STATE OF CONNECTICUT

PUBLIC UTILITIES REGULATORY AUTHORITY

Docket No. 26-05-10

APPLICATION OF THE CONNECTICUT LIGHT AND POWER COMPANY
D/B/A EVERSOURCE ENERGY
TO AMEND ITS RATE SCHEDULES

DIRECT TESTIMONY OF

ANN E. BULKLEY

Return on Equity and Capital Structure

On behalf of

The Connecticut Light and Power Company
d/b/a Eversource Energy

July 14, 2026

STATE OF CONNECTICUT

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I. Introduction

Q. Please State your name, affiliation, and business address

A. My name is Ann E. Bulkley. I am a Principal at The Brattle Group ("Brattle"). My business address is One Beacon Street, Suite 2600, Boston, Massachusetts 02108.

Q. On whose behalf are you submitting this testimony?

A. I am submitting direct testimony before the Public Utilities Regulatory Authority ("PURA") on behalf of The Connecticut Light & Power Company ("CL&P" or the "Company") d/b/a Eversource Energy ("Eversource").

Q. Please describe your background and professional experience in the energy and utility industries.

A. I hold a Bachelor's degree in Economics and Finance from Simmons College and a Master's degree in Economics from Boston University, with over 30 years of experience consulting to regulated utilities and the energy industry. I have advised numerous energy and utility clients on a wide range of financial and economic issues with primary concentrations in valuation and utility rate matters. Many of these assignments have included the determination of the cost of capital for valuation and ratemaking purposes. A summary of my testimony in other proceedings are included as Attachment A to my direct testimony.

Q. What is the purpose of your direct testimony?

A. The purpose of my direct testimony is to present evidence and provide a recommendation regarding the appropriate return on equity ("ROE") for CL&P, and to assess the reasonableness of its proposed capital structure for ratemaking purposes.

Q. Are you sponsoring any exhibits in support of your direct testimony?

A. Yes. I am sponsoring the following exhibits, which were prepared by me or under my direction:

- Exhibit CLP-ROE-2 – Summary of Results
- Exhibit CLP-ROE-3 – Proxy Group Screening
- Exhibit CLP-ROE-4 – Constant Growth DCF Results
- Exhibit CLP-ROE-5 – CAPM/ECAPM Results
- Exhibit CLP-ROE-6 – Proxy Group Long-Term Beta
- Exhibit CLP-ROE-7– Market Return Calculation
- Exhibit CLP-ROE-8 – Bond Yield Risk Premium Results
- Exhibit CLP-ROE-9 – Regulatory Risk Analysis
- Exhibit CLP-ROE-10 – RRA Rankings Analysis
- Exhibit CLP-ROE-11 – S&P Credit Supportive Analysis
- Exhibit CLP-ROE-12 – Capital Structure Analysis

Q. Please provide a brief overview of the analyses that led to your ROE recommendation.

A. I estimated the market-based cost of equity by applying traditional estimation methodologies to a proxy group of comparable utilities, including the constant growth form of the Discounted Cash Flow ("DCF") model, the Capital Asset Pricing Model ("CAPM"), the Empirical Capital Asset Pricing Model ("ECAPM"), and a Bond Yield Risk Premium ("BYRP" or "Risk Premium") analysis. My recommendation also takes into consideration the business and regulatory risk of the Company relative to the proxy group, and the Company's proposed capital structure as compared with the capital structures of the operating utilities of the proxy group companies. Although I do not make specific adjustments to my recommended ROE for these factors, I do consider them in the aggregate when determining the reasonableness of CL&P's proposed ROE relative to the range of the analytical results.

Q. How is the remainder of your direct testimony organized?

A. The remainder of my direct testimony is organized as follows:

- Section II provides a summary of my analyses and conclusions;
- Section III reviews the regulatory guidelines pertinent to the development of the cost of capital;
- Section IV discusses current and prospective capital market conditions and the effect of those conditions on the Company's cost of equity;
- Section V explains my selection of the proxy group;

- Section VI describes my cost of equity analyses and the basis for my recommended ROE in this proceeding;

- Section VII provides a discussion of specific regulatory, business, and financial risks that have a direct bearing on the ROE to be authorized for the Company in this case;

- Section VIII provides an assessment of the reasonableness of the Company's proposed capital structure; and

- Section IX presents my conclusions and recommendations.

II. Summary of Analysis and Conclusions

Q. Please summarize the key factors considered in your analyses and upon which you base your recommended ROE.

A. My analyses and recommendations considered the following:

- The United States ("U.S.") Supreme Court's *Hope* and *Bluefield* decisions[1] established the standards for determining a fair and reasonable authorized ROE for public utilities, including consistency of the allowed return with the returns of other businesses having similar risk, adequacy of the return to provide access to capital and support credit quality, and the requirement that the result lead to just and reasonable rates.

- The effect of current and prospective capital market conditions on the cost of equity estimation models and on investors' return requirements.

- The results of several analytical approaches that provide estimates of the Company's cost of equity. Because the Company's authorized ROE should be

[1] *Federal Power Commission v. Hope Natural Gas Co.*, 320 U.S. 591 (1944) ("*Hope*"); *Bluefield Waterworks & Improvement Co., v. Public Service Commission of West Virginia*, 262 U.S. 679 (1923) ("*Bluefield*").

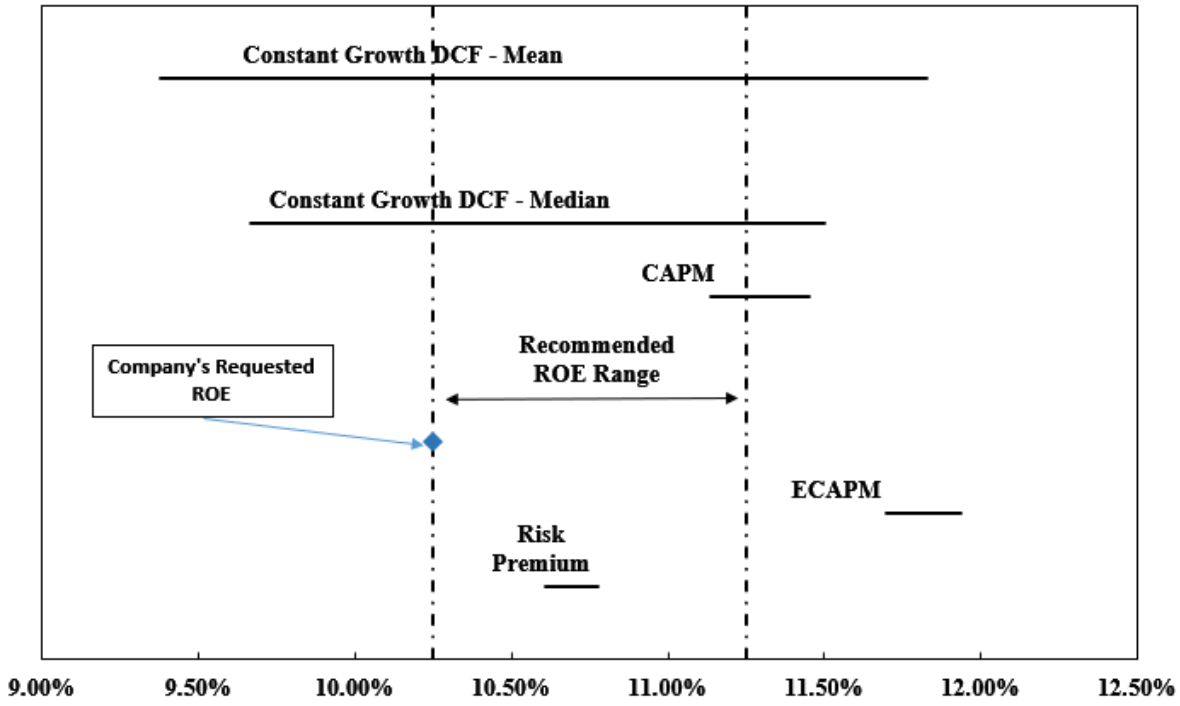
a forward-looking estimate over the period during which the rates will be in effect, these analyses rely on forward-looking inputs and assumptions (*e.g.*, projected analyst growth rates in the DCF model, forecasted risk-free rate and market risk premium in the CAPM analysis.).

- Although the companies in my proxy group are comparable to CL&P, each company is unique, and no two companies have the exact same business and financial risk profiles. Accordingly, I considered the Company's regulatory, business, and financial risks relative to a proxy group of comparable companies in determining where the Company's ROE should fall within the reasonable range of analytical results to appropriately account for any residual differences in risk.

Q. What are the results of the models that you have used to estimate the cost of equity for CL&P in this proceeding.

A. Figure 1 summarizes the range of results produced by the models that I have conducted based on data through the end of May 2026.

Figure 1: Summary of Cost of Equity Analytical Results[2]



As shown, the range of results across all methodologies is wide. While it is common to consider multiple models to estimate the cost of equity, it is particularly important when the range of results varies considerably across methodologies.

Q. What is the Company's requested ROE in this proceeding?

A. Reviewing the results of the cost of equity estimation models developed herein and considering current market conditions and the business and regulatory risk factors faced by CL&P, I conclude that a reasonable range for the ROE is 10.25 percent to 11.25

[2] *See*, Exhibit CLP-ROE-2

percent. Considering these factors, I conclude that the Company's requested ROE of 10.25 percent in this proceeding is reasonable.

Q. Is the Company's requested capital structure reasonable?

A. Yes. The Company's proposed equity ratio of 53.86 percent is within the range of the actual capital structures of the utility operating subsidiaries of the proxy group companies and is reasonable.

III. Regulatory Guidelines

Q. Please describe the principles that guide the establishment of the cost of capital for a regulated utility.

A. The U.S. Supreme Court's precedent-setting *Hope* and *Bluefield* cases established the standards for determining the fairness or reasonableness of a utility's allowed ROE. Among the standards established by the Court in those cases are: (1) consistency with other businesses having similar or comparable risks; (2) adequacy of the return to support credit quality and access to capital; and (3) the principle that the result reached, as opposed to the methodology employed, is the controlling factor in arriving at just and reasonable rates.[3]

Q. Has PURA provided similar guidance in establishing the appropriate return on common equity?

A. Yes. In Docket 17-10-46, PURA quoted Connecticut General Statutes § 16-19e(a), which requires that:

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[3] *Bluefield*, 262 U.S. at 692-93; *Hope*, 320 U.S. at 603.

> [t]he level and structure of rates be sufficient, but no more than sufficient, to allow public service companies to cover their operating costs including, but not limited to, appropriate staffing levels, and capital costs, to attract needed capital and to maintain their financial integrity, and yet provide appropriate protection for the relevant public interest, both existing and foreseeable.[4]

This guidance is in accordance with my view that an authorized return on equity must be sufficient to enable regulated companies, such as CL&P, to attract equity capital on reasonable terms.

Q. Why is it important for a utility to be allowed the opportunity to earn a return that is adequate to attract capital at reasonable terms?

A. An authorized ROE that is adequate to attract capital at reasonable terms enables a utility to continue to provide safe, reliable service while maintaining its financial integrity. That return should be commensurate with returns required by investors elsewhere in the market for investments of comparable risk. It is important to recognize that equity investors have a choice of where to invest their capital. It is reasonable to expect that equity investors will seek alternative investment opportunities for which the expected return reflects the perceived level of risk, thereby inhibiting CL&P's ability to attract necessary new equity capital at a reasonable cost.

Q. Is a utility's ability to attract capital also affected by the ROEs authorized for other utilities?

A. Yes. Utilities compete directly for capital with other investments of similar risk, which include other utilities. Therefore, the ROE authorized for a utility sends an important

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[4] PURA, Docket No. 17-10-46 Decision, at 15.

signal to investors regarding whether there is regulatory support for financial integrity, dividends, growth, and fair compensation for business and financial risk. The cost of capital represents an opportunity cost to investors. If higher returns are available for other investments of comparable risk, over the same period, investors have an incentive to direct their capital to those alternative investments. Thus, an authorized ROE significantly below authorized ROEs for other utilities can inhibit the utility's ability to attract capital for investment.

Q. What is the standard for setting the ROE in any jurisdiction?

A. The stand-alone ratemaking principle is the foundation of jurisdictional ratemaking, requiring that the rates that are charged in any operating jurisdiction are incurred in that jurisdiction. The stand-alone ratemaking principle ensures that customers in each jurisdiction only pay for the costs of the service provided in that jurisdiction, which is not influenced by the business operations of other operating companies. To maintain this principle, the cost of equity analysis is performed for an individual operating company as a stand-alone entity. As such, I have evaluated the investor-required return for CL&P's electric distribution operations in Connecticut.

Q. Does the fact that the Company is a subsidiary of Eversource Energy, a publicly traded company, affect your analysis?

A. No. In this proceeding, consistent with stand-alone ratemaking principles, it is appropriate to establish the cost of equity for the Company, not its publicly traded entity, Eversource Energy. More importantly, however, it is appropriate to establish a

cost of equity and capital structure that provides the Company the ability to attract capital on reasonable terms on a stand-alone basis and within Eversource Energy.

Q. Is the regulatory framework, including the authorized ROE and equity ratio, important to the financial community?

A. Yes. The regulatory framework is one of the most important factors in investors' assessments of risk. Specifically, the authorized ROE and equity ratio for regulated utilities is very important for determining the degree of regulatory support for credit quality and financial stability in the jurisdiction. It is important to recognize that the equity investor provides risk mitigation to the bondholder, therefore the higher the equity ratio with a reasonable rate of return, the higher the risk mitigation to the bondholder. This dynamic enables the utility and customers to achieve a lower cost of debt financing, all else equal. To the extent that the authorized returns in a jurisdiction are lower than the returns that have been authorized more broadly, credit rating agencies will consider this in the overall risk assessment of the regulatory jurisdiction in which the utility operates.

Q. What are your conclusions regarding the regulatory principles to be used in establishing the cost of capital in this proceeding?

A. The ratemaking process is premised on the principle that, for investors and companies to commit the capital needed to continue to provide safe and reliable utility services to customers, a utility must have a reasonable opportunity to recover the return of, and the market-required return on, its invested capital. Accordingly, PURA's order in this proceeding should establish rates that provide the Company with a reasonable

opportunity to earn a ROE that is: (1) adequate to attract capital on reasonable terms; (2) sufficient to ensure its financial integrity; and (3) commensurate with returns on investments in enterprises with similar risk. It is important for the ROE authorized in this proceeding to take into consideration current and projected capital market conditions, as well as investors' expectations and requirements for both risks and returns. Because utility operations are capital-intensive, and operate in a cash deficit, regulatory decisions should enable the utility to attract capital at reasonable terms under a variety of economic and financial market conditions. Providing the opportunity to earn a market-based cost of capital supports the financial integrity of CL&P, which is in the interest of both customers and shareholders.

IV. Capital Market Conditions

Q. Why is it important to analyze capital market conditions?

A. Capital market conditions influence cost of equity models by affecting inputs in the model at the time the analysis is performed. While the ROE that is established in a rate proceeding is intended to be forward-looking, the analysis uses current and projected market data, specifically stock prices, dividends, growth rates and interest rates, in the models to estimate the required return for the subject company.

Analysts and regulatory commissions recognize the importance of considering how these conditions affect the results of the cost of equity estimation models when determining the appropriate range and recommended ROE for a future period. If investors do not expect current market conditions to be sustained in the future, it is

possible that the cost of equity estimation models will not provide an accurate estimate of investors' required return during that rate period. Therefore, it is important to consider projected market data to estimate the return for the forward-looking period.

Q. What has the level of inflation been over the past few years?

A. As shown in Figure 2, core inflation increased steadily beginning in early 2021, rising from 1.40 percent in January 2021 to a high of 6.64 percent in September 2022, which was the largest 12-month increase since 1982.[5] While core inflation has declined in response to the Federal Reserve's monetary policy, it continues to remain above the Federal Reserve's target level of 2.00 percent.

The strength in the labor market allowed the Federal Reserve to prioritize reducing inflation by pursuing the restrictive monetary policy needed to achieve its 2.00 percent target benchmark. The ratio of unemployed persons per job opening was 1.0 in April 2026.[6] While the ratio of unemployed persons per job opening increased slightly in recent months, it had been consistently at or below 1.10 since March 2021, which suggested a tighter labor market.

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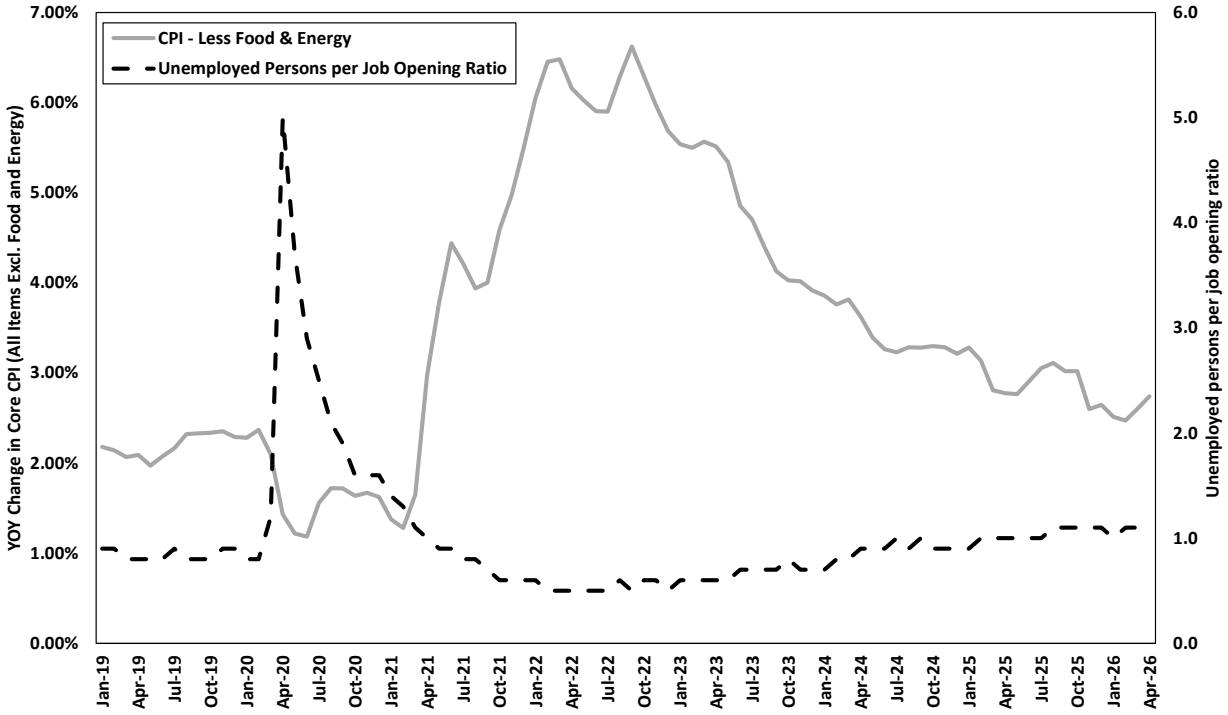
[5] Reade Pickert, "Core US Inflation Rises to 40-Year High, Securing Big Fed Hike," *Bloomberg,* October 13, 2022.

[6] The most recent data available at the time of this testimony; also, February 2026 was noted as "preliminary.".

Figure 2: Core Inflation and Unemployed Persons-to-Job Openings, January 2019 to April 2026[7]



Q. What policy actions did the Federal Reserve enact to respond to increased inflation?

A. The dramatic increase in inflation prompted the Federal Reserve to pursue an aggressive normalization of monetary policy, removing the accommodative policy programs used to mitigate the economic effects of COVID-19. Between the March 2022 Federal Open Market Committee ("FOMC") meeting and the July 2023 FOMC

[7] Bureau of Labor Statistics; reflects data available as of June 8, 2026. The data for Core Inflation was available through April 2026. The last month that was published for Unemployed persons to job openings was April 2026.

meeting, the Federal Reserve increased the target federal funds rate through a series of increases from a range of 0.00 – 0.25 percent to a range of 5.25 – 5.50 percent.

Q. Has the Federal Reserve reduced the federal funds rate?

A. Yes. The Federal Reserve reduced the federal funds rate by 50 basis points in September 2024, by 25 basis points in November and December 2024, and most recently by 25 basis points in September, October, and December 2025. Since that time, the Federal Reserve has kept rates unchanged in 2026.[8]

Q. What is the expected path of monetary policy over the near-term?

A. At the June 2026 meeting, the FOMC decided to maintain the target range for the federal funds rate at 3.50 percent to 3.75 percent. In their comments, the FOMC noted that:

> Economic activity is expanding at a solid pace despite elevated uncertainty that owes, in part, to the conflict in the Middle East. Productivity growth and capital investment are strong. Job gains have kept pace with the workforce, and the unemployment rate has changed little.
>
> Inflation remains elevated relative to the Committee's 2 percent goal, in part reflecting supply shocks that have driven price increases in certain sectors, including energy. The Committee will deliver price stability. [9]

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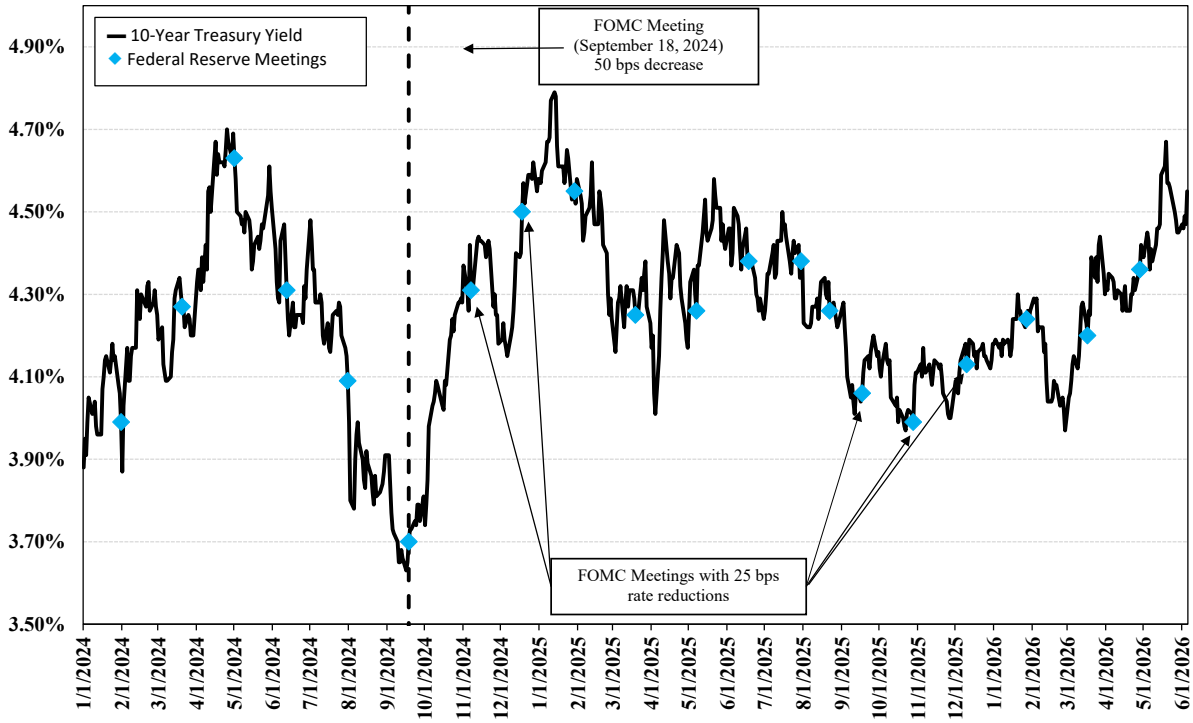
[8] Federal Reserve, "Federal Reserve issues FOMC statement," Press Release, September 17, 2025, October 29, 2025, and December 10, 2025.

[9] Federal Reserve Press Release, June 17, 2026.

Q. What has happened to the yields on long-term government bonds since the FOMC first reduced the federal funds rate in September 2024?

A. As shown in Figure 3, while the yield on the 10-year Treasury bond declined prior to the time of the first federal funds rate cut, the yield has generally increased since the September 2024 FOMC meeting. Further, while the yield on the 10-year Treasury bond has been volatile recently, as of June 5, 2026, the 10-year Treasury bond yield was 4.55 percent, which is generally consistent with levels seen in May 2024, four months prior to the first reduction in the federal funds rate.

Figure 3: 10-Year Treasury Bond Yield, January 2024 – June 5, 2026[10]



[10] Federal Reserve Bank of St. Louis.

Q. Why have long-term interest rates remained above the levels at the time the Federal Reserve first reduced the federal funds rate in September 2024?

A. Ongoing policies of the current administration's economic plans have resulted in higher deficits, and persistent inflation. For example, since January 2025, the administration announced several sets of tariffs on each of the U.S.'s trading partners.[11] The implemented tariffs are largely viewed as inflationary. Inflation affects bonds, in particular long-term government bonds, because it erodes the value of future bonds payments. Therefore, in an inflationary environment, investors will demand higher returns on bonds to compensate for the added risk of inflation thus bond prices decline and the yields on bonds increase. The longer the duration of the bond, the greater the effect of inflation which is why inflation risk is greater for long-term government bonds. The significant tariff increases implemented by the current administration increase the risk that inflation will remain elevated, which is why the yields on long-term bonds have not decreased and in fact have increased since the Federal Reserve first reduced the federal funds rate in September 2024. Further, the use of tariffs strains the relationship with trading partners, which could result in a reduction in the foreign demand for long-term U.S. government bonds resulting in additional upward pressure on long-term government bond yields.[12]

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[11] Jennifer Clarke, "What Are Tariffs, How Do They Work and Why Is Trump Using Them?" *BBC News*, August 27, 2025.

[12] Karishma Vanjani, "U.S. Treasury Bonds Sell Off as 30-Year Yield Rises Most Since 1982," *Barron's*, April 9, 2025.

Q. What effect does the recent Supreme Court ruling have on the tariffs implemented by the administration in 2025?

A. On February 20, 2026, the Supreme Court ruled that the tariffs implemented in 2025 under the International Emergency Economic Powers Act were illegal. However, the administration responded to the ruling by imposing a 15 percent tariff on all goods imported into the U.S. under Section 122 of the 1974 Trade Act,[13] which allows a President to implement global tariffs up to 15 percent for a period of five months after which the approval of Congress is needed for continuation of the tariffs. Therefore, the administration is still able to at least temporarily impose global tariffs, which, as noted, will continue to place upward pressure on prices.

Q. What are the expectations for the yields on long-term government bonds?

A. In the most recently published report by *Blue Chip Financial Forecasts*, the consensus estimate of economists is that the 30-year treasury bond yield will remain at 4.80 percent in Q3/2026 through Q3/2027.[14] Additionally, the consensus estimate over the longer-term (*i.e.*, 2027–2031) is 4.60 percent.[15] Further, *Reuters* published the results of a survey of 75 bond strategists which suggests that aggressive tax and spending reforms could add over $3 trillion to the debt over the next decade. Bond strategists expect long-term bond yields to remain elevated even with the expectation that the Fed

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[13] Dearbail Jordan, "Trump says he will increase his new global tariffs to 15%," *BBC*, February 22, 2026.

[14] *Blue Chip Financial Forecasts*, Vol. 45, No. 4, April 1, 2026, at 2.

[15] *Blue Chip Financial Forecasts*, Vol. 44, No. 12, December 1, 2025, at 14.

will decrease the federal funds rate because of inflation and a "resilient" economy.[16] This is important because it means that long-term interest rates are expected to remain elevated during the period that the Company's rates will be in effect.

Q. How should interest rates be considered in evaluating the cost of equity for CL&P?

A. As interest rates on treasury bonds increase, the cost of equity capital also increases. As shown in Figure 4 below, since the Company's last rate proceeding, the yield on the 30-year Treasury bond has increased 178 basis points, the federal funds rate has increased 193 basis points and inflation has increased 45 basis points. Therefore, it is reasonable to expect that the investor-required return is higher than was agreed to in the Company's last rate proceeding.

Figure 4: Change in Market Conditions Since Company's Last Rate Case

Docket	Date	Federal Funds Rate	30-Day Avg of 30-Year Treasury Bond Yield	Core Inflation Rate	CL&P Auth'd ROE
17-10-46					
Decision on 2017 Rate Case	4/18/2018	1.69%	3.05%	2.15%	9.25%
Current Proceeding					
Direct Testimony	5/29/2026	3.62%	4.83%	2.60%	TBD
Change since 2017 Rate Case:		*1.93%*	*1.78%*	*0.45%*	

[16] *Reuters*, "Long Treasury yields to stay elevated as inflation, debt pressures blunt Fed easing: Reuters poll," October 14, 2025.

Q. What are your conclusions regarding the effect of current market conditions on the cost of equity for the Company?

A. It is important to consider current and projected market conditions in setting the forward-looking ROE due to its effect on the estimated cost of equity. Although the FOMC reduced the federal funds rate several times in late 2025, the Federal Reserve has not reduced rates in 2026. Inflation remains higher than the Federal Reserve's target levels and employment is strong, suggesting that it is possible that rates will remain steady. Further, long-term interest rates remain elevated and are expected to continue to remain elevated due to inflationary policies such as tariffs and tax cuts and the recent volatility in energy costs. With long-term interest rates expected to remain relatively high, borrowing also remains relatively more expensive, and thus investors also demand a relatively high cost of capital, which means the cost of capital also remains relatively high.

V. Proxy Group Selection

Q. Please provide a brief profile of the Company.

A. CL&P, doing business as Eversource Energy, provides electric transmission and distribution services in Connecticut. The Company provides regulated retail electric service to approximately 1.32 million electric customers across a 157 cities and towns in Connecticut.[17] The Company operates over 16,500 miles of overhead distribution lines and over 1,600 miles of overhead transmission lines, with 157 and 22 distribution

[17] Eversource Energy, Form 10-K, for the fiscal year ended December 31, 2025, at 3.

and transmission substations, respectively.[18] The Company's current issuer/corporate credit rating from S&P Global Ratings ("S&P") is A- and from Moody's Ratings ("Moody's") is Baa1.[19]

Q. Why have you used a proxy group of publicly traded companies to estimate the cost of equity for the Company?

A. In this proceeding, I am estimating the cost of equity for the Company, a rate-regulated subsidiary of Eversource Energy. Because the cost of equity is a market-based concept and the Company does not make up the entirety of a publicly traded entity, it is necessary to establish a group of companies that is both publicly traded and comparable to the Company in certain fundamental business and financial respects to serve as its "proxy" in the cost of equity estimation process.

Even if CL&P was a publicly traded entity, it is possible that transitory events could bias its market value over a given period. Using a proxy group moderates the effects of unusual events that may be associated with any one company. The companies included in the proxy group all possess a set of operating and risk characteristics that are substantially comparable to the Company's and thus provide a reasonable basis to derive and estimate the appropriate cost of equity for the Company.

Q. How do you select the companies included in your proxy group?

A. I have begun with the universe of companies that *Value Line Investment Survey* ("*Value*

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[18] *Id.*, at 23.

[19] *Id.*, at 35.

Line") classifies as Electric Utilities and applied the following screening criteria to select publicly traded companies that:

- pay consistent quarterly cash dividends because companies that do not pay dividends cannot be analyzed using the DCF model;
- have an investment grade long-term issuer rating;
- have positive long-term earnings growth forecasts from at least two utility industry equity analysts;
- derive more than 70 percent of total operating income from regulated electric operations; and
- were not party to a merger or transformative transaction during the analytical period considered.

Q. What is the composition of your proxy group?

A. The screening criteria discussed above is shown in Exhibit CLP-ROE-3 and resulted in a proxy group consisting of the companies shown in Figure 5.

Figure 5: Proxy Group

Company	Ticker
Alliant Energy Corporation	LNT
Ameren Corporation	AEE
American Electric Power Company, Inc.	AEP
Avista Corporation	AVA
Consolidated Edison, Inc.	ED
Duke Energy Corporation	DUK
Edison International	EIX
Entergy Corporation	ETR
Evergy, Inc.	EVRG
Exelon Corporation	EXC
FirstEnergy Corporation	FE
IDACORP, Inc.	IDA
OGE Energy Corporation	OGE
Pinnacle West Capital Corporation	PNW
PPL Corporation	PPL
Southern Company	SO
Xcel Energy Inc.	XEL

VI. Cost of Equity Estimation

Q. Please briefly discuss the ROE in the context of the regulated rate of return.

A. The overall rate of return for a regulated utility is the weighted average cost of capital, in which the costs of the individual sources of capital are weighted by their respective proportion (*i.e.*, book values) in the utility's capital structure. The ROE is the cost rate applied to the equity capital in calculating the overall rate of return for ratemaking purposes. While the costs of debt and preferred stock can be directly observed, the cost of equity is market-based and, therefore, must be estimated based on observable market data.

Q. How is the required cost of equity determined?

A. The required cost of equity is estimated using analytical techniques that rely on market-based data to quantify investor expectations regarding equity returns, adjusted for certain incremental costs and risks. Informed judgment is then applied to determine where the Company's cost of equity falls within the range of results produced by multiple analytical techniques. The key consideration in determining the cost of equity is to ensure that the methodologies employed reasonably reflect investors' views of the financial markets in general, as well as the subject company (in the context of the proxy group) in particular.

Q. What methods did you use to estimate the cost of equity for the Company in this proceeding?

A. As previously noted, I consider the results of the constant growth DCF, CAPM, ECAPM, and BYRP analyses.

Q. Is it important to use more than one analytical approach to estimate the cost of equity?

A. Yes. A reasonable cost of equity estimate appropriately considers alternative methodologies and the reasonableness of their individual and collective results. Because the cost of equity is not directly observable, it must be estimated based on both quantitative and qualitative information. When faced with the task of estimating the cost of equity, analysts and investors are inclined to gather and evaluate as much relevant data as reasonably can be analyzed. Several models have been developed to estimate the cost of equity, and I use multiple approaches to estimate the cost of equity. As a practical matter, however, all the models available for estimating the cost of equity are subject to limiting assumptions or other methodological constraints. Consequently, many well-regarded finance texts recommend using multiple approaches when estimating the cost of equity. For example, Copeland, Koller, and Murrin[20] suggest using the CAPM and Arbitrage Pricing Theory model, while Brigham and Gapenski[21] recommend the CAPM, DCF, and BYRP approaches.

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[20] Tom Copeland, Tim Koller and Jack Murrin, Valuation: Measuring and Managing the Value of Companies, 3rd Ed. (New York: McKinsey & Company, Inc., 2000), at 214.

[21] Eugene Brigham, Louis Gapenski, Financial Management: Theory and Practice, 7th Ed. (Orlando: Dryden Press, 1994), at 341.

a. Constant Growth DCF Model

Q. Please describe the DCF approach.

A. The DCF approach is based on the theory that a stock's current price represents the present value of all expected future cash flows. In its most general form, the DCF model is expressed as follows:

$$P_0 = \frac{D_1}{(1+k)} + \frac{D_2}{(1+k)^2} + \ldots + \frac{D_\infty}{(1+k)^\infty} \quad [1]$$

Where P_0 represents the current stock price, D1…D∞ are all expected future dividends, and k is the discount rate, or required ROE. Equation [1] is a standard present value calculation that can be simplified and rearranged into the following form:

$$k = \frac{D_0(1+g)}{P_0} + g \quad [2]$$

Equation [2] is often referred to as the constant growth DCF model in which the first term is the expected dividend yield and the second term is the expected long-term growth rate.

Q. What assumptions are required for the constant growth DCF model?

A. The constant growth DCF model requires the following four assumptions: (1) a constant growth rate for earnings and dividends; (2) a stable dividend payout ratio; (3) a constant price-to-earnings ratio; and (4) a discount rate greater than the expected growth rate. To the extent that any of these assumptions are not objectively valid, considered judgment and/or specific adjustments should be applied to the results.

Q. What market data did you use to calculate the dividend yield in your constant growth DCF model?

A. The dividend yield in my constant growth DCF model is based on the proxy group companies' current annualized dividend and average closing stock prices over the 30-day, 90-day, and 180-day trading day periods ended May 31, 2026.

Q. Why do you use these averaging periods?

A. I use an average of recent trading days to calculate the term P_0 in the DCF model to reflect current market data while also ensuring that the result of the model is not skewed by anomalous events that may affect stock prices on any given trading day.

Q. Did you make any adjustments to the dividend yield to account for periodic growth in dividends?

A. Yes. Because utility companies tend to increase their quarterly dividends at different times throughout the year, it is reasonable to assume that dividend increases will be evenly distributed over calendar quarters. Given that assumption, it is reasonable to apply one-half of the expected annual dividend growth rate for purposes of calculating the expected dividend yield component of the DCF model. This adjustment ensures that the expected first-year dividend yield is, on average, representative of the coming twelve-month period, and does not overstate the aggregated dividends to be paid during that time.

Q. Why is it important to select appropriate measures of long-term growth in applying the DCF model?

A. In its constant growth form, the DCF model (*i.e.*, Equation [2]) assumes a single growth estimate in perpetuity. To reduce the long-term growth rate to a single measure, one must assume that the payout ratio remains constant and that earnings per share ("EPS"), dividends per share, and book value per share all grow at the same constant rate. However, over the long run, dividend growth can only be sustained by earnings growth, meaning earnings are the fundamental driver of a company's ability to pay dividends. Therefore, projected EPS growth is the appropriate estimate of a company's long-term projected growth. In contrast, changes in a company's dividend payments are based on management decisions related to cash management and other factors. For example, a company may decide to retain earnings rather than pay out a portion of those earnings to shareholders through dividends. Thus, dividend growth rates are less likely than earnings growth rates to accurately reflect investor perceptions of a company's growth prospects. Accordingly, I have incorporated several sources of long-term EPS growth rates into the constant growth DCF model.

Q. What sources of long-term growth rates did you rely on in your Constant Growth DCF model?

A. My constant growth DCF model incorporates three sources of long-term earnings growth rates: (1) *Zacks Investment Research* ("*Zacks*"); (2) *S&P Capital IQ*; and (3) *Value Line*.

Q. Have you previously relied on projected EPS growth rates provided by *Yahoo! Finance*?

A. Yes, however, *Yahoo! Finance* no longer reports consensus projected 3- to 5-year EPS growth rates. As a result, I have replaced this source with the consensus projected 3- to 5-year EPS growth rates reported by *S&P Capital IQ*.

Q. Did you consider any other types of long-term growth rates in the development of your DCF analysis?

A. Yes, I did. I considered the use of retention growth rates, which are also known as "internal growth rates" or "sustainable growth rates". These were used by PURA as a measure of long-term growth in its decisions for Connecticut Light and Power Company in Docket No. 14-05-06,[22] United Illuminating Company in Docket No. 16-06-04,[23] Aquarian Water Company in Docket No. 22-07-01,[24] United Illuminating Company in Docket No. 22-08-08,[25] Connecticut Water Company in Docket No. 23-08-32,[26] and United Illuminating Company in Docket No. 24-10-04[27]. However, while I considered the use of retention growth rates, I ultimately concluded that it is not

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[22] Docket No. 14-05-06, Application of The Connecticut Light and Power Company to Amend Rate Schedules, (Dec. 17, 2014), at 127-128.

[23] Docket No. 16-06-04, Application of The United Illuminating Company to Increase Its Rates and Charges (Dec. 14, 2016), at 83.

[24] Docket No. 22-07-01 Application of Aquarion Water Company of Connecticut to Amend its Rate Schedule, March 15, 2023, at 46.

[25] Docket No. 22-08-08, Application of The United Illuminating Company to Amend its Rate Schedule, August 25, 2023 at 72-73.

[26] Docket No. 23-08-32, Application of Connecticut Water Company to Amend Its Rate Schedule (June 28, 2024), at 45-46.

[27] Docket No. 24-10-04, Application of The United Illuminating Company to Amend its Rate Schedule (Oct. 28, 2025), at 58-59.

appropriate to rely on retention growth rates as calculated by PURA as an estimate of long-term growth in the constant growth DCF model. My reasoning is that the retention growth rate relied on by PURA considers only the product of earnings retention rates and earned returns on common equity, or what are commonly known as internally generated funds.[28] In the sustainable growth rate formula, this is commonly referred to as the product of "b" and "r" (where "b" is the retention ratio, or the portion of net income not paid in dividends, and where "r" is the expected ROE on the portion of net income that is retained within the Company as a means for future growth). Therefore, the calculation of the retention growth rate fails to consider that earnings growth also occurs as a result of new equity issuances, or what are commonly known as externally generated funds. In the sustainable growth rate formula, this is shown as the product of "s" and "v" (where "s" represents the growth in shares outstanding, and where "v" is that portion of the M/B ratio that exceeds unity). This methodology is recognized as a common approach to calculating the sustainable growth rate.[29] By only considering the funds from internally generated sources, PURA's sustainable growth rate calculation understates the prospective growth rates for the companies included in the proxy group.

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[28] Docket No. 14-05-06, Application of The Connecticut Light and Power Company to Amend Rate Schedules, (Dec. 17, 2014), at 127-128.

[29] *See* Roger Morin, New Regulatory Finance, at 306.

Q. Do you have other concerns with the use of sustainable growths rates as the estimate of growth in the DCF model?

A. Yes. The sustainable growth calculation assumes that future earnings will increase as the retention ratio (*i.e.,* the portion of earnings not paid out in dividends) increases. In other words, the calculation assumes that future earnings growth is inversely related to the dividend payout ratio. However, academic research has found that this relationship does not hold. For example, Zhou and Ruland (2006), Gwilym, *et. al*. (2006) and Vivian (2006) discussed the theory that high dividend payouts (*i.e*., low retention ratios) are associated with low future earnings growth.[30] Each of these studies also cited Arnott and Asness (2003) that found, over the course of 130 years of data, future earnings growth is associated with high, rather than low payout ratios.[31] Specifically, Arnott and Asness (2003) concluded:

> Unlike optimistic new-paradigm advocates, we found that low payout ratios (high retention rates) historically precede low earnings growth. This relationship is statistically strong and robust. We found that the empirical facts conform to a world in which managers possess private information that causes them to pay out a large share of earnings when they are optimistic that dividend cuts will not be necessary and to pay out a small share when they are pessimistic, perhaps so that they can be confident of maintaining the dividend payouts. Alternatively, the facts also fit a world in which low payout ratios lead to, or come with, inefficient empire building and the funding of less than-ideal projects and investments, leading to poor subsequent growth, whereas high payout ratios lead to more carefully chosen projects. The empire-

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[30] Zhou, Ping and Ruland, William. "Dividend Payout and Future Earnings Growth." Financial Analysts Journal, Vol. 62, No. 3, 2006; Gwilym, Owain, James Seaton, Karina Suddason, and Stephen Thomas. "International Evidence on the Payout Ratio, Earnings, Dividends and Returns." Financial Analysts Journal, Vol. 62, No. 1, 2006; Vivian, A. (2006), The Payout Ratio, Earnings Growth Returns: UK Industry Evidence. Working Paper, School of Economics, Finance and Business, University of Durham.

[31] Arnott, Robert and Clifford Asness. "Surprise: Higher Dividends = Higher Earnings Growth." Financial Analysts Journal, Vol. 59, No. 1, January/February 2003. Since the payout ratio is the inverse of the retention ratio, the authors found that future earnings growth is negatively related to the retention ratio.

> building story also fits the initial macroeconomic evidence quite well. At this point, these explanations are conjectures; more work on discriminating among competing stories is appropriate.[32]

All four studies found that there is a negative, not a positive, relationship between earnings growth rates and retention ratios.

Q. Do you rely on dividend per share ("DPS") and book value per share ("BVPS") growth rates?

A. No, I do not. There are several reasons why reliance on *Value Line* projections of DPS growth and BVPS growth are not appropriate. First, the use of dividend and book value growth rates ignores the academic research demonstrating that earnings growth rates are most relevant in stock price valuation.[33] Second, the rate of dividend growth is entirely dependent on dividend policy—and moreover, only measures a portion of the growth experienced by a company. The rate of book value growth is also highly dependent on dividend policy. The rate of earnings growth is a more robust measure

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[32] Arnott, Robert and Clifford Asness. "Surprise: Higher Dividends = Higher Earnings Growth." Financial Analysts Journal, Vol. 59, No. 1, January/February 2003. Since the payout ratio is the inverse of the retention ratio, the authors found that future earnings growth is negatively related to the retention ratio.

[33] *See, e.g.*, Harris, Robert S. "Using Analysts' Growth Forecasts to Estimate Shareholder Required Rates of Return." *Financial Management*, Spring 1986, at 66; Vander Weide, James H. and Willard T. Carleton. "Investor growth expectations: Analysts vs. history." *The Journal of Portfolio Management*, Spring, 1988; Harris, Robert S. and Felicia C.Marston. "Estimating Shareholder Risk Premia Using Analysts' Growth Forecasts." *Financial Management*, Summer, 1992; Advanced Research Center. "Investor Growth Expectations." Summer 2004; Brigham, Eugene F. and Dilip K. Shome and Steve R. Vinson. "The Risk Premium Approach to Measuring a Utility's Cost of Equity." *Financial Management*, Vol. 14, No. 1, Spring, 1985; Morin, Dr. Roger A. New Regulatory Finance. Public Utilities Reports, Inc., 2006, pp. 299-303; Liu, Jing, *et al*. "Equity Valuation Using Multiples." *Journal of Accounting Research*, Vol. 40 No. 1, March 2002; Gleason, C.A., *et al*. "Valuation Model Use and the Price Target Performance of Sell-Side Equity Analysts." *Contemporary Accounting Research*, September 2011; Jung, Boochun, *et. al*. "Do financial analysts' long-term growth forecasts matter? Evidence from stock recommendations and career outcomes." *Journal of Accounting and Economics*, Vol. 53 Issues 1-2, February-April 2012.

of total company growth, and it is not distorted by a company's internal financial policies as DPS and BVPS growth rates are.

Q. How do you calculate the range of results for the constant growth DCF models?

A. I calculate results using the average EPS growth rate from all three sources for each proxy group company. In addition, I calculate a low-end result for the constant growth DCF models using the minimum growth rate of the three sources (*i.e.*, the lowest of the *Zacks*, *S&P Capital IQ*, and *Value Line* projected EPS growth rates) for each of the proxy group companies, and use a similar approach to calculate a high-end result, using the maximum growth rate of the three sources for each proxy group company.

Q. What are the results of DCF analyses?

A. Figure 6 summarizes the results of my DCF analyses, which are also provided in Exhibit CLP-ROE-4.

Figure 6: Constant Growth DCF Model Results

	Minimum Growth Rate	Average Growth Rate	Maximum Growth Rate
Mean Results			
30-Day Avg. Stock Price	9.31%	10.67%	11.76%
90-Day Avg. Stock Price	9.33%	10.69%	11.78%
180-Day Avg. Stock Price	9.49%	10.85%	11.94%
Average	9.38%	10.74%	11.83%
Median Results			
30-Day Avg. Stock Price	9.62%	10.66%	11.47%
90-Day Avg. Stock Price	9.59%	10.72%	11.47%
180-Day Avg. Stock Price	9.79%	10.88%	11.55%

Average	9.66%	10.76%	11.50%

b. CAPM Analysis

Q. Please briefly describe the CAPM.

A. The CAPM is a risk premium approach that estimates the cost of equity for a given security as a function of a risk-free return plus a risk premium to compensate investors for the non-diversifiable or "systematic" risk of that security.[34] The CAPM is defined by four components.

[3]

Where:

K_e = the required return of an individual security;

β = the beta coefficient of an individual security;

r_f = the risk-free rate of return; and

r_m = the required return on the market as a whole.

In this specification, the term ($r_m - r_f$) represents the market risk premium, which measures the relative riskiness of the security being evaluated. According to the theory underlying the CAPM, because unsystematic risk can be diversified away, investors

[34] Systematic risk is the risk inherent in the entire market or market segment, which cannot be diversified away using a portfolio of assets. Unsystematic risk is the risk of a specific company that can, theoretically, be mitigated through portfolio diversification.

should only be concerned with systematic or non-diversifiable risk. Non-diversifiable risk is measured by beta, which is defined as:

$$\beta = \frac{Covariance(r_e, r_m)}{Variance(r_m)} \quad [4]$$

Variance (r_m) represents the variance of the market return which is a measure of the uncertainty of the general market. *Covariance* (r_e, r_m) represents the covariance between the return on a specific security and the general market, which reflects the extent to which the return on that security will respond to a given change in the general market return. Thus, beta represents the risk of the security relative to the general market.

Q. What risk-free rate did you use in your CAPM analysis?

A. I use three estimates of the yield on Treasury bonds: (1) the current 30-day average yield on 30-year Treasury bonds (4.99 percent);[35] (2) the projected 30-year U.S. Treasury bond yield for Q3 2026 through Q3 2027 (*i.e.*, 4.88 percent);[36] and (3) the projected 30-year U.S. Treasury bond yield for 2028 through 2032 (*i.e.*, 4.70 percent).[37]

Q. What beta coefficients do you use in your CAPM analysis?

A. As shown in Exhibit CLP-ROE-5, I use the beta coefficients for the proxy group companies as reported by *Value Line*, which are based on five years of weekly returns

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35 *Bloomberg Professional*, as of May 31, 2026.

36 *Blue Chip Financial Forecasts*, Vol. 45, No. 6, June 1, 2026, at 2.

37 *Blue Chip Financial Forecasts*, Vol. 45, No. 6, June 1, 2026, at 14.

relative to the New York Stock Exchange Composite Index. Additionally, as shown on Exhibit CLP-ROE-5 and Exhibit CLP-ROE-6, I also consider another CAPM analysis that relies on the long-term average beta coefficient for the companies in my proxy group, which is calculated as an average of the *Value Line* beta coefficients for the companies in my proxy group from 2013 through 2025.

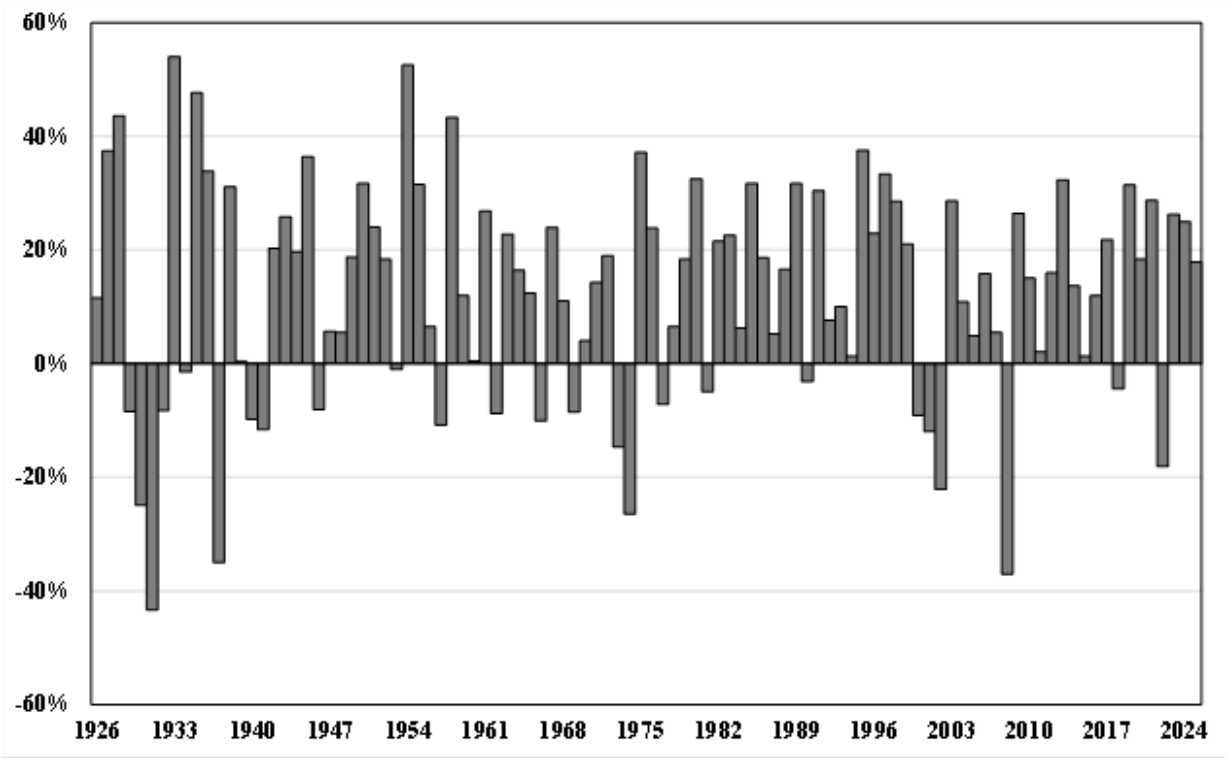
Q. How do you estimate the market risk premium in the CAPM?

A. I estimate the market risk premium as the difference between the implied expected equity market return and the risk-free rate. As shown in Exhibit CLP-ROE-7, the expected market return is calculated using the constant growth DCF model discussed previously in my testimony for the companies in the S&P 500 Index. Based on an estimated market capitalization-weighted dividend yield of 1.29 percent and a weighted long-term growth rate of 12.02 percent, the estimated required market return for the S&P 500 Index as of May 31, 2026, is 13.38 percent.

Q. How does the expected market return compare to observed historical market returns?

A. As shown in Figure 7, given the range of annual equity returns that have been observed over the past century, the current expected market return is reasonable. In 53 out of the past 100 years (or 53.00 percent of observations), the realized equity market return was at least 13.38 percent or greater.

Figure 7: Realized U.S. Equity Market Returns (1926–2025)[38]



Q. Did you consider another form of the CAPM in your analysis?

A. Yes. I also consider the results of an ECAPM analysis in estimating the cost of equity.[39] The ECAPM calculates the product of the adjusted beta coefficient and the market risk premium and applies a weight of 75.00 percent to that result. The model then applies a 25.00 percent weight to the market risk premium without any effect from the beta coefficient. The results of the two calculations are summed, along with the risk-free rate, to produce the ECAPM result, as noted in Equation [5] below:

$$k_e = r_f + 0.75\beta(r_m - r_f) + 0.25(r_m - r_f) \quad [5]$$

---

[38] Depicts total annual returns on large company stocks, as reported in the 2023 *Kroll* SBBI Yearbook for 1926-2022 and from *S&P Capital IQ Pro* for 2023-2025.

[39] *See e.g.*, Roger A. Morin, *New Regulatory Finance*, Public Utilities Reports, Inc., 2006, at 189.

Where:

k_e = the required return of an individual security;

β = the adjusted beta coefficient of an individual security;

r_f = the risk-free rate of return; and

r_m = the required return on the market as a whole.

This addresses the tendency of the "traditional" CAPM to underestimate the cost of equity for companies with low beta coefficients such as regulated utilities. In that regard, the ECAPM is not redundant to the use of adjusted betas in the traditional CAPM; rather, it recognizes the results of academic research indicating that the risk-return relationship is different (in essence, flatter) than estimated by the CAPM, meaning that the CAPM underestimates the cost of equity for companies with a beta less than 1.0 and overestimates the cost of equity for companies with a beta greater than 1.0.[40]

Consistent with the CAPM, my application of the ECAPM uses the same three yields on the 30-year Treasury bond as the risk-free rate, forward-looking market return, and beta coefficients.

[40] *Id*., at 191.

Q. What are the results of your CAPM and ECAPM analyses?

A. The results of my CAPM and ECAPM analyses are summarized below in Figure 8 and also presented in Exhibit CLP-ROE-5.

Figure 8: Summary of CAPM and ECAPM Results

	30-Year Treasury Bond Yield		
	Current 30-Day Avg.	Near-Term Forecast	Longer-Term Forecast
CAPM			
Current *Value Line* Beta	11.21%	11.18%	11.14%
Long-term Avg. *Value Line* Beta	11.45%	11.43%	11.38%
ECAPM			
Current *Value Line* Beta	11.75%	11.73%	11.70%
Long-term Avg. *Value Line* Beta	11.94%	11.92%	11.88%

c. <u>BYRP Analysis</u>

Q. Please describe the BYRP approach.

A. In general terms, this approach is based on the fundamental principle that equity investors bear the residual risk associated with equity ownership and therefore require a premium over the return they would have earned as bondholders. In other words, because returns to equity holders have greater risk than returns to bondholders, equity investors must be compensated to bear that risk. Thus, risk premium approaches estimate the expected return on equity as the sum of the equity risk premium and the yield on a particular class of bonds. In my analysis, I use historical authorized returns

for electric utilities across the United States as the measure of the expected return on equity at that time to determine the risk premium at that time.

Q. What is the fundamental relationship between the equity risk premium and interest rates?

A. Both academic literature and market evidence indicate that the equity risk premium (as used in this approach) is inversely related to the level of interest rates (*i.e.*, as interest rates increase, the equity risk premium decreases, and vice versa). Consequently, it is important to develop an analysis that: (1) reflects the inverse relationship between interest rates and the equity risk premium; and (2) relies on recent and expected market conditions. The analysis presented on Exhibit CLP-ROE-8 establishes that relationship using a regression of the risk premium as a function of U.S. Treasury bond yields. When the authorized ROEs serve as the measure of expected equity returns and the long-term Treasury bond yield is defined as the relevant measure of interest rates, the risk premium is the difference between those two points.[41]

[41] *See e.g.*, S. Keith Berry, "Interest Rate Risk and Utility Risk Premia during 1982-93," *Managerial and Decision Economics*, Vol. 19, No. 2, March 1998 (the author used a similar methodology, including using authorized ROEs as the relevant data source, and came to similar conclusions regarding the inverse relationship between risk premia and interest rates). *See also* Robert S. Harris, "Using Analysts' Growth Forecasts to Estimate Shareholders' Required Rates of Return," *Financial Management*, Spring 1986, at 66.

Q. What does your BYRP analysis reveal?

A. As shown in Figure 9, there is a strong negative relationship between risk premia and interest rates. To estimate that relationship, I have conducted a regression analysis using the following equation:

$$RP = a + b(T) \qquad [6]$$

Where:

RP = Risk Premium (difference between allowed ROEs and the yield on 30-year U.S. Treasury bonds)

a = intercept term

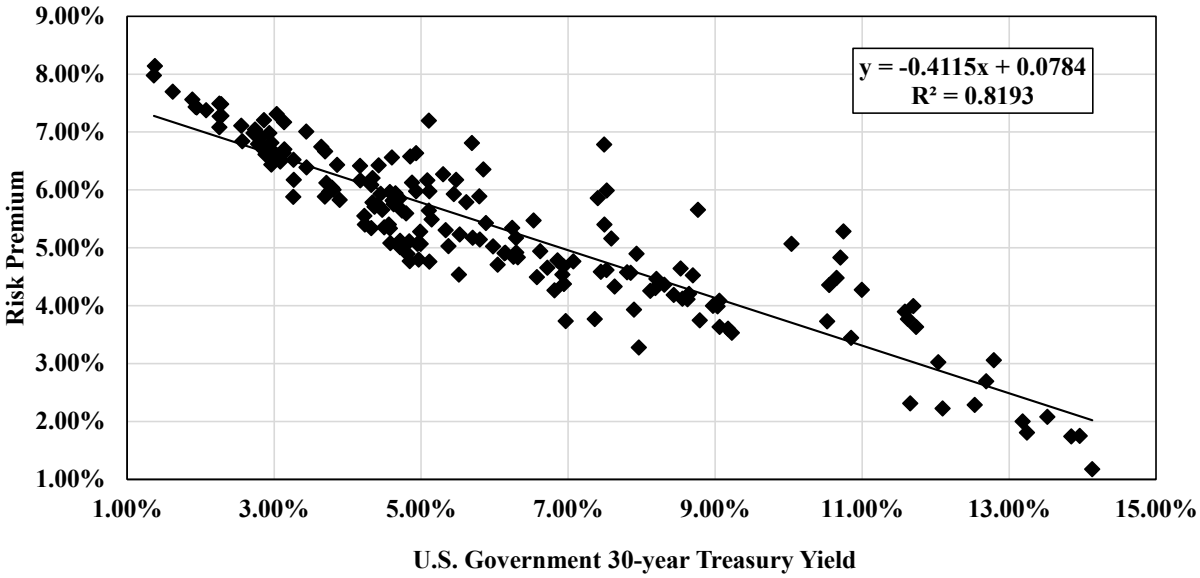
b = slope term

T = 30-year U.S. Treasury bond yield

Data regarding authorized ROEs is derived from all electric utility cases from January 1980 through May 2026 as reported by Regulatory Research Associates ("RRA").[42] This equation's coefficients were statistically significant at the 99.00 percent level.

[42] Authorized ROE results from limited issue rider cases, transmission-only cases, and cases that were silent with respect to the authorized ROE are excluded from this analysis.

Figure 9: Risk Premium Results



Q. What are the results of your BYRP analysis?

A. The results of the BYRP analysis are shown in Figure 10, which are also presented in more detail in Exhibit CLP-ROE-8.

Figure 10: BYRP Results

	30-Year Treasury Bond Yield		
	Current 30-Day Avg.	Near-Term Forecast	Longer-Term Forecast
Bond Yield Risk Premium	10.78%	10.71%	10.61%

VII. Regulatory and Business Risks

Q. Taken alone, do the results from the cost of equity estimation models for the proxy group provide an appropriate estimate of the cost of equity for the Company?

A. No. These results provide only a range for the appropriate estimate of the Company's cost of equity. There are several additional factors that must be taken into consideration

when determining where the Company's cost of equity falls within the range of results. These factors, which are discussed below, should be considered with respect to their overall effect on the Company's risk profile.

a. Capital Expenditures

Q. Please summarize the Company's capital expenditure requirements.

A. As of December 31, 2025, the Company had net utility plant of approximately $7.216 billion, and the Company currently projects capital expenditures for 2027 through 2031 of approximately $3.99 billion.

Q. How is the Company's risk profile affected by its substantial capital expenditure requirements?

A. As with any utility faced with substantial capital expenditure requirements, the Company's risk profile may be adversely affected in two significant and related ways: (1) the heightened level of investment increases the risk of under-recovery or delayed recovery of the invested capital; and (2) an inadequate return would put downward pressure on key credit metrics.

Q. Do credit-rating agencies recognize the risks associated with elevated levels of capital expenditures?

A. Yes. From a credit perspective, the additional pressure on cash flows associated with high levels of capital expenditures exerts corresponding pressure on credit metrics and,

therefore, credit ratings. To that point, S&P explains the importance of regulatory support for large capital projects:

> When applicable, a jurisdiction's willingness to support large capital projects with cash during construction is an important aspect of our analysis. This is especially when the project represents a major addition to rate base and entails long lead times and technological risks that make it susceptible to construction delays. Broad support for all capital spending is the most credit-sustaining. Support for only specific types of capital spending, such as specific environmental projects or system integrity plans, is less so, but still favorable for creditors. Allowance of a cash return on construction work-in-progress or similar ratemaking methods historically were extraordinary measures for use in unusual circumstances, but when construction costs are rising, cash flow support could be crucial to maintain credit quality through the spending program. Even more favorable are those jurisdictions that present an opportunity for a higher return on capital projects as an incentive to investors.

Recently, S&P evaluated the capital expenditure trends in the utility sector, noting that the balance between operating with negative discretionary cash flow from operations offset by reliable access to capital markets for financing may be tested through ever-increasing capital expenditure requirements as a result of data center growth and the transformation of the energy sector through the focus on low/no carbon generation, electrification, and the replacement of aging infrastructure:

> Capital spending is exploding. The industry's capital spending over the past decade has been growing at a compound annual growth rate at about 6%. The industry's spending was mostly focused on safety, reliability, and energy transition, successfully reducing its greenhouse gas emissions by about 27%.
>
> To accomplish its goals, the industry has transformed its generation, increasing its reliance on renewables (about 25% of total generation) and decreasing its reliance on coal fired generation (about 15% of total generation).

> However, because of data center growth, we expect IOU capital spending will grow at unprecedented levels during the next decade. To maintain credit quality over this timeframe, the industry must fund these projects in a credit-supportive manner.

Therefore, to the extent that the Company's rates do not continue to permit the opportunity to recover its capital investments on a regular basis, it will face increased recovery risk and thus increased pressure on its credit metrics.

Q. Is the Company proposing a mechanism for recovery of capital investment?

A. Yes. As discussed in the testimony of the Eversource Leadership Panel, the Company is proposing a performance based ratemaking framework that will provide revenue support for capital investments between rate cases, while ensuring proper oversight and transparency during the term of the plan, and while ensuring the Company remains laser-focused on efficiently deploying its capital infrastructure investment dollars.

Q. Have you reviewed the capital tracking mechanisms implemented by the proxy group companies?

A. Yes. As shown in Exhibit CLP-ROE-9, I have reviewed the capital tracking mechanisms that have been implemented by each of the utility operating subsidiaries of the proxy group companies. As shown in that exhibit approximately 78 percent of the operating utilities of the proxy group have some form of capital cost recovery mechanism in place.

Q. What are your conclusions about the relative risk of the Company as compared with the proxy group if the Company's capital cost recovery mechanism is approved?

A. Since the market data that is used to estimate the cost of equity is based on the proxy group companies, which includes capital tracking mechanisms to reduce regulatory lag, the implementation of a mechanism to support the costs of the Company's capital investments between rate proceedings would result in the Company having similar risk to the proxy group companies, all else equal. If the capital support framework proposed by the Company is not approved, the Company would have more risk related to regulatory lag and cost recovery than the proxy group companies, which would suggest a higher ROE than is estimated using the market data for the proxy group companies.

b. <u>Regulatory Risks</u>

Q. How does the regulatory environment affect investors' risk assessments?

A. The ratemaking process is premised on the principle that, for investors and companies to commit the capital needed to provide safe and reliable utility service to customers, the subject utility must have the opportunity to recover the return of, and the market-required return on, invested capital. Regulatory authorities recognize that because utility operations are capital-intensive, regulatory decisions should enable the utility to attract capital on reasonable terms, and doing so balances the long-term interests of investors and customers. To achieve this balance, the Company must be able to finance its operations assuming a reasonable opportunity to earn an appropriate return on invested capital to maintain an acceptable financial profile. In that respect, the

regulatory environment is one of the most important factors considered in both debt and equity investors' risk assessments.

From the perspective of debt investors, the authorized return should enable the utility to generate the cash flow needed to meet its near-term financial obligations, make the capital investments needed to maintain and expand its systems, and maintain the necessary levels of liquidity to fund unexpected events. This financial liquidity must be derived not only from internally generated funds, but also by efficient access to capital markets. Moreover, because fixed income investors have many investment alternatives, even within a given market sector, the utility's financial profile must be adequate on a relative basis to ensure its ability to attract capital under a variety of economic and financial market conditions.

In addition, equity investors require that the authorized return be adequate to provide a risk-comparable return on the equity portion of the utility's capital investments. Because equity investors are the residual claimants on the utility's cash flows (which is to say that the equity return is subordinate to interest payments), they are particularly concerned with the strength of regulatory support and its effect on future cash flows.

Q. Do credit rating agencies consider regulatory risk in establishing a company's credit rating?

A. Yes. Both Moody's and S&P consider the overall regulatory framework in establishing credit ratings. Moody's establishes credit ratings based on four key factors: (1) regulatory framework; (2) the ability to recover costs and earn returns;

(3) diversification; and (4) financial strength, liquidity and key financial metrics. Of these criteria, regulatory framework and the ability to recover costs and earn returns are each given a broad rating factor of 25.00 percent. Therefore, Moody's assigns regulatory risk a 50.00 percent weighting in the overall assessment of business and financial risk for regulated utilities.[43]

S&P also identifies the regulatory framework as an important factor in credit ratings for regulated utilities, stating: "we assess regulatory advantage because the influence of the regulatory framework and regime is of critical importance. It defines the environment in which a utility operates and has a significant bearing on a utility's financial performance."[44] S&P identifies four specific factors that it uses to assess the credit implications of the regulatory jurisdictions of investor-owned regulated utilities: (1) regulatory stability; (2) tariff-setting procedures and design; (3) financial stability; and (4) regulatory independence and insulation.[45]

Q. How does the regulatory environment in which a utility operates affect its access to and cost of capital?

A. The regulatory environment can significantly affect both the access to, and cost of, capital in several ways. First, the proportion and cost of debt capital available to utility companies are influenced by the rating agencies' assessment of the regulatory environment. As noted by Moody's, "Utility rates are set in a political/regulatory

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43 Moody's Ratings, Rating Methodology: Regulated Electric and Gas Utilities, August 6, 2024, at 2.

44 S&P Global Ratings, "Sector-Specific Corporate Methodology," April 4, 2024, at 147.

45 *Id*.

process rather than a competitive or free-market process; thus, the regulatory framework is a key determinant of the credit quality of a utility."[46] Moody's further highlighted the relevance of a stable and predictable regulatory environment to a utility's credit quality, noting: "The regulatory framework is important because it provides the basis for decisions that affect utilities, including rate-setting as well as the consistency and predictability of regulatory decision-making."[47]

Q. How do credit rating agencies consider regulatory risk in establishing a company's credit rating?

A. Moody's and S&P consider the overall regulatory framework in establishing credit ratings. Moody's establishes credit ratings based on four key factors: (1) regulatory framework; (2) the ability to recover costs and earn returns; (3) diversification; and (4) financial strength, liquidity and key financial metrics. Of these criteria, regulatory framework and the ability to recover costs and earn returns are each given a broad rating factor of 25.00 percent. Therefore, Moody's assigns regulatory risk a 50.00 percent weighting in the overall assessment of business and financial risk for regulated utilities.[48]

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46 Moody's Ratings, "Rating Methodology: Regulated Electric and Gas Utilities," August 6, 2024, at 8.

47 *Id*.

48 Moody's Ratings, Rating Methodology: Regulated Electric and Gas Utilities, August 6, 2024, at 2.

environment in which a utility operates and has a significant bearing on a utility's financial performance."[49] S&P identifies four specific factors that it uses to assess the credit implications of the regulatory jurisdictions of investor-owned regulated utilities: (1) regulatory stability; (2) tariff-setting procedures and design; (3) financial stability; and (4) regulatory independence and insulation.[50]

Q. How does the regulatory environment in which a utility operates affect its access to and cost of capital?

A. The regulatory environment can significantly affect both the access to and cost of capital in several ways. First, the proportion and cost of debt capital available to utility companies are influenced by the rating agencies' assessment of the regulatory environment. As noted by Moody's, "[u]tility rates are set in a political/regulatory process rather than a competitive or free-market process; thus, the regulatory framework is a key determinant of the credit quality of a utility."[51] Moody's further highlighted the relevance of a stable and predictable regulatory environment to a utility's credit quality, noting: "[t]he regulatory framework is important because it provides the basis for decisions that affect utilities, including rate-setting as well as the consistency and predictability of regulatory decision-making."[52]

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[49] S&P Global Ratings, "Sector-Specific Corporate Methodology," April 4, 2024, at 147.

[50] *Id*.

[51] Moody's Ratings, Rating Methodology: Regulated Electric and Gas Utilities, August 6, 2024, at 8.

[52] *Id*.

Q. Have the credit rating agencies identified significant risk factors for utilities in the current regulatory environment?

A. Yes. The credit rating agencies have specifically identified political risk as well as pressures related to affordability at a time when utilities have significant capital investments as increasing the overall regulatory risk for utilities.

For example, Fitch Ratings ("Fitch") had a "neutral" outlook for the utility industry going into 2026 noting that the stable outlook was supported by growth in sales related to data centers and a "generally benign" regulatory environment for utilities.[53] Fitch viewed load growth as a "positive development" because the growth is related to data centers, it raises longer-term uncertainty related to "rate design, customer concentration, and technology risks".[54] Further, at that time, Fitch expected capital expenditures for the industry to "set records" in order to meet the growing demand and to enhance reliability and modernization and noted the need for a balanced regulatory environment to facilitate cost recovery in a credit supportive manner.[55] On June 12, 2026, Fitch downgraded its outlook on the North American Utilities sector from neutral to 'deteriorating" from 'neutral', reflecting rising affordability concerns that are increasing political and regulatory risk for the sector.[56] Further, Fitch noted that "[w]hile our 2026 outlook issued in December 2025 identified regulatory resistance to

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53 Fitch Ratings, "North American Utilities & Power Outlook 2026," December 9, 2025, at 1

54 *Id.*

55 *Id.*

56 FitchRatings, Fitch Wire, "FitchRatings Revises North American Utilities & Power Outlook to Deteriorating," June 12, 2026.

rate increases as a key watchpoint, developments in 1H26 confirm that this risk is materializing faster and more broadly than anticipated."[57]

Similarly, at the end of 2025, Moody's had maintained its "stable" outlook for 2026 for the regulated gas and electric utilities sector based on the expectation of continued regulatory support in "most states."[58] Moody's was clear that constructive regulatory outcomes that promote timely cost recovery were the key factor in supporting utility credit quality as Moody's has identified that utilities could be exposed to a number of credit negative factors over the next 12 to 18 months. Specifically, Moody's noted the following factors: (1) macroeconomic factors are expected to be modestly credit negative due to upward pressure on natural gas prices and elevated inflation; and (2) increased power demand due to "the development of new data centers, electrification of transportation and buildings, manufacturing customers and underlying population growth" will increase power prices which when coupled with inflation and elevated capital spending increases utilities' exposure to affordability concerns.[59] In May 2026 Moody's issued a report indicating that political intervention in the rate process is credit negative for electric, gas and water utilities. Moody's also

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[57] *Id.*

[58] Moody's Investors Service, Outlook. "Outlook Stable; supportive regulation to offset modestly negative macro factors." October 31, 2025.

[59] *Id.*

noted that "affordability is becoming an increasingly important credit consideration for regulated utilities in the US amid rising supply costs and steady inflation."[60]

Lastly, in January 2026 S&P's outlook for the industry stated that after five years of downgrades outpacing upgrades, in 2025, upgrades outpaced downgrades and the percentage of companies with a negative outlook declined, which S&P noted pointed to a "more stable environment for credit quality in 2026."[61] However, S&P expected the industry to have increased cash flow deficits as a result of significant capital spending, which must be funded with both debt and equity to maintain credit quality.[62] S&P recognized the need for the utility industry to access capital markets to fund the significant capital expenditures. S&P also noted that credit quality would depend on the ability of utilities to manage regulatory risk and achieve fair rate case orders. Finally, while S&P's base case resulted in a stable outlook for the utility sector, S&P stated that about 40 percent of the industry has "minimal financial cushion" from the downgrade threshold and therefore would have limited ability to absorb any unexpected events outside of what is assumed in S&P's base case.[63] Three months later, S&P issued a white paper that highlighted the risks associated with affordability concerns, highlighting the effect on credit quality.

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60 Moody's Ratings, Regulated Utilities- Pennsylvania, "Political Intervention in rate process is credit negative for electric, gas and water utilities," May 19, 2026.

61 S&P Global Ratings. Industry Credit Outlook 2026, "North American Regulated Utilities: Data center growth will support credit quality in 2026," January 14, 2026.

62 *Id.*

63 *Id.*

> If affordability concerns persist, political intervention may intensify, posing risk to credit quality. Even in states where bills remain comparatively affordable, recent increases have proven politically salient. Rising competitive capacity costs, which utilities pass through to the customer bill, have already become a campaign issue in certain jurisdictions.
>
> ***
>
> Over time, persistently elevated bills may result in less credit-supportive rate case outcomes, eroding financial stability. [64]

Q. Please summarize the issues highlighted by the credit rating agencies that should be recognized throughout the evaluation of the Company's rate request.

A. While affordability is an issue that is of importance in the context of the overall rate proceeding, it is clear that the rating agencies have concerns that the political emphasis on affordability will result in rate case outcomes that are insufficient to meet current credit quality requirements at a time when utilities need to access the capital markets to fund significant capital investments to maintain the infrastructure and meet state level policy objectives.

Q. What risk factors have equity analysts identified for utilities operating in Connecticut?

A. Utility analysts have identified regulatory risk as a primary concern for Connecticut-based utilities. Heightened uncertainty around the regulatory framework and future decisions are expected to weigh on investors' minds, potentially limiting available capital.

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[64] S&P Global Ratings, RatingsDirect, White Paper: "Affordability Is Emerging As A Defining Issue For The U.S. Investor-Owned Electric Utility Industry," March 11, 2026.

For example, Regulatory Research Associates ("RRA") downgraded its regulatory ranking for Connecticut on January 9, 2025 from Below Average/2 to Below Average/3, the lowest ranking possible.[65] In regard to the downgrade, RRA noted:

> While Connecticut has long been considered to be more restrictive than average from an investor standpoint, over the last 18 months or so, the jurisdiction has become one the most challenging regulatory environments in the US. A string of recent punitive rate case decisions from the Connecticut Public Utilities Regulatory Authority (PURA) continues to demonstrate significant constriction in the regulatory climate and has created uncertainty surrounding the overall tenor of regulatory policy in the state. In these recent cases, the PURA has authorized well below industry average equity returns that included management performance penalties, but were below average without the penalties. In addition, a legislatively mandated alternative ratemaking proceeding is ongoing, in which the PURA is reviewing rules governing multi-year rate plans, earnings-sharing mechanisms, revenue decoupling and potential performance-based ratemaking measures for the electric utilities. With these issues to be resolved, turnover on the PURA is a particular concern. One commissioner has been serving on an interim basis, two are serving beyond the ends of their terms and there is one vacancy. These recent events notwithstanding, the PURA relies on historical test periods, which exacerbates regulatory lag and had a history of approving below average ROEs, even before legislation was enacted in 2020, requiring regulators to prioritize affordability in setting authorized returns. Recent legislation also extended the time period for the consideration of rate cases, further exacerbating lag. RRA lowered the range of Connecticut regulation from Below Average/1 to Below Average/2 in 2023 and again lowered the ranking to Below Average/3 in December 2024.[66]

Similarly, S&P downgraded its ranking of the Connecticut regulatory environment in January 2025 from "More Credit Supportive" to "Credit Supportive" noting that:

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[65] S&P Global Market Intelligence, "RRA State Regulatory Evaluations – Energy," January 2025.

[66] S&P Global Market Intelligence, "RRA State Regulatory Evaluations – Energy," January 2025.

> [r]ecently, we revised downward our assessment of Connecticut's regulatory construct to credit supportive from more credit supportive. We now expect the state's regulated utilities will be increasingly subject to below-average authorized ROEs, regulatory lag, and an inconsistent ability to earn their lower authorized ROEs. These developments will increase the utilities' cash flow volatility, decrease the stability of their financial performances, and weaken their ability to consistently manage regulatory risk. Other regulatory jurisdictions that we continue to carefully monitor include Arizona, Colorado, District of Columbia, Illinois, Maryland, Michigan, New Mexico, Texas, and West Virginia.[67]

More recently, RRA has updated its evaluation of Connecticut regulation, suggesting that the new composition of PURA may reduce the previous adversarial posture, though it is too early to determine. Therefore, it is clear that analysts will be reviewing the outcome of this proceeding in their evaluations of the overall regulatory framework.

> Connecticut's regulatory framework is viewed by RRA as among the most restrictive from an investor perspective, with heightened regulatory uncertainty observed in recent years.
>
> With the departure of former Chair Marissa Gillett in fall 2025, the composition of PURA has changed, with four new members appointed. These new individuals may provide a moderating influence, as early signals from the new leadership point to a more measured and less adversarial regulatory posture, although it remains too early to determine.
>
> Historically, authorized returns on equity (ROEs) have been well below the average of returns accorded energy utilities nationwide at the time established. Authorized ROEs in recent years for both the electric and gas utilities have been considerably below national averages and ROEs at times have included penalties.
>
> Legislation enacted in 2020 extended the statutory deadlines for completion of rate cases, merger reviews and financing applications. It also established a framework for storm-response penalties and ratepayer restitution and required the establishment of performance-based regulation (PBR) for the state's electric distribution companies.

[67] S&P Global Ratings, North America Regulated Utilities: CapEx and climate change pressure credit quality, January 14, 2025.

> Historically, the PURA has used certain innovative mechanisms such as multiyear rate plans that have included earnings-sharing mechanisms, incentives related to demand-side management and revenue decoupling. Under state law, an interim rate hearing may be held by the PURA: when a utility has earned a return on equity exceeding its authorized return by at least 50 basis points for the rolling 12-month period ending with the two most recent consecutive financial quarters. There is no automatic mechanism for addressing under-earnings.
>
> State law requires the PURA to conduct a financial and operational review of each major utility at least every four years and a managerial audit of the utility's operations every six years. The PURA may initiate these reviews more frequently, unless it would violate the terms of a PURA decision.
>
> Earnings sharing mechanisms are in place for all of the state's electric utilities that require the companies to share with ratepayers earnings in excess of the authorized ROE, but there is no sharing of under-earnings.
>
> ***
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> Decoupling mechanisms are in place for the state's energy utilities and the gas utilities utilize gas-cost-recovery mechanisms. One utility does have an electric tracking mechanism in place for resiliency investments; however, in accordance with a recently enacted legislation, the PURA is prohibited from reauthorizing the mechanism.
>
> RRA lowered the ranking of Connecticut regulation from Below Average/1 to Below Average/2 in 2023, and again lowered the ranking to Below Average/3 in December 2024.[68]

Q. Has the Connecticut regulatory environment affected CL&P's credit ratings?

A. Yes. Over the past several years, the rating agencies have identified a persistent decline in the constructiveness of regulatory outcomes in Connecticut that ultimately contributed to the downgrade of CL&P. In 2023, S&P revised its outlook for all of

[68] S&P Capital IQ RRA Commission Reviews- Energy -RRA Evaluation, May 12, 2026

Eversource's Connecticut utilities including CL&P, Aquarion and Yankee Gas to negative:

> Should we revise downward our assessment of Connecticut's regulatory construct over the next 12-18 months, it would result in an increase in business risk for Eversource's Connecticut utilities, reflecting a weakening ability to effectively manage regulatory risk. In our view, consistent adverse regulatory outcomes could also limit the extent of Eversource's parental support for these utilities in certain situations and would likely result in our reassessment of Eversource's group support of these utilities to below core. This would then likely result in a ratings downgrade for CL&P, Aquarion, and Yankee Gas.[69]

In its rating of CL&P in June 2024, S&P noted that it was continuing to monitor Connecticut regulatory developments that were perceived to increase regulatory risk:

> We continue to monitor regulatory developments in Connecticut and what they may mean for the credit quality of investor-owned utilities in the state, including Connecticut Light & Power Co. (CL&P) We believe these companies recently have had difficulty effectively managing regulatory risk in the state. The recently passed Senate Bill 7 now gives Connecticut's Public Utilities Regulatory Authority (PURA) greater latitude in determining whether companies over earn, prohibits PURA from reauthorizing the electric system improvements charge, and allows PURA's discretion over the use of decoupling, whereas decoupling was previously codified into state law. Overall, we believe this law decreases utilities' cash flow predictability and increases regulatory lag. Furthermore, recent rate orders for Aquarion Co. and The United Illuminating Co. (an Avangrid Inc. subsidiary) also significantly deviated from our base cases. These rate orders did not approve the multiyear rate plans filed, included material disallowances, penalties for United Illuminating, and below-average authorized returns on equity (ROE). We also expect these rate orders will increase regulatory lag for these utilities. Additionally, The Connecticut Water Co. recently received a draft decision in its rate case, which calls for a rate increase significantly below the company's request and a below-average authorized ROE. Moreover, the Connecticut Natural Gas Corp. and The Southern Connecticut Gas Co. recently filed rate cases in Connecticut

[69] S&P Capital IQ RatingsDirect, Eversource Energy Outlook Revised to Stable from Positive; Connecticut-Based Subsidiaries' Outlooks Revised to Negative, September 14, 2023.

> and the Office of Consumer Counsel has recommended rate decreases in both cases. We believe these rate case developments potentially indicate a longer-term weakening of Connecticut's regulatory construct. Should these negative conditions persist, the credit quality of Connecticut's regulated utilities could be diminished.[70]

In addition, S&P also identified concerns related to the prudency review surrounding CL&P's deferred storm restoration cost hearing.

> We will monitor these proceedings to further inform our view of CL&P's management of regulatory risk in the state, especially considering the history of scrutiny concerning CL&P's restoration response during Tropical Storm Isaias. As such, we do not expect a material impact to cash flows over the near term arising from these proceedings given the current procedural schedule.[71]

In December 2024 Eversource and CL&P were downgraded. CL&P was downgraded from A to A- in part related to the increased risk resulting from Connecticut regulation, specifically the recent rate decisions in the state that ordered below-average authorized ROEs and significant reductions in rate base.

> We revised downward our assessment of Connecticut's regulatory construct for Eversource's Connecticut utilities. The assets of CL&P and Yankee Gas that are regulated by Connecticut's Public Utilities Regulatory Authority (PURA) account for about 25% of Eversource's consolidated EBITDA. In recent rate orders for Avangrid subsidiaries Connecticut Natural Gas and Southern Connecticut Gas, the PURA ordered material base rate decreases reflecting reduced depreciation expense, below-average authorized returns on equity (ROE) of 9.15%, and significant reductions in proforma rate base. Additionally, we have assessed PURA's rate orders over the past two years, which were materially lower than we assumed under our base-case forecasts, as not credit supportive. In general, we expect utilities to operate in a regulatory jurisdiction that is supportive of their credit quality by allowing for the full recovery of their operating and capital costs in a

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[70] S&P Global Ratings, RatingsDirect, Tear Sheet: Connecticut Light & Power Co. June 17, 2024.

[71] *Id.*

> timely manner. We also expect the regulatory jurisdiction to provide a consistent and predictable regulatory framework that results in cash flow stability. Given, the current trend in Connecticut, we now expect that the PURA will continue to order less-than-credit supportive rate case orders over the longer-term.
>
> Additionally, we assessed the 2023 signing of Connecticut Senate Bill 7 into law as negative for the credit quality of utilities because it discontinued the use of the electric system improvement charge in future rate proceedings. The bill also provided PURA with discretion regarding the consistent implementation of decoupling, which we expect will decrease the cash flow predictability of the utilities it regulates. Accordingly, we believe business risk has increased for Eversource Energy and its Connecticut-based subsidiaries and expect they will be increasingly subject to below-average ROEs, regulatory lag, and an inconsistent ability to earn their authorized ROEs and achieve credit-supportive regulatory outcomes. We believe these developments will also increase the companies' cash flow volatility, decrease the stability of their financial performances, and weaken their ability to consistently manage regulatory risk over our forecast period.[72]

S&P's stable outlook was based on the assumption that the Connecticut companies' management of regulatory risk would not further deteriorate in Connecticut.

Q. Has S&P revised its ratings on CL&P since December 2024?

A. No. S&P noted its lower assessment of the Connecticut commission's credit supportiveness over the prior 18 months but acknowledge changes in the composition of the commission and more recent constructive regulatory outcomes. S&P indicated that the rating agency would "continue to monitor what the overall commission changes mean for regulatory matters in the state, including future rate cases and the

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[72] S&P Global Ratings, RatingsDirect, Research Update: Eversouce Energy Issuer Credit Rating Lowered to 'BBB+' From 'A-'; Subsidiaries Ratings Also Lowered; Outlooks Stable, December 9, 2024, at 2.

implementation of performance-based ratemaking".[73] Therefore, the results of this rate proceeding will be important to the maintenance of the Company's current credit rating and stable outlook.

Q. Have Moody's and Fitch Ratings also commented on the challenges of the regulatory environment and its effect on the Company's financial metrics?

A. Yes. In its June 2025 review of the Company, following its downgrade to Baa1, Moody's noted that Connecticut was a very challenging regulatory framework and while there were a few supportive state regulatory provisions in place, due to the rate freeze coming out of CL&P's 2021 settlement agreement, the Company did not benefit from these provisions. Further, Moody's noted that CL&P's financial profile has been volatile due to swings in regulatory adjustment mechanisms and delayed storm cost recovery. Moody's concluded that "[g]iven the challenging Connecticut regulatory environment, it is uncertain whether CL&P will be able to consistently maintain strong financial metrics going forward."[74] Fitch Ratings also highlighted the challenges in the Connecticut regulatory environment.

> In 2023, Connecticut passed legislation that may further degrade the regulatory environment, depending on the final framework and implementation. Senate Bill (SB) 7 introduced several restrictive measures. These include proposed restrictions on recoveries and considerations of several factors, including macroeconomic conditions in determining return on equity (ROE) and performance-based restriction on management compensation if customer bills increase over a certain threshold.

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[73] S&P Global Ratings, RatingsDirect, Eversouce Energy, December 11, 2025, at 5.

[74] Moody's Ratings, Credit Opinion, Connecticut Light and Power Company, Update following downgrade to Baa1, June 27, 2025 at 1.

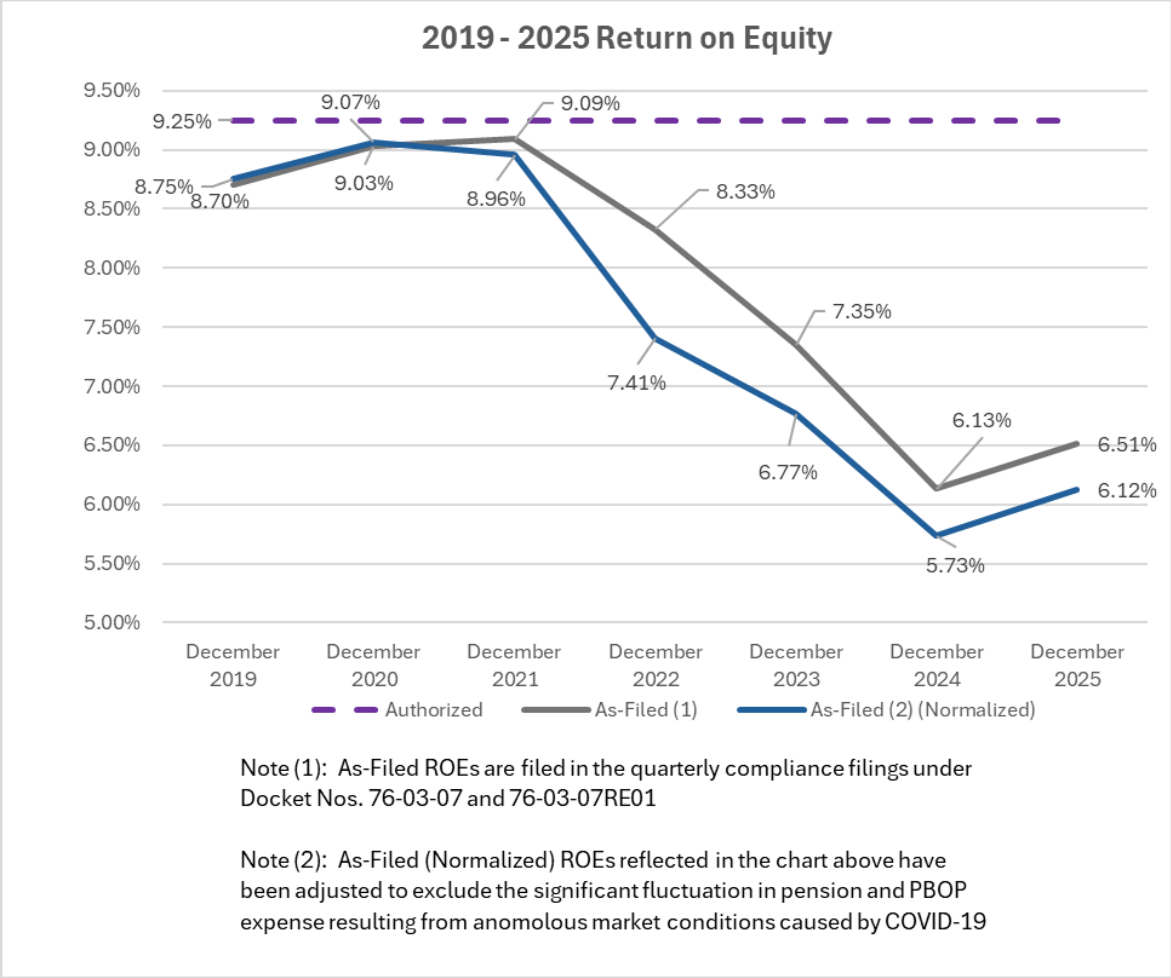
> Recent rate cases have had terms that are materially weaker than Fitch expected. Authorized ROE in Connecticut tends to be below the industry average and PURA periodically assesses performance penalties. In total, ES derives about 25% of its earnings from Connecticut. CL&P, its parent ES and other regulated utilities, participate in the implementation of the framework. Fitch may take negative rating action of the final framework becomes significantly more punitive.[75]

Q. Is there evidence that CL&P has been unable to earn its authorized return on equity?

A. Yes. CL&P was authorized an ROE of 9.25 percent as part of a settlement in Docket No. 17-10-46 in April 2018. As shown in Figure 11, below, the Company has not earned its authorized return in any year since that time. Most recently, the Company's normalized earned ROE has been in the range of 5.73 percent to 6.12 percent, which is significantly lower than the authorized ROE.

[75] FitchRatings, The Connecticut Light and Power Company, October 3, 2025, at 1.

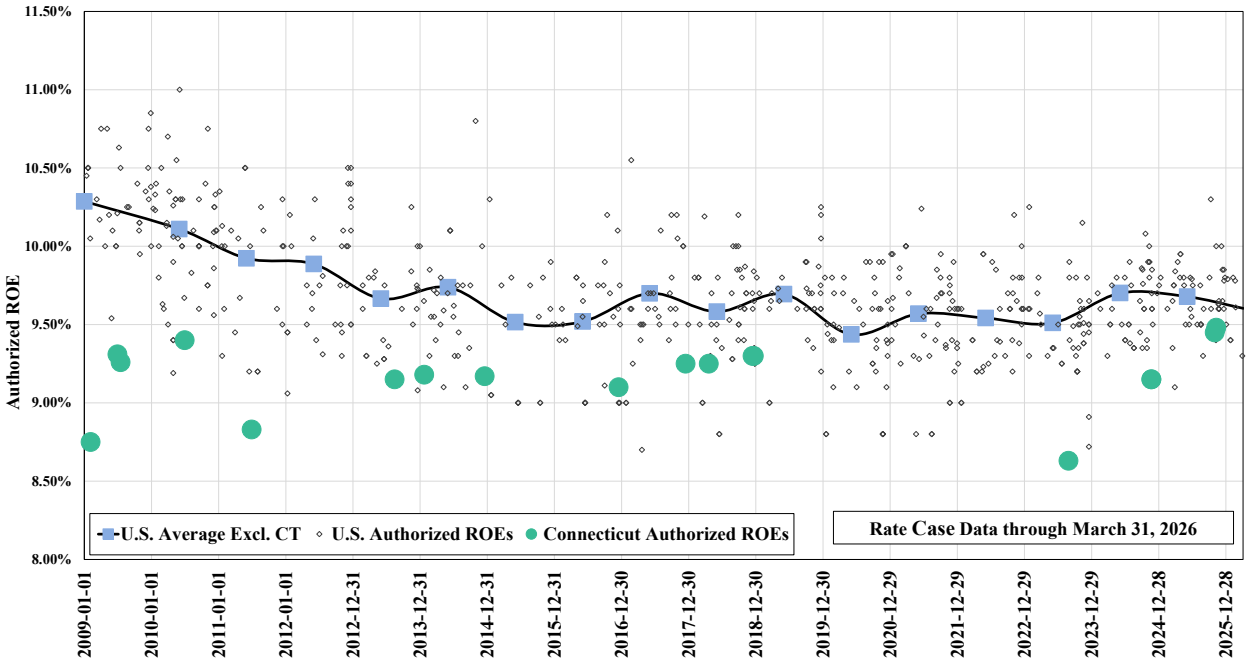
Figure 1111: CL&P Earned vs. Authorized ROE



Q. How do the returns that have been authorized in Connecticut compare to the returns that have been authorized in other jurisdictions?

A. Figure 12 shows the authorized returns for electric distribution utilities and natural gas utilities in Connecticut and in other jurisdictions throughout the United States since January 2009. As shown, the authorized returns for electric and natural gas utilities in Connecticut have been consistently below the national average and, in certain instances, set the bottom of the range produced by the authorized ROEs across the country.

Figure 12: Comparison of Connecticut and U.S. Authorized ROEs[76]



Q. Have you conducted any analysis of the risk associated with the regulatory framework in Connecticut relative to the jurisdictions in which the utility operating subsidiaries of the companies in your proxy group operate?

A. Yes. In addition to the review of capital recovery mechanisms discussed previously, I have evaluated the regulatory framework in Connecticut considering other factors that are important in terms of providing a regulated utility a reasonable opportunity to earn its authorized ROE: (1) the test year convention (*i.e.*, forecast vs. historical) for ratemaking; and (2) the use of rate design or other mechanisms that mitigate volumetric risk and stabilize revenue. Similar to my analysis of capital tracking mechanisms, I have evaluated the test year convention and other mechanisms that have been implemented by the proxy group companies and compared the results of that analysis

[76] S&P Capital IQ Pro.

to the Company. That analysis is summarized as follows, and the details are shown in Exhibit CLP-ROE-9:

- *Test Year Convention:* The Company is filing a historical test year ending December 31, 2025. In contrast, approximately 60 percent of the operating utilities of the proxy group provide service in jurisdictions that use a fully or partially forecasted test year.

- *Volumetric Risk:* The Company does currently have protection against volumetric risk in Connecticut, through a revenue decoupling mechanism. However since 2021 the PURA has been evaluating the use of Performance Based Ratemaking ("PBR") for the investor-owned utilities, including multi-year rate plans, earnings sharing, decoupling and performance incentive mechanisms. Approximately 65 percent of the operating utilities of the proxy group have some form of protection against volumetric risk through either revenue decoupling, formula-based rates and/or straight-fixed variable rate design. As referenced previously, the Company is proposing in this proceeding to implement a framework to provide revenue support for incremental capital investments between base rate cases, which is consistent with the majority of companies included in the proxy group. Therefore, the Company would have greater risk than the proxy group if it did not have a PBR or decoupling mechanism.

Q. Have you developed any additional analyses to evaluate the regulatory environment in Connecticut as compared to the jurisdictions in which the companies in your proxy group operate?

A. Yes. I have conducted two additional analyses to compare the regulatory framework of Connecticut to the jurisdictions in which the companies in the proxy group operate. Specifically, I considered two different rankings: (1) RRA's ranking of regulatory jurisdictions; and (2) S&P's ranking of the credit supportiveness of regulatory jurisdictions.

Q. How does RRA evaluate the regulatory environment in each jurisdiction?

A. RRA evaluates the regulatory environment from an investor perspective, considering the relative regulatory risk associated with ownership of securities issued by the companies that are regulated in each jurisdiction. RRA considers multiple factors that affect the regulatory process including state regulatory commission decisions, the impact of actions taken by the governor, the legislature, the courts, and consumer advocacy groups, and numerous factors regarding the ratemaking environment within the jurisdiction.[77]

Q. How do you use the RRA ratings to compare the regulatory jurisdictions of the proxy group companies with Company's regulatory jurisdiction?

A. RRA assigns a ranking for each regulatory jurisdiction as "Above Average", "Average", or "Below Average", and then within each of those categories, a numeric ranking from 1 to 3. Thus, there are a total of nine RRA rankings, with the rankings for each jurisdiction ranging from "Above Average/1", which is considered the most supportive, to "Below Average/3," which is the least supportive. I have applied a numeric ranking system to the RRA rankings with "Above Average/1" assigned the highest ranking (*i.e.*, a "1") and "Below Average/3" assigned the lowest ranking (*i.e.*, a "9").

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[77] S&P Global Market Intelligence, "RRA State Regulatory Evaluations – Energy," March 2026.

Q. What are the results of this RRA jurisdictional ratings comparison?

A. As shown in Exhibit CLP-ROE-10, the Connecticut jurisdictional ranking is "Below Average / 3" (*i.e.*, a "9.0" which is the lowest possible rating), and is far below the proxy group average ranking of between Average/1" and "Average/2" (*i.e.*, a "4.85"). This means that Connecticut is considered by RRA to have a much higher degree of regulatory risk, on average, as compared to the jurisdictions of the operating utilities of the proxy group. Which, as previously discussed, was due to Connecticut's restrictive rate case outcomes, ongoing appeals decisions, alternative regulation review, and Commissioner turnover.[78]

Q. How have you conducted your analysis of the S&P credit supportiveness rankings?

A. For credit supportiveness, S&P classifies each regulatory jurisdiction into five categories that range from "Most Credit Supportive" down to "Credit Supportive." My comparison of the credit supportiveness of the Company's regulatory jurisdiction to those in which the proxy companies operate is similar to the analysis of the RRA overall regulatory ranking just discussed. I assign a numerical ranking to each category, from "Most Credit Supportive" ("1") to "Credit Supportive" ("5").

Q. What are the results of this S&P credit supportiveness comparison?

A. As shown in Exhibit CLP-ROE-11, the Connecticut jurisdictional classification of "Credit Supportive" (*i.e.*, a "5.0" which is the lowest possible rating) is far below the

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[78] S&P Global Market Intelligence, "RRA State Regulatory Evaluations – Energy," January 2025.

proxy group average ranking of 2.54 (*i.e.*, between "Highly Credit Supportive" and "Very Credit Supportive"), which means that Connecticut is considered to be much less credit supportive by S&P, on average, as compared to the jurisdictions of the operating utilities of the proxy group.

Q. Is it important that PURA consider how the ROE to be authorized for the Company in this proceeding compares to other comparable utilities?

A. Yes. As discussed previously, the Company must compete for discretionary capital within the Eversource Energy corporate structure, which must in turn compete for capital with other utilities and businesses. Investors consider the business and financial risks of the Company relative to other comparable investments. Therefore, PURA should consider how the authorized ROE for the Company in this proceeding compares to the ROEs authorized for other electric utilities, assess that comparison relative to the changes in capital market conditions, as well as consider the specific business and regulatory risks of the Company relative to the proxy group, so that the Company's future access to capital is not negatively impacted. To the extent that the returns in a jurisdiction are lower than the returns that have been authorized more broadly, credit rating agencies will consider this in the overall risk assessment of the regulatory jurisdiction in which the company operates.

Q. What are your conclusions regarding the regulatory risks related to the Connecticut regulatory environment?

A. Both Moody's and S&P have identified the supportiveness of the regulatory environment as an important consideration in developing their overall credit ratings for

regulated utilities. While the Company has timely cost recovery through regulatory adjustment mechanisms that is similar to the proxy group, the RRA ratings for Connecticut for both regulatory environment ranking and credit supportiveness are significantly below the averages of the proxy group and are the lowest possible rankings by RRA. Furthermore, authorized ROEs within Connecticut have been significantly below the U.S. national average for electric and natural gas utilities for a number of years. For all these reasons, I conclude that the Company has greater than average regulatory risk when compared to the proxy group.

Q. What are your conclusions regarding the risk associated with the regulatory environment?

A. It is clear that the rating agencies consider regulatory risk to be a significant factor in a utility's ability to maintain its coverage ratios. The rating agencies have noted that for the industry overall, the regulatory environment has become more challenging and creates greater risk to the financial stability of the utilities. Further, the rating agencies have noted that the Connecticut regulatory environment is at the lowest end of the rating agencies' rankings, which suggests above average risk for the companies that it regulates. Finally, the rating agencies have specifically noted that the regulatory environment in Connecticut has contributed directly to CL&P's rating downgrades from S&P and Moody's. Based on the rating agencies' conclusions, it is important that in the review of the Company's request in this proceeding, PURA consider the effect of its decisions regarding the authorized ROE, capital structure and the mechanisms that are implemented to support the Company's financial stability.

VIII. Capital Structure

Q. Is the capital structure of the Company an important consideration in the determination of the appropriate ROE?

A. Yes. The equity ratio is the primary indicator of financial risk for a regulated utility such as the Company. All else equal, a higher debt ratio increases the risk to debt and equity investors. For debt holders, higher debt ratios result in a greater portion of the available cash flow being required to meet debt service, thereby increasing the risk associated with the payments on debt. The result of increased risk is a higher interest rate. The incremental risk of a higher debt ratio is more significant for common equity shareholders, whose claim on the cash flow of the Company is secondary to debt holders. Therefore, the greater the debt service requirement, the less cash flow is available for common equity holders.

Q. What is CL&P's proposed capital structure?

A. The Company is proposing a capital structure consisting of 53.86 percent common equity, 0.90 percent preferred stock and 45.24 percent long-term debt.

Q. Have you analyzed whether this requested equity ratio is reasonable?

A. Yes. I have compared the Company's proposed capital structure relative to the actual capital structures of the utility operating subsidiaries of the companies in the proxy group. The cost of equity is estimated based on the return that is derived from companies in the proxy group that are deemed to be comparable in risk to the Company; however, those companies must be publicly traded to apply the cost of equity models. The operating utility subsidiaries of the proxy group companies are most risk-

comparable to the Company, and thus it is important to look to the average capital structure of the operating utilities of the proxy group to benchmark the equity ratios for the Company.

Specifically, I have calculated the average proportion of common equity, long-term debt, and preferred equity for the most recent eight quarters for each of the utility operating subsidiaries of the proxy group companies. As shown on Exhibit CLP-ROE-12, the equity ratios for the utility operating subsidiaries of the proxy group range from 38.40 percent to 59.92 percent, with a mean of 51.69 percent and median of 51.94 percent. As such, CL&P's proposed equity ratio of 53.86 percent is well within the range of equity ratios of the utility operating subsidiaries of the proxy group.

Q. Are there other factors to be considered in setting the Company's capital structure?

A. Yes, as discussed previously, the challenges that the credit rating agencies have highlighted as placing pressure on the credit metrics for utilities in general and CL&P specifically. The credit rating agencies have noted that the regulatory environment is contributing to a deterioration in the outlook for the utility sector in general. Further, as discussed previously, after being on watch for several years, CL&P was downgraded by S&P in December 2024 and by Moody's in June 2025, citing the Connecticut regulatory environment and SB 7 specifically as affecting the overall credit metrics for the Company.

Q. Are there other factors that should be considered in evaluating the Company's equity ratio?

A. Yes. As discussed in the direct testimony of the Eversource Leadership Panel, the Company faced significant under recovery of costs in 2023 and 2024 related to storms and commodity costs that resulted in declining cash balances and required that the Company maintain a greater equity ratio than it normally would to support its weaker coverage ratios. As a result, the Company's actual equity ratio during the test period was 54.56 percent;[79] however the Company is requesting a lower equity ratio of 53.86 percent, still calibrated to provide the continued support to its credit metrics.

Q. Will the capital structure and ROE authorized in this proceeding affect the Company's access to capital at reasonable rates?

A. Yes. It is clear that the rating agencies are closely following the Company's regulatory outcomes and specifically will focus on the result of this rate proceeding. The Company has financed its operations with a higher equity ratio than was authorized in its last rate proceeding in order to maintain its credit metrics. The Company has materially greater business and regulatory risk than the proxy group on average, largely based on recent regulatory outcomes. As such it is reasonable to rely on a capital structure that has a higher equity contribution than the proxy group companies on average.

[79] See CL&P's March 6, 2026 Compliance Filing in Docket No. 76-03-07RE01.

IX. Conclusion and Recommendations

Q. What is your conclusion regarding a fair ROE for the CL&P?

A. Figure 13 summarizes the results of the analyses that I have conducted and described herein. Based on these results, the qualitative analyses presented in my direct testimony, the business and financial risks of CL&P as compared to the proxy group, and current and prospective conditions in capital markets, the Company's requested ROE of 10.25 percent is appropriate.

Figure 13: Summary of Analytical Results

Constant Growth DCF

	Minimum Growth Rate	Average Growth Rate	Maximum Growth Rate
Mean Results			
30-Day Avg. Stock Price	9.31%	10.67%	11.76%
90-Day Avg. Stock Price	9.33%	10.69%	11.78%
180-Day Avg. Stock Price	9.49%	10.85%	11.94%
Average	9.38%	10.74%	11.83%
Median Results			
30-Day Avg. Stock Price	9.62%	10.66%	11.47%
90-Day Avg. Stock Price	9.59%	10.72%	11.47%
180-Day Avg. Stock Price	9.79%	10.88%	11.55%
Average	9.66%	10.76%	11.50%

CAPM / ECAPM / Bond Yield Risk Premium

	30-Year Treasury Bond Yield		
	Current 30-Day Avg.	Near-Term Forecast	Longer-Term Forecast
CAPM			
Current *Value Line* Beta	11.21%	11.18%	11.14%
Long-term Avg. *Value Line* Beta	11.45%	11.43%	11.38%
ECAPM			
Current *Value Line* Beta	11.75%	11.73%	11.70%
Long-term Avg. *Value Line* Beta	11.94%	11.92%	11.88%
Bond Yield Risk Premium	10.78%	10.71%	10.61%

Q. What is your conclusion with respect to CL&P's proposed capital structure?

A. CL&P's proposal to establish a capital structure consisting of 53.86 percent common equity is reasonable when compared to the actual capital structures of the operating utility subsidiaries of the proxy group companies.

Q. Does this conclude your direct testimony?

A. Yes.