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Witness: Sasha Lazor
Request from: Office of Consumer Counsel

Question:

Incentive compensation. Does the Company have any studies or analysis that reflect a comparison of the Company's incentive compensation to that allowed in rates in other jurisdictions? If so, please provide copies.

Response:

The Company has no knowledge of a state-by-state compilation of the rate treatment for recovery of variable pay compensation, although the industry data shows that virtually 100% of regulated utilities use a variably pay compensation program as a performance-based component of employee pay.

However, the recovery of variable pay compensation is well-established across state regulatory jurisdictions. Typically, state public-utility commissions apply structured, established frameworks to evaluate whether the particular structure of the variably pay program meets requirements for reasonableness and performance that is necessary to run the utility and to provide service to customers, while excluding amounts tied more directly to earnings or dividend levels to investor, which is how Eversource approaches the structure of its plan. Typically, regulators separate customer-centric metrics that improve service and promote budget control from corporate financial goals pertaining to earnings or dividend payments, for example.

Massachusetts. In Massachusetts, the Massachusetts Department of Public Utilities ("MDPU") has traditionally allowed incentive compensation expenses to be included in a utility's cost of service if the utility demonstrates that: (1) the amounts are reasonable; and (2) the incentive plan is reasonably designed to encourage good employee performance. See, e.g., Massachusetts Electric Company d/b/a National Grid, D.P.U. 23-150, at 202-205 (2024). For an incentive plan to be reasonable in design, it must both encourage good employee performance and result in benefits to ratepayers. Id., quoting, Boston Gas Company, D.P.U. 93-60, at 99 (1993).

By way of example, in D.P.U. 23-150 (Massachusetts Electric Company d/b/a National Grid), the MDPU found that, for National Grid's "Band A" and "Band B" employees, no less than 30 percent of incentive compensation is based on the fulfillment of corporate and individual objectives, while the remaining percentage, up to 70 percent, is based on the fulfillment of financial objectives. "Band A" refers to Massachusetts Electric Company's top officers, including jurisdictional presidents, chief operating officers, and senior vice presidents; Band B refers to less senior officers,

e.g., vice presidents. Id. at 205, fn.61. National Grid excluded from its cost of service the variable pay component for Band A and Band B employees, which was tied to the achievement of financial metrics. Id. at 206.

For Band C through Band F employees, 60 percent of incentive compensation is based on the fulfillment of corporate objectives and 40 percent is based on the fulfillment of individual objectives. For union employees, the individual objectives relating to customer satisfaction, safety, and reliability account for 100 percent of incentive pay. Id. In D.P.U. 23-150, the MDPU approved National Grid's proposal to recover 100% of its actual incentive compensation expense, excluding the proportions of expense relating to Band A and Band B employees. Id. at 208-209.

This example is important because it demonstrates that evaluation of the rate treatment allowed by other state jurisdictions must be examined on a case-by-case basis because the details matter. Here, National Grid obtained 100% recovery of the amounts that it requested for recovery. However, it excluded amounts for management higher than vice presidents and also made other adjustments where employees were paid out on the basis of corporate performance goals instead of individual performance goals. At Eversource Energy, all positions Director-level and below are paid out on individual performance metrics, not any corporate performance goals.