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Witness: Sasha P. Lazor and Marianne H. Eichler
Request from: Public Utilities Regulatory Authority

Question:

(OFFICER VARIABLE COMPENSATION—RECRUITMENT, RETENTION) Application, Ex. CLP-EMPLOYEE-1, pp. 7–13. The Company states that variable pay is necessary to remain competitive and that, without variable pay, base salaries would have to be higher. Without repeating the Towers Watson prevalence statistics, competitor job postings, or aggregate market-median comparisons already filed, provide Company-specific evidence supporting those assertions for the CL&P workforce and, separately, for officers/executives included in Schedule C-3.7. Include, for 2021-2025 where available:

a. voluntary turnover;
b. officer/executive turnover;
c. vacancy duration;
d. offer acceptance rates;
e. declined offers attributed to compensation;
f. exit-interview or other evidence identifying compensation as a factor; and
g. any analysis quantifying the increase in base salary or other compensation that the Company estimates would be required if short-term or long-term variable compensation were reduced or not recovered in rates.

Response:

Eversource operates in an increasingly competitive labor market where attracting, retaining and motivating qualified employees is critical to fulfilling the Company's mission of delivering safe and reliable service to its customers. The recruitment and workforce data shared in this response demonstrates that maintaining a market-competitive total compensation program, including variable pay opportunities, is essential to securing the talent needed to meet operational and customer demands.

The need for a competitive total rewards package is important for many reasons, particularly given the relatively high cost of living across Connecticut and throughout Eversource's service territory. To attract talent from outside the region and retain employees within it, Eversource must offer compensation that not only compares favorably to the cost of living but also compares favorably with alternative employment opportunities. Variable compensation is an important component of this strategy, reinforcing the overall value proposition and helping the Company remain competitive in the labor market.

Eversource fills a substantial number of positions each year through both external hiring and internal movement, reflecting the importance of attracting new talent while also retaining and developing existing employees. Despite sustained recruiting efforts, positions currently take approximately three months to fill, on average. Certain critical roles, particularly those requiring specialized technical expertise, are very difficult to staff and often remain vacant for six months to a year due to a limited supply of qualified candidates and increasing competition from utility employers both within and outside the region, as well as general industry employers.

Employee turnover has normalized following the elevated levels experienced during the "Great Resignation" in 2021 and 2022, however, retention remains a critical workforce priority due to the cost and delay of having to fill open positions. The combination of prolonged hiring timelines, a constrained talent market, and ongoing competition for skilled workers increases the importance of maintaining a competitive compensation program.

Compensation remains a key factor in employment decisions. Company recruiting data show that, on average, compensation is the leading reason candidates decline employment offers, accounting for approximately 18% to 26% of declined offers, depending on the year. In addition, when candidates accept an offer, and later withdraw or choose a competing opportunity, compensation is frequently a contributing factor. Similarly, inadequate compensation – most notably related to the requirement to work on storm duty -- is frequently cited in employee exit interviews as a reason for voluntary separation**.** Although Eversource maintains relatively strong offer acceptance rates**,** the data demonstrates that total compensation, including variable pay, plays a vital role in both candidate decision-making and employee retention.

Compensation studies indicate that absent annual incentive and long-term incentive opportunities, Eversource would need to increase base salaries by approximately the value of target variable pay awards simply to maintain market competitiveness. Even then, replacing performance-based compensation with guaranteed salary would not provide comparable alignment between employee rewards, Company performance and customer outcomes. Employees respond to financial incentives, and financial incentives that are tied to performance have a direct benefit for the Company’s customers.

In that regard, variable pay is a standard and widely used market practice that reinforces accountability, encourages high performance and motivates employees to achieve operational, financial, safety, and customer service objectives. As such, it serves not only as a compensation mechanism but also as a tool for driving workforce performance and supporting the Company's goals in these areas.

Eliminating variable pay would diminish the competitiveness of Eversource's total rewards package relative to other employers competing for the same talent. Prospective and current employees evaluate employment opportunities based on total compensation, not base salary alone. As a result, removing variable pay opportunities would make recruiting more difficult,

significantly increasing compensation-related offer declines, and reduce employee retention, unless and until the variable pay that is removed is replaced by other compensation; namely, higher base salaries.

These impacts would present meaningful operational risks. Longer vacancies in critical positions and increased voluntary turnover among experienced employees would negatively impact business operations, increase training and replacement costs, and reduce institutional knowledge. For functions that directly support electric operations and customer service, workforce shortages could impair the Company's ability to execute work efficiently, respond to customer needs, and maintain the level of service expected by customers and regulators.

For these reasons, variable pay is clearly a fundamental component of a market-competitive total rewards program rather than a discretionary or supplemental benefit. The Company's ability to attract, retain, and motivate qualified employees depends on maintaining a compensation package that is competitive with the broader labor market. Eliminating variable pay would weaken Eversource's competitive position, increase turnover and recruitment challenges, and ultimately impair the Company's ability to deliver safe, reliable, and responsive service to customers.

a. Refer to UPA-012, Attachment 1, Tables 1 and 2, for voluntary turnover, excluding turnover due to retirement, for both CL&P and the Service Company.

b. Refer to UPA-012, Attachment 1, Table 3, for Officer/executive voluntary turnover, excluding turnover due to retirement. Please note that there was no voluntary officer/executive turnover in CL&P for the same time period.

c. Refer to UPA-012, Attachment 1, Table 4, for average vacancy duration since the Company began tracking this metric in 2023. Please note, vacancy duration is expressed as “time to fill”.

d. Refer to UPA-012, Attachment 1, Table 5, for offer acceptance rates. It should be noted that the Company’s overall average of 85% is aligned with industry best practices.

e. Refer to UPA-012, Attachment 2, which summarizes the reasons candidates declined employment offers. Beginning in 2023, Eversource enhanced its procedures to capture more specific reasons for offer declines. The percentages reflected in the chart represent the four most frequently cited reasons and, therefore, do not total 100% of all declined offers. It is also important to note that compensation may have been a contributing factor in candidates' decisions across each category. However, the reason identified in the chart reflects the primary factor cited by the candidate when declining the offer.

   Refer to UPA-012, Attachment 3, for exit survey data by reported reason, by year. Please note that, in 2024, Eversource revised and expanded the exit interview questions to better

understand employees' reasons for leaving. UPA-012, Attachment 4, provides a sampling of narrative comments from exit surveys.

f. Please see introductory statements above.

g. As noted above, the Company views the elimination of the variable pay component to essentially require a $1 for $1 increase in base salaries by approximately the value of target variable pay awards simply to maintain market competitiveness, if short-term or long-term variable compensation were reduced or not recovered in rates.

The issue is that the Company must pay employees at a level that is comparable to the market based on total compensation, which includes variable pay. Historically, PURA consistently allowed a sufficient portion of variable pay into rates to enable continuation of the program. However, PURA's recent decisions have *zeroed out* recovery of variable pay compensation. If PURA's firm policy is going to be that variable pay cannot be recovered in any proportion in customer rates, then the Company will need to change its compensation policy to better comport with PURA's ratemaking policies for employee compensation.