Date Filed: November 06, 2026

Witness: Sasha P. Lazor, Brendan J. O'Brien, Garrett J. Murray and Danielle J. Munson
Request from: Public Utilities Regulatory Authority

Question:

(LONG-TERM INCENTIVE ESCALATION) Application, Sch. C-3.7; Interrog. Resp. UPA-003; and Interrog. Resp. UPA-016 Regarding the Rate Year long-term incentive expense:

a. State the basis for applying the 3% merit escalation to the expense of long-term incentive awards granted in 2023, 2024 and 2025, which represent the three-year vesting period under Accounting Standards Codification 718.
b. State the Rate Year long-term incentive expense portions separately attributable to awards granted in 2023, 2024, and2025 and to awards not yet granted.

Response:

a. The Company appreciates this question and provides an illustrative example presented within RRU-177, Attachment 1, to demonstrate the application of a 3% merit escalation to the Test Year expense for the three-year vesting period grants under Accounting Standards Codification 718. In this example, and for simplicity, the Company assumes the expense is recognized over the calendar year.

b. RRU-177, Attachment 1, provides an illustrative example of a single officer whose salary is $200,000, and the Long-Term Incentive target is 25% of base salary. The attachment shows the Long-Term Incentive annual accounting treatment. In WP C-3.7, the Test Year expense is comprised of the 2023-2025 Plan, 2024-2026 Plan, and 2025-2027 Plan and shows the aggregate expense for all eligible officers. As shown in RRU-177, Attachment 1, the plans giving rise to expense in the Rate Year are provided in Rows 31-34. This Rate Year expense reconciles to the approach taken in C-Schedule-3.7 to escalate the Test Year expense by applying an annual 3% merit increase, which is shown on Rows 38-44. As demonstrated by this illustrative example, the escalation of the Test Year expense and application of a 3% annual merit increase to the interim and Rate Year periods is a reasonable approach to calculating a representative Rate Year expense because it best tracks to the Company's expected actual experience. Long Term Incentives are a function of salary and the Company has documented in this proceeding its annual merit increase of 3 percent per year.

   In an effort to be responsive to this question, the Company adds the following information. The 2023 grant was expensed in full as of the end of the Test Year; the 2024 grant will be fully

expensed in full by 12/31/26; and the 2025 grant will be fully expensed by 12/31/27. Therefore, only six months out of the 36 months of expense shown in the Rate Year will be attributable to the 2023, 2024, or 2025 plans. The remaining Rate Year expense will be attributable to awards granted in 2026, or not yet granted.