plan.

2) **<u>Negative #2</u>: Exclusion of cost of removal from the revenue requirement on capital investment between rate cases.**

CT-Bar excluded the cost of removal, which is a real cost for all utilities. As a simple example, to install a new utility pole where there is an existing one that needs replacement, the Company must first remove the existing utility pole. That cost is separate and distinct from the cost of the utility pole itself; yet, similarly recovered (as an estimate) over the life a utility pole. The Company's capital investment forecast in the present docket includes approximately $136 million of cost of removal for January 1, 2026 through June 30, 2028, and approximately $60-70 million per year

thereafter. A total of $60-70 million in annual investment equates to pre-tax cost of capital of $6-7 million annual *incremental* revenue requirement (e.g. $6 million year 1, $12 million year 2, $18 million year 3, etc.). The CT-Bar revenue requirement intentionally excluded this component of the capital investment revenue requirement. The Company's proposed F-Factor calculation properly restores this component to the rate base computation.

3) **Negative #3: Depreciation expense is used as a reduction to plant additions rather than to total rate base, consistent with fundamental ratemaking principles.**

CT-Bar's calculation treats depreciation expense as a net against plant additions. Although the Company appreciated that PURA found it important to capture ongoing depreciation expense in the annual revenue requirement calculations, the overall execution of the computation was not correct. The Company's F-Factor corrects for this methodological error. Please refer to the example below outlining the mathematical problem

($ Millions)

1	Correct treatment of depreciation's accumulation in rate base					
2		Rate Base			RevReq	
3		Year 1	Year 2		Year 1	Year 2
4	Plant Additions	$1,000	$1,000			
5	Cumulative Gross Plant	$1,000	$2,000	x 3.6% Depreciation	$36.0	$72.0
6	Accumulated Depreciation	-$300	-$600			
7	Cumulative Rate Base	$700	$1,400	x 9.8% Cost of Capital	$68.6	$137.2
8				Total Revenue Requirement	$104.6	$209.2
9						
10	CT Bar					
11		Rate Base			RevReq	
12		Year 1	Year 2		Year 1	Year 2
13	Plant Additions	$1,000	$1,000			
14	Depreciation Expense	-$300	-$300			
15	Net Plant Additions	$700	$700			
16	Cumulative Depreciable Base	$700	$1,400	x 3.6% Depreciation	$25.2	$50.4
17	Cumulative Rate Base	$700	$1,400	x 9.8% Cost of Capital	$68.6	$137.2
18				Total Revenue Requirement	$93.8	$187.6
18				Error	-$10.8	-$21.6

The table above is a simplified example of CT-Bar's improper incorporation of ongoing depreciation in a revenue-requirement calculation. Effectively, the CT-Bar reduces plant additions by depreciation expense, which improperly reduces the total amount of plant to be depreciated, thereby reducing the incremental depreciation expense to be supported by the rate mechanism. The correct approach is to handle the plant additions separately from accumulated depreciation (see lines 4 and 6 in the table above). Note that both methods result in the same return on rate base, demonstrating that both calculations reflect the reduction to return on rate base resulting from ongoing/accumulating depreciation. The error is limited to the resulting new depreciation expense reflected in the revenue requirement, which is understated in the above example by $10.8 million in Year 1 and $21.6 million in Year 2 under the CT-Bar as compared to the Company's proposal in this proceeding, which mirrors in concept to how the Company records depreciation expense on gross plant additions (not on net plant additions, as in the CT-Bar).

⇒ Characteristics of the Company's Proposed F-Factor (same as CT-Bar, except for three features).

The Company is proposing a capital support mechanism (the "F" factor in the formula) that tracks as close as possible to PURA's CT-Bar, except that it addresses the three major impairments described above, which would prevent the Company from being able to agree to a stay-out. These three items are the exclusion of the cost of capital in the revenue-requirement computation for incremental plant additions, the cost of removal and the mechanical deduction of depreciation expense from plant additions instead of rate base. In the Company's F-Factor, these first two items are included in the formula and the third mechanical process is addressed.

Beyond that, the F Factor would operate from a fixed annual capital investment level for each year of the PBMRP, with reconciliation through PURA's annual RAM proceedings. The fixed annual investment level would be set at the Company's capital forecast, as approved in this proceeding. As described previously, the Company has presented different investment trajectories in the Company's 5-Year TSP and is proposing to establish the capital support mechanism of the PBR adjustment consistent with the annual capital funding requirements presented in Figure 7 of Exhibit CLP-ELP-1.

Consistent with the structure of the CT-Bar in the RE01-PFD, the F-Factor would commence on July 1, 2027, coincident with new base rates, collecting an allowance developed from the Company's capital forecast presented in Exhibit CLP-TSP-3. In this proceeding, the Company has proposed base rates that include capital additions through the Rate Year. This means that the F-Factor implemented on July 1, 2027 (commensurate with new rates in this proceeding) would be set to zero at that time, since base rates would be set to collect the revenue requirement on capital placed into service in the rate year.

However, if PURA declines to incorporate rate-year capital additions into base rates in this proceeding, the F-Factor taking effect on July 1, 2027, would reflect the revenue requirement for the period July 1, 2027 through June 30, 2028 on capital additions placed in service (or estimated to be placed in service) from the point in time where PURA cuts off capital for inclusion in base rates and through June 30, 2028.1 In the next year, as part of the Company's annual RAM compliance filing, actual plant additions placed in service during the applicable plan year would be reconciled against the F-Factor allowance put into rates on July 1, 2027. In that reconciliation, the Company would present its project document for a prudence review and, based on PURA's findings in that prudence review, the cost of actual plant additions for calendar year 2027, less whatever PURA has already included in rates for capital additions in 2027, would be actually incorporated into rate base at that point. Following PURA's determination that the Company's actual plant additions are prudent, used and useful, the Company's rate base would be adjusted and associated revenue requirement allowed for recovery that would be limited to the lesser of:

1. The total revenue requirement for the forecasted capital approved in this proceeding for the first implementation of the F Factor; or
2. The total revenue requirement for the actual plant in service.

If the cost of the Company's actual capital additions were to exceed the forecasted amount approved in this proceeding, the Company would not be permitted to obtain recovery of the incremental investment during the initial four-year PBMRP Term. Instead, any such investment would remain subject to review and consideration in a subsequent base rate proceeding or successor PBMRP Term.

This Company's proposed capital funding mechanism sets a defined cap on capital recovery during the plan term, providing customers with greater rate certainty and placing the risk of excess capital spending requirements on the Company. The annual reconciliation further protects customers by blocking recovery of investments that are delayed, deferred, canceled, or not placed in service, since those costs would not be reflected in the F factor, which is based on plant in service. For these reasons, the proposal aligns cost recovery with prudent investment, promotes accurate capital forecasting, and incentivizes efficient execution of the capital program, all while preventing customer over-collection.

III. Specific Responses to Parts (a), (b) and (c), above.

(a) Why are O&M expenses appropriately subject to an externally indexed revenue cap, while capital expenditures require separate recovery through an F-Factor based on a fixed annual capital investment forecast?

The capital investments the Company must make to provide electric service to customers in the State of Connecticut is a "local" concept. Those investments are driven by the circumstances and objectives of the State of Connecticut and the history and current status of the distribution grid in Connecticut. Those circumstances and objectives, which require long-term system planning and appropriate capital resources, are not encapsulated by a single index. O&M, though it is similarly influenced by local circumstances, does not change at the same rate as capital investment. For example, the Company's annual capital investment is expected to increase nearly 40% from $549 million in 2025 to $758 million by 2028, or more than 11% annually, on average. In contrast, over the same timeframe O&M (excluding storm funding and vegetation management) is projected to increase approximately 3-4% annually. The Company's proposed PBMRP aligns revenues with drivers of cost while maintaining the incentive to control costs.

In addition, under PBR theory, where capital inputs are contemplated in the indexed formula, then the X factor is negative, implying that the annual adjustment is inflation plus an additional factor. The testimony of London Economics in Exhibit CLP-PBR-1 reviews the results of their total factor productivity study producing this result. In this case, the Company elected to adhere as closely as possible to PURA's (draft) CT-Bar in order to remain synched with PURA's policy direction.

(b) How will the Company's proposed treatment of capital expenditures be expected to produce customer cost savings or otherwise improve customer affordability relative to including capital expenditures within a revenue cap formula.

There are three main opportunities for customer benefit in the PBR framework, which are: (1) the opportunity to leverage the stay-out term to drive operational efficiency and cost savings; (2) the opportunity to spread rate changes out over time to smooth impacts for customers and employ the concept of gradualism rather than promoting the cost and inefficiency of a traditional rate-case cycle; and (2) the opportunity to develop a systematic investment plan that promotes operational efficiency and cost-saving procurement strategies, while taking advantage of the smoothing impacts of the PBR framework to mitigate cost impacts.

The Company has submitted substantial testimony and documentation in this proceeding to provide insight into the level of capital investment that is needed on the system to provide adequate service to customers and to support the economic vitality of the State of Connecticut. Customers benefit directly when investment can be undertaken on a planned, systematic and consistent basis over time because (1) it is consistently more expensive to complete infrastructure projects tomorrow rather than today due to price inflation and other factors; and (2) the Company's process inputs (i.e., primarily labor and materials) cost less when procured on a planned and systematic basis rather than on an emergent basis.

Although difficult to define in terms of the overall cost trends, there are significant benefits for customers in an operating approach that is consistent, systematic, planned and carefully managed, which is an outcome that the Company is hoping to promote with its proposals in this proceeding. Bottomline – the Company is looking to establish a ratemaking framework that will promote efficiency of operations for the benefit of customers and the F-Factor is the optimal mechanism for that purpose.

Assuming that OCC's referenced alternative for a capital-cost mechanism "within a revenue cap formula," means that the PBMRP would rely exclusively on an "I-X" revenue cap formula, with or without X defined with a negative factor,

the Company's experience is that it is not adequate to support necessary capital investment, while raising issues for stakeholders. With the negative X factor, there is no direct link between the actual cost of capital plant additions and the revenue collection through customer rates, leaving it to be insufficient to support necessary capital investments and unsatisfactory for stakeholders that want transparency between the costs collected in rates and the rates that customers pay. As a result, achieving the efficiency needed to support a cost-effective capital plan is illusory in this model.

(c) How does the proposed F-Factor mitigate or avoid any incentive to favor capital expenditures over O&M solutions, including in circumstances where either a capital or O&M solution could be used to address the same system need?

In the Company's experience, implementation of the X factor mechanism (with a negative X factor) to cover capital investment was thought to be a mechanism that would promote efficient solutions between capital and O&M because the revenue allowance was not predicated on actual plant additions; rather, was simply formulaic. In 2017, the Massachusetts Department of Public Utilities ("MDPU") approved a negative X factor within a revenue cap for NSTAR Electric Company d/b/a Eversource Energy – and it remained operative for the five-year term of the plan. However, the fact is that – during an extended stay-out period, there is no incentive to incur any greater level of expense than is absolutely necessary to run the business. Therefore, there is no greater impetus than would exist in any event to make the optimal choice between expense and capitalization, where such a choice exists. And again, with the negative X factor, the MDPU felt it had no line of sight as to whether funds allowed to NSTAR Electric through the annual PBR allowance were, indeed, being leveraged for system investment.

Therefore, in 2022, the MDPU instituted the K-Bar providing an allowance for system infrastructure projects, coupled with reporting requirements on investment levels. The MDPU maintained the I-X formula to cover the O&M portion of the approved revenue requirement, which is what the Company is proposing in this case.

In reality, there are very few instances when system needs can be easily transitioned between a capital-work solution or a work solution that can be expense. The prudence review is the primary and most effective tool that regulators possess for evaluating these situations.

[iv] OCC-432 Question:

Exhibit CLP-ELP-1 Please provide a historical calculation of the S-Factor for each of the last 20 years using the methodology proposed by the Company. For each year, provide (a) the Company's Core Operating Expense per customer; (b) the applicable inflation-adjusted benchmark; (c) the percentage by which Core Operating Expense per customer was above or below the benchmark; and (d) the resulting S-Factor that would have applied under the Company's proposed methodology. Please provide all calculations in an unlocked Excel workbook with formulas intact.

OCC-432 Response:

Please refer to OCC-432, Attachment 1. This Attachment provides a historical calculation of the S-Factor for each of the years 2018 through 2025 using the methodology proposed by the Company in this rate case. Any hypothetical calculations going back beyond 2018, the time of the last rate case, would not provide reliable data and would be difficult to create. Financial definitions and systems change over time, as well as base assumptions. The methodology to derive an S factor for O&M needs to be anchored to a rate-case-approved Core Operating Expense level. It can only be built consistently from the current chart of accounts and current tracker structure (i.e., cost categories cannot accurately be compared if cost categories have changed). Since the recovery mechanism and accounting treatment of

various costs changed materially over the prior decade (e.g., storm reserve, vegetation management program), a pre-2018 Core Operating Expense would be based on a different set of assumptions and could not be compared.

The hypothetical calculation assumes two 4-year PBMRP plan terms during the 8-year period. The benchmark for the consumer dividend uses the Company's Core Operating Expense and customer count based on the data from the most recent rate case in Docket No. 17-10-46. The benchmark is then reset in 2022 for the next four years based on actual 2022 data.

In the attached spreadsheet, a floor of 0.30% is set for each PBR term as proposed in the Company's filing.

There are three sheets in the Excel version of OCC-432, Attachment 1, that provide:

- At Page 1, INPUTS: For each year 2018 through 2025: the historical customer count, core operating Expense, and inflation adjustments. In addition, this section provides a list of any other assumptions used.
- At Page 2, O&M TRIGGER: Calculates the applicable inflation-adjusted benchmark, the annual Core Operating Expense per customer for each year 2018 through 2025, and determines whether the Core Operating Expense is above or below the benchmark.
- At Page 3, RACHET ENGINE: Illustrative calculation of the S Factor for each year of the two hypothetical rate plan terms and the $/customer incurred each year.

Date Filed: September 15, 2026

Witness: Julia Frayer
Request from: Office of Consumer Counsel

Question:

Performance Based Ratemaking Panel Exhibit CLP-PBR-1
Please identify which of the 88 EDCs included in LEI's Industry TFP and PFP Study operated under a performance-based regulation (PBR) framework, as opposed to traditional cost-of-service regulation, during the 2005–2024 study period, including the applicable years for each regulatory framework.

Response:

As explained in Exhibit CLP-PBR-1, pages 11–12, and Figure 1, specifically, PBR is best understood as a continuum rather than a single, uniform regulatory regime. PBR mechanisms can range from performance targets and earnings-sharing mechanisms to more comprehensive multi-year price or revenue cap frameworks. Accordingly, PBR and traditional cost-of-service ("COS") regulation are not mutually exclusive, because PBR mechanisms may be incorporated within an otherwise traditional rate-proceeding framework.

Only a few jurisdictions in the U.S. have had a formal PBR framework from 2005-2024. For example, Hawaiian Electric Companies (not included in LEI's Industry TFP Study), NSTAR Electric Company, and Massachusetts Electric Company, have been under a comprehensive index-based price or revenue cap framework in recent years.

Jurisdiction	EDC	Applicable PBR period
Massachusetts	NSTAR Electric Company	2006–2012; 2018–2022; 2023–2024
Massachusetts	Massachusetts Electric Company	Oct. 1, 2019–Dec. 31, 2024 (successive plans)

In addition, LEI identified the following utilities included in the Industry TFP Study as having operated under multi-year regulatory arrangements incorporating PBR components during at least part of the 2005–2024 study period:

Jurisdiction	EDC	Applicable PBR period
New York	Central Hudson Gas & Electric Corporation	July 1, 2021–June 30, 2024
New York	Consolidated Edison Company of New York, Inc.	2017–2019; 2020–2022
New York	New York State Electric & Gas Corporation	Aug. 26, 2010–Dec. 31, 2013; May 1, 2016–Apr. 30, 2019
New York	Rochester Gas and Electric Corporation	Aug. 26, 2010–Dec. 31, 2013; May 1, 2016–Apr. 30, 2019
New York	Orange and Rockland Utilities, Inc.	July 2012–June 2015; 2019–2021
Vermont	Green Mountain Power Corporation	FY2020–FY2022; Oct. 1, 2022–Dec. 31, 2024
Rhode Island	The Narragansett Electric Company	Sept. 1, 2018–Aug. 31, 2021
Connecticut	The United Illuminating Company	2017–2019
North Carolina	Duke Energy Carolinas, LLC (North Carolina operations)	2024 (plan continues through 2026)
North Carolina	Duke Energy Progress, LLC (North Carolina operations)	Oct. 1, 2023–Dec. 31, 2024
Illinois	Ameren Illinois Company	2024 (plan continues through 2027)
Illinois	Commonwealth Edison Company	2024 (plan continues through 2027)
Washington	Avista Corporation (Washington operations)	Dec. 21, 2022–Dec. 20, 2024
Washington	Puget Sound Energy, Inc. (Washington operations)	2013–2016 plan/stay-out; 2023–2024

The regulatory framework applicable to an individual EDC was not an input to, or criterion for, inclusion in LEI's Industry TFP Study. As explained in Exhibit CLP-PBR-2, Section 1.4, the Industry TFP Study uses a broad sample of 88 EDCs representing approximately 90% of customers served by U.S. investor-owned utilities to capture the diversity of the electric distribution industry and estimate industry-average productivity trends. Accordingly, differences in regulatory framework do not, by themselves, provide a basis for excluding an EDC from an Industry TFP Study.

Date Filed: September 15, 2026

Witness: Julia Frayer
Request from: Office of Consumer Counsel

Question:

Performance Based Ratemaking Panel Exhibit CLP-PBR-1
Please state whether LEI evaluated whether OM&A PFP trends differed between utilities operating under the PBR and utilities operating under traditional cost-of-service regulation, and whether utilities' OM&A PFP trends differed between periods before PBR application and under PBR application. If so, please provide the results of the analysis. If not, please explain why such an analysis was not performed and provide, if available, the OM&A PFP growth rates separately for the two different groups.

Response:

This would be an interesting analysis, but there are several empirical challenges to conducting it reliably. First, incentives to pursue efficiency improvements can arise from a range of formal and informal features of a regulatory regime, including stay-out provisions, multi-year rate plans, voluntary rate freezes, and regulatory lag between rate cases. As noted in our response to OCC-540, a number of utilities have operated, or currently operate, under some form of PBR (formula based or MYRP), while others have experienced extended periods of rate freezes or regulatory lag, such as MidAmerican Energy in Iowa (who went for 10 years without a rate case). LEI has not undertaken an exhaustive review of the regulatory regimes applicable to every utility over the study period. The sub-sample of companies identified in that Response is unlikely to cover the entire industry, and an analysis limited to it would therefore not constitute an industry-wide study.

Second, and more fundamentally, the strength of the incentive to improve efficiency depends on multiple, interacting features of a regulatory regime rather than on any single characteristic. Distribution ratemaking in the U.S. is the domain of state regulators, so there are diverse regulatory mechanisms in place. For example, one utility may be subject to a formal stay out provision, others may be under voluntary rate freeze, while another may have an earnings sharing mechanism, or a forecast-based multi-year plan with advance ratemaking treatment for certain investments, variance accounts or other mechanisms. Cost and productivity outcomes may also be affected by factors unrelated to PBR, such as corporate restructuring or merger-related synergies. As a result, regulatory regimes that appear similar at a high level may create materially different efficiency incentives. Given the diversity of regulatory frameworks across U.S., a simple classification based

on the presence (or lack thereof) of a specific regulatory feature may not provide a sufficiently robust basis for an industry-wide empirical comparison.

A further challenge is that adoption of PBR-like regulatory mechanisms may have occurred at different times and for different durations across utilities. The second part of the question contemplates a comparison of productivity before and after "PBR" adoption, but given there is no common implementation date for various PBR mechanisms, it would be difficult to get a cohesive industry-wide "before-and-after" comparison.

For the above reasons, LEI did not perform a PBR-versus-COS or pre-/post-PBR OM&A PFP analysis as part of this study. The purpose of LEI's TFP study was to estimate the long-term productivity trend for the industry, rather than at a firm-specific level. Economic theory then recommends using the industry productivity trends to establish the X Factor under an I-X framework.

The broader proposition that incentive regulation can strengthen incentives for cost efficiency relative to traditional cost-of-service regulation is supported by the regulatory economics literature and evaluations of incentive regulation. For example, Jamasb and Pollitt's study of British electricity distribution under incentive regulation found that the regime was associated with reductions in costs, prices, and energy losses while maintaining service quality.[1] LEI's review of the UK experience similarly observed that the stronger incentives under PBR were associated with substantial productivity improvements and that utilities responded to tighter price controls by reducing operating costs, labor, and materials.[2]

The Alberta Utilities Commission reached similar conclusions in its evaluation of Alberta's PBR experience. The Commission found that PBR had incented utilities to find efficiencies and that utilities engaged in productivity improvements to reduce costs, concluding that "in this respect, PBR was successful." The Commission also found that customers experienced lower rates under PBR than would have been expected under COS regulation. [3]

These studies and regulatory findings provide evidence regarding the efficiency incentives associated with PBR, but they are not a substitute for the utility-by-utility empirical analysis described in this interrogatory.

[1] Paul L. Joskow, "The Expansion of Incentive (Performance-Based) Regulation of Electricity Distribution and Transmission in the United States," Review of Industrial Organization, Vol. 65 (2024), pp. 455–503. https://link.springer.com/article/10.1007/s11151-024-09973-x and Tooraj Jamasb and Michael Pollitt, "Incentive Regulation of Electricity Distribution Networks: Lessons of Experience from Britain," Energy Policy, Vol. 35, No. 12 (2007), pp. 6163–6187. https://www.jamasb.org/publication/re-p-ec-eee-enepol-v-35-y-2007-i-12-p-6163-6187

[2] A. J. Goulding, Julia Frayer, and Jeffery Waller, "X Marks the Spot: How U.K. Utilities Have Fared Under Performance-Based Ratemaking," Public Utilities Fortnightly, July 15, 2001, https://www.fortnightly.com/fortnightly/2001/07-0/x-marks-spot-how-uk-utilities-have-fared-under-performance-based-ratemaking.

[3] Alberta Utilities Commission. "Evaluation of Performance-Based Regulation in Alberta." June 30, 2021.

Date Filed: September 15, 2026

Witness: Julia Frayer
Request from: Office of Consumer Counsel

Question:

Performance Based Ratemaking Panel Exhibit CLP-PBR-1
Please state whether excluding utilities operating under PBR, or alternatively calculating OM&A PFP separately for PBR and non-PBR utilities, would change the -0.3% OM&A PFP estimated used for supporting the proposed X factor.

Response:

For clarification, the Industry TFP Study's estimated average annual OM&A PFP growth rate is negative 0.03% (-0.03%), not negative 0.3% (−0.3%) as suggested in the text of the question.

LEI did not perform the alternative calculations described in this question and therefore has not determined whether, or to what extent, they would change that estimate. Please also refer to OCC-540[i] and OCC-541[ii].

As explained in Exhibit CLP-PBR-2, Sections 1.4 and 2, the Industry TFP Study's purpose is to estimate productivity trends for the industry as a whole using a broad, representative sample.
A different result for a restricted sample would not, by itself, establish that the restricted sample provides a more appropriate benchmark for the proposed X Factor for the Company.

Prior Referenced Responses:

[i] OCC-540 Question:

Performance Based Ratemaking Panel Exhibit CLP-PBR-1
Please identify which of the 88 EDCs included in LEI's Industry TFP and PFP Study operated under a performance-based regulation (PBR) framework, as opposed to traditional cost-of-service regulation, during the 2005–2024 study period, including the applicable years for each regulatory framework.

OCC-540 Response:

As explained in Exhibit CLP-PBR-1, pages 11–12, and Figure 1, specifically, PBR is best understood as a continuum rather than a single, uniform regulatory regime. PBR mechanisms can range from performance targets and earnings-sharing mechanisms to more comprehensive multi-year price or revenue cap frameworks. Accordingly, PBR and

traditional cost-of-service ("COS") regulation are not mutually exclusive, because PBR mechanisms may be incorporated within an otherwise traditional rate-proceeding framework.

Only a few jurisdictions in the U.S. have had a formal PBR framework from 2005-2024. For example, Hawaiian Electric Companies (not included in LEI's Industry TFP Study), NSTAR Electric Company, and Massachusetts Electric Company, have been under a comprehensive index-based price or revenue cap framework in recent years.

Jurisdiction	EDC	Applicable PBR period
Massachusetts	NSTAR Electric Company	2006–2012; 2018–2022; 2023–2024
Massachusetts	Massachusetts Electric Company	Oct. 1, 2019–Dec. 31, 2024 (successive plans)

In addition, LEI identified the following utilities included in the Industry TFP Study as having operated under multi-year regulatory arrangements incorporating PBR components during at least part of the 2005–2024 study period:

Jurisdiction	EDC	Applicable PBR period
New York	Central Hudson Gas & Electric Corporation	July 1, 2021–June 30, 2024
New York	Consolidated Edison Company of New York, Inc.	2017–2019; 2020–2022
New York	New York State Electric & Gas Corporation	Aug. 26, 2010–Dec. 31, 2013; May 1, 2016–Apr. 30, 2019
New York	Rochester Gas and Electric Corporation	Aug. 26, 2010–Dec. 31, 2013; May 1, 2016–Apr. 30, 2019
New York	Orange and Rockland Utilities, Inc.	July 2012–June 2015; 2019–2021
Vermont	Green Mountain Power Corporation	FY2020–FY2022; Oct. 1, 2022–Dec. 31, 2024
Rhode Island	The Narragansett Electric Company	Sept. 1, 2018–Aug. 31, 2021
Connecticut	The United Illuminating Company	2017–2019
North Carolina	Duke Energy Carolinas, LLC (North Carolina operations)	2024 (plan continues through 2026)
North Carolina	Duke Energy Progress, LLC (North Carolina operations)	Oct. 1, 2023–Dec. 31, 2024
Illinois	Ameren Illinois Company	2024 (plan continues through 2027)
Illinois	Commonwealth Edison Company	2024 (plan continues through 2027)
Washington	Avista Corporation (Washington operations)	Dec. 21, 2022–Dec. 20, 2024
Washington	Puget Sound Energy, Inc. (Washington operations)	2013–2016 plan/stay-out; 2023–2024

The regulatory framework applicable to an individual EDC was not an input to, or criterion for, inclusion in LEI's Industry TFP Study. As explained in Exhibit CLP-PBR-2, Section 1.4, the Industry TFP Study, uses a broad sample of 88 EDCs representing approximately 90% of customers served by U.S. investor-owned utilities to capture the diversity of the electric distribution industry and estimate industry-average productivity trends. Accordingly, differences in regulatory framework do not, by themselves, provide a basis for excluding an EDC from an Industry TFP Study.

[ii] OCC-541 Question:

Performance Based Ratemaking Panel Exhibit CLP-PBR-1
Please state whether LEI evaluated whether OM&A PFP trends differed between utilities operating under the PBR and utilities operating under traditional cost-of-service regulation, and whether utilities' OM&A PFP trends differed between periods before PBR application and under PBR application. If so, please provide the results of the analysis.

If not, please explain why such an analysis was not performed and provide, if available, the OM&A PFP growth rates separately for the two different groups.

OCC-541 Response:

This would be an interesting analysis, but there are several empirical challenges to conducting it reliably. First, incentives to pursue efficiency improvements can arise from a range of formal and informal features of a regulatory regime, including stay-out provisions, multi-year rate plans, voluntary rate freezes, and regulatory lag between rate cases. As noted in our response to OCC-540, a number of utilities have operated, or currently operate, under some form of PBR (formula based or MYRP), while others have experienced extended periods of rate freezes or regulatory lag, such as MidAmerican Energy in Iowa (who went for 10 years without a rate case). LEI has not undertaken an exhaustive review of the regulatory regimes applicable to every utility over the study period. The sub-sample of companies identified in that Response is unlikely to cover the entire industry, and an analysis limited to it would therefore not constitute an industry-wide study.

Second, and more fundamentally, the strength of the incentive to improve efficiency depends on multiple, interacting features of a regulatory regime rather than on any single characteristic. Distribution ratemaking in the U.S. is the domain of state regulators, so there are diverse regulatory mechanisms in place. For example, one utility may be subject to a formal stay out provision, others may be under voluntary rate freeze, while another may have an earnings sharing mechanism, or a forecast-based multi-year plan with advance ratemaking treatment for certain investments, variance accounts or other mechanisms. Cost and productivity outcomes may also be affected by factors unrelated to PBR, such as corporate restructuring or merger-related synergies. As a result, regulatory regimes that appear similar at a high level may create materially different efficiency incentives. Given the diversity of regulatory frameworks across U.S., a simple classification based on the presence (or lack thereof) of a specific regulatory feature may not provide a sufficiently robust basis for an industry-wide empirical comparison.

A further challenge is that adoption of PBR-like regulatory mechanisms may have occurred at different times and for different durations across utilities. The second part of the question contemplates a comparison of productivity before and after “PBR” adoption, but given there is no common implementation date for various PBR mechanisms, it would be difficult to get a cohesive industry-wide “before-and-after” comparison.

For the above reasons, LEI did not perform a PBR-versus-COS or pre-/post-PBR OM&A PFP analysis as part of this study. The purpose of LEI's TFP study was to estimate the long-term productivity trend for the industry, rather than at a firm-specific level. Economic theory then recommends using the industry productivity trends to establish the X Factor under an I-X framework.

The broader proposition that incentive regulation can strengthen incentives for cost efficiency relative to traditional cost-of-service regulation is supported by the regulatory economics literature and evaluations of incentive regulation. For example, Jamasb and Pollitt's study of British electricity distribution under incentive regulation found that the regime was associated with reductions in costs, prices, and energy losses while maintaining service quality. LEI's review of the UK experience similarly observed that the stronger incentives under PBR were associated with substantial productivity improvements and that utilities responded to tighter price controls by reducing operating costs, labor, and materials.

The Alberta Utilities Commission reached similar conclusions in its evaluation of Alberta’s PBR experience. The Commission found that PBR had incented utilities to find efficiencies and that utilities engaged in productivity improvements to reduce costs, concluding that “in this respect, PBR was successful.” The Commission also found that customers experienced lower rates under PBR than would have been expected under COS regulation.

These studies and regulatory findings provide evidence regarding the efficiency incentives associated with PBR, but they are not a substitute for the utility-by-utility empirical analysis described in this interrogatory.

Date Filed: September 15, 2026

Witness: Julia Frayer
Request from: Office of Consumer Counsel

Question:

Performance Based Ratemaking Panel Exhibit CLP-PBR-1
Given that the proposed Consumer Dividend applies to the OM&A portion of the PBMRP, please explain why the Company's below-benchmark capital and total cost performance is relevant to determining the appropriate Consumer Dividend. In your response:

a.Explain the relative weight or consideration given to OM&A, capital, and total cost benchmarking results in supporting the proposed 0.30% Consumer Dividend

b.Explain why favorable capital performance should moderate the Consumer Dividend when capital costs are recovered outside the I-X OM&A revenue adjustment mechanism.

Response:

a. LEI's Benchmarking Study presented the results of three different cost models, which were individually estimated using the same econometric techniques, but in some cases different business drivers because of relevance and statistical significance. LEI did not use any weighting methodology to combine the OM&A, capital, and total cost benchmarking results, as implied in the question. Rather, the OM&A cost benchmarking results provide direct evidence regarding potential operating-efficiency improvement and support the inclusion of a Consumer Dividend for the Company's PBMRP. Capital cost and total cost benchmarking results were considered only as complementary context in assessing CL&P's overall cost performance, and reasonableness of the overall PBMRP (and not specifically the starting value of the Consumer Dividend). Please also refer to Section 5 of Exhibit CLP-PBR-3.

b. Favorable capital performance was not used as a mathematical offset, credit, or adjustment to the OM&A benchmarking result or to calculate the Consumer Dividend. As explained in response to part a), the capital benchmarking results were considered as complementary context regarding CL&P's overall cost performance. Please also refer to OCC-443[i].

Prior Referenced Response:

[i] OCC-443 Question:

Exhibit CLP-PBR-1 PBR Testimony Please explain quantitatively how LEI's benchmarking results support a 0.30% Consumer Dividend. Please explain how the Company's proposed 0.30% Consumer Dividend was derived from or otherwise informed by:

a. The Company's 22.9% average OM&A cost gap under the unit cost benchmarking analysis;
b. The Company's 11.9% average OM&A cost gap under the 2015–2024 econometric benchmarking analysis; and
c. The Company's 16.4% average OM&A cost gap under the 2021–2024 econometric benchmarking analysis.
d. Please provide any calculations, assumptions, analyses, or methodologies used to translate the identified efficiency gap into an annual achievable improvement.
e. Please explain why the widening gap does not support a Consumer Dividend greater than 0.30%, and provide all analyses relied upon in reaching that conclusion.

OCC-443 Response:

LEI did not derive the proposed 0.30% Consumer Dividend by applying a mathematical formula to any of the benchmarking gaps identified in parts (a) through (c). LEI's quantitative analysis was focused on the benchmarking itself. As explained in Exhibit CLP-PBR-3, LEI performed a unit cost analysis followed by an econometric analysis of the Company and the other 88 peers nationally. The benchmarking results measure CL&P's relative cost position compared with the average of all utilities (for the unit cost benchmarking) or a model-predicted benchmark for the Company's costs (for the econometrics benchmarking). A benchmarking study will report out relative efficiency, but it cannot measure the amount of cost reduction that can reasonably and sustainably be achieved in any particular year of the PBMRP, as explained in Exhibit CLP-PBR-1. Therefore, LEI examined what other jurisdictions have approved for stretch factor/consumer dividend, especially when the target utility is an average performer like CL&P. Please see Section 5 of Exhibit CLP-PBR-3.

The 22.9% result represents the average amount by which CL&P's OM&A cost per customer exceeded that of the national industry average under the unit cost benchmarking analysis. As LEI explains in Section 1.1 of Exhibit CLP-PBR-3, the unit cost analysis is an initial step in benchmarking analysis. Unit cost benchmarking does not control for differences in operating conditions and important business factors among utilities that will impact costs, such as the scale of business, the network composition, local costs of labor, etc. For that reason, the unit cost benchmarking results are not directly informative of a stretch factor for a utility, especially if the data allows for more rigorous econometric analysis.

The 11.9% result provides a more refined measure of CL&P's relative OM&A cost performance. Indeed, the econometric analysis takes account of such factors such as input prices, scale, and network characteristics. As the 11.9% remains a measure of the level of CL&P's costs relative to the model-predicted benchmark over the historical period (2015-2024), it does not provide guidance on future efficiency gains and must be interpreted cautiously. In addition, LEI considered the broader peer distribution in looking at the OM&A benchmarking results. CL&P ranked 54th out of 88 utilities based on its average result over the 10-year period, placing it within the broad middle of the group. Accordingly, its above-benchmark OM&A costs represent an area for potential improvement, but are not an unusually large or extreme result relative to its peers. Those observations support a positive but modest Consumer Dividend, which based on LEI's collation of data from other jurisdictions, would be 0.30% as discussed in Section 5 of Exhibit CLP-PBR-3.

The 16.4% result comes from the econometric analysis of CL&P's OM&A costs against model-predicted benchmark, but for a much shorter period (2021-2024). Importantly, the recent-period results continue to show favorable overall cost performance: capital costs averaged 16.5% below benchmark (see Figure 15 in Exhibit CLP-PBR-3) and total costs averaged 3.1% below benchmark. As discussed in the Company's testimony, recent O&M cost pressures may include labor and vegetation management, as well as storm-related expenditures. Nevertheless, these provide context for the more recent period but do not establish the extent to which any individual cost category contributed to the 16.4% econometric benchmarking result or whether the same conditions will persist during the PBMRP term. Thus, the 16.4% OM&A result implies that additional operating-efficiency opportunities may exist, but does not give us any direct indication for how to size the Consumer Dividend.

LEI did not perform a calculation that converts the 22.9%, 11.9%, or 16.4% benchmarking differences into an annual achievable productivity improvement, and therefore there are no such calculations to provide. Such a calculation would not be methodologically appropriate because the benchmarking analysis looks at various measures of productivity at a given point of time, and does not say anything about the prospective rate at which cost differences can reasonably and sustainably be eliminated over the next few years. LEI used the benchmarking results as empirical evidence of relative efficiency and confirmation that there is some room for improvement. LEI then considered regulatory precedent for Consumer Dividends and stretch factors, which suggested that regulators have used values ranging from 0.15% to 0.60% for other EDCs, with lower values for those that are more efficient and higher values for those that are very inefficient. LEI then finds the value of 0.30% as a reasonable starting point for the Company's proposed Consumer Dividend.

Two further points place the proposed 0.30 percent in context. First, as shown in Figure 16 of Exhibit CLP-PBR-3, the Consumer Dividends and stretch factors approved in other jurisdictions range from 0.15 percent to 0.60 percent. The Massachusetts consumer dividends in Figure 16 are also conditional on inflation: those mechanisms pay 0.25 to 0.40 percent only when inflation exceeds two percent, reduced amounts at lower inflation, and nothing in low-inflation years. The Company's proposed 0.30 percent applies in all inflation conditions, so the guaranteed minimum benefit to customers is at or above the effective minimum of every mechanism in the comparison.

Second, the comparison is most direct when each mechanism is measured against the base to which it applies. The Company's S-Factor applies to the Core Operating Expense revenue requirement only, because capital is recovered through the separate Capital Funding Mechanism (Exhibit CLP-IAP-1 at 73). The most directly similar plans — an apples-to-apples comparison — are those in which regulators approved an OM&A-only revenue cap: National Grid in Massachusetts, with a 0.40 percent consumer dividend payable only when inflation is at least two percent, and FortisBC in British Columbia, with a 0.25 percent stretch factor (Exhibit CLP-PBR-1 at 47; Exhibit CLP-PBR-3, Figure 16).

Finally, the proposed design bounds its own ceiling. Because the S-Factor begins the first rate year at 0.30 percent and each year's result adjusts the level applied in the following rate year, the level can adjust no more than three times over the four-year term, and the highest level the mechanism can reach is 0.60 percent.

The illustrative calculation of how the Consumer Dividend operates over the PBMRP term is provided in OCC-432, Attachment 1.

[e] Q: Please explain why the widening gap does not support a Consumer Dividend greater than 0.30%, and provide all analyses relied upon in reaching that conclusion.

As discussed above in a – d, a benchmarking difference represents a measure of relative cost performance and should not be translated directly into an annual Consumer Dividend.

Finally, 0.30% is the floor, not the ceiling, under CL&P's proposed mechanism. As explained in Exhibit CLP-PBR-1 at page 64, the Consumer Dividend can increase during the PBMRP term if the Company outperforms the applicable controllable O&M benchmark. Thus, the proposed design provides customers with additional benefits if CL&P achieves greater operating efficiencies than assumed in establishing the initial Consumer Dividend.

The Consumer Dividend is an affordability mechanism. As such, it must be evaluated for both providing a benefit to customers, as well as for sustainability. A dividend set too low forgoes customer benefit, while a dividend set beyond sustainably achievable efficiency would function as a rate reduction unsupported by actual cost performance. The proposed design addresses the scale question through movement rather than starting magnitude. The level begins at 0.30 percent, can never fall below that level or become a surcharge (Exhibit CLP-PBR-1 at 64), rises automatically as the Company demonstrates efficiency, and is applied against the Company's O&M revenue requirement under the PBMRP. Unlike an earning sharing mechanism, which provides customer benefits only when earnings exceed the allowed return on equity, this mechanism will share the costs the Company controls, even when under its allowed rate of return. The consumer dividend design provides customers with efficiency gains during the plan term without waiting for the next rate case, and at the next rate case all achieved efficiencies are reflected in rebased rates in full.