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Witness: Douglas P. Horton, Brendan J. O' Brien, Garrett J. Murray, Sasha Lazor and Marianne H. Eichler
Request from: Public Utilities Regulatory Authority

Question:

(OFFICER VARIABLE COMPENSATION—TREATMENT OF SUBSEQUENT FORFEITURES, CLAWBACKS, AND AWARD REVERSALS) Application, Sch. C-3.7 and WP C-3.7. For officer/executive short-term or long-term incentive compensation included in base rates:

a. describe how subsequent forfeitures, cancellations, clawbacks, performance-related reductions, accounting reversals, or other downward adjustments are recorded;

b. state whether and through what mechanism CL&P customers receive the benefit of such reductions where the original expense was recovered through rates;

c. identify all such reductions associated with officer/executive compensation during 2021–2025 and the portion attributable to CL&P; and

d. explain the proposed treatment of such adjustments during the performance-based multiyear rate plan (PBMRP).

Response:

a. Please refer to UPA-047, Attachment 1, for a copy of the Eversource Energy Executive Clawback Policy. Please note that this policy is applicable only to Officers of the corporation, which are vice presidents and above. In addition, the policy operates to address circumstances with specific Officers and is not a policy to deny funding of variable pay compensation to the employee base.

   Eversource Energy has an Executive Clawback Policy in place that requires the recovery, from current or former officers, of incentive compensation that exceeds what the officer would have received in the event of restated financial statements. These include restatements that correct material errors on previously issued financial statements and restatements that correct errors that are not material to previously issued financial statements but that would result in a material misstatement if: (i) the errors were left uncorrected in the current report; or (ii) the error correction was recognized in the current period.

To the extent any such clawback were to be required, it would be reflected through the Company's accounting and financial reporting processes, and properly disclosed at the time, based on the facts and circumstances that resulted in the triggering of the policy.

b. It is highly unlikely that application of this policy would ever impact the amounts recovered through a customer rate. As noted in the question, the original expense would need to be included in CL&P rates in order for there to be any impact of a "clawback" situation involving an Officer of the corporation.

As described in the Company's response to UPA-002[i], Executive Clawback Policy exists in the event of a material error on previously issued financial statements and/or restatements necessary to correct errors that are not material to previously issued financial statements, but would result in a material misstatement if: (i) the errors were left uncorrected in the current report; or (ii) the error correction was recognized in the current period. This policy is not likely to be triggered, since it means that something has been materially misstated, or would be materially misstated if not corrected.

Even if those circumstances were to occur, it would have to trigger the need for a retroactive adjustment for one or more specific Officers. The cost of Eversource Energy Officers are generally shared across numerous operating companies. Thus, the Company's first step would be to identify whether the variable pay compensation of one or more Officers charging to CL&P are affected by the material misstatement, and to what degree, given that Officer compensation is not 100% charged to CL&P to start with, where the Officer compensation is shared. Then, it would be necessary to confirm that the compensation for this Officer(s) was included in the cost of service in the Company's most recent rate case. Lastly, it would be necessary to compare the necessary clawback amount to the amount included in rates at the representative level identified for ratemaking, as more recent amounts would likely be greater than the amount actually included in rates.

If, all of these steps were completed – and an amount existed that would need to be extracted from customer rates, then the Company would present those circumstances to PURA with an explanation and propose to credit back the necessary amounts to customers through an existing rate mechanism.

c. This has not happened in the time period referenced.

d. As described in subpart (a), this is not something that is expected to occur on a recurring basis, or at all. The Company's control environment is designed to ensure that its financial reports are accurate and complete.

Prior Referenced Response:

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[i] UPA-002 Question:

(OFFICER VARIABLE COMPENSATION—RECIPIENT-LEVEL DATA) Application, Schs. C-3.5, C-3.6, and C-3.7. Provide an unlocked Excel workbook, with formulas intact, containing separate tabs for (i) non-officer employees included in Schedule C-3.6 and (ii) officers/executives included in Schedule C-3.7. For each anonymized individual included in the Test Year or used to develop the amount included in the Rate Year:

a. job title or position category;
b. employing entity;
c. business unit/department and cost center;
d. base salary or wage compensation;
e. target short-term variable-pay percentage and target dollar amount;
f. actual 2025 short-term variable-pay amount;
g. long-term variable-compensation expense, if any;
h. total variable compensation;
i. amount expensed;
j. amount capitalized;
k. amount directly charged or allocated to CL&P;
l. applicable allocation factor and basis; and
m. amount included in the Rate Year revenue requirement.

If the amount included in the Rate Year is not maintained at the individual level, provide the corresponding job amount in the Rate Year and explain the methodology used to derive it.

UPA-002 Response:

The Company did not construct Schedule C-3.6 to present Employee Variable Compensation at the individual employee level.

The Test Year Employee Variable Compensation in Schedule C-3.6 represents the amount of variable compensation accrued during the Test Year. The actual variable compensation payments are made in the first quarter of the following year, and the accrued liability is reviewed and trued up as necessary at that time to reflect the final, approved pay-out amounts. True-up adjustments are recorded and allocated proportionally as the original accrual was charged, ensuring the final costs are accurately reflected and consistently assigned. The final actual variable compensation payments made in the first quarter of 2026 account for the Test Year Pro Forma amounts.

To derive the Rate Year adjustment, the Test Year Pro Forma amounts are then escalated by the three-percent merit increases, as known and measurable changes for the period January 1, 2026 through June 30, 2028. The Test Year Pro Forma amount plus the Rate Year Adjustment derives the Rate Year level of variable compensation. Because these amounts were originally developed as described above, at the company level, the Company does not have an individual-by-individual itemization of variable compensation in the form contemplated by the question.

Upon review, the Company is preparing an updated Schedule C-3.6 that will provide the target level of variable compensation on an individual-employee basis, as requested in this question. Target-level variable compensation in 2025 was lower than the amount actually funded and paid out for 2025, which was above target. Target-level variable compensation is most representative of what the Company expects to pay out year-to-year over the longer term, as

funding above target will vary year to year. Therefore, the Company plans to update the cost of service to incorporate the variable compensation pay-out at target, rather than as originally proposed in the Company's application, which will lower the cost of service.

Please refer to the Company's response to UPA-015, for the Officers' variable compensation methodology that derives the Rate Year amounts.