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

Question:

(OFFICER VARIABLE PAY—FUNDING POOL) Application, Ex. CLP-EMPLOYEE-1, pp. 30–35. The referenced exhibit states that the enterprise variable-pay pool is funded based on corporate financial and operational performance and provides the applicable metrics and weights. Without repeating those descriptions, provide the complete 2025 calculation showing:

a. the threshold, target, and maximum scoring or payout curve for each metric;
b. actual 2025 performance;
c. the score or performance factor assigned to each metric;
d. the resulting financial score and operational score;
e. the resulting overall pool funding percentage/factor;
f. the dollar amount of the pool at target and the actual amount funded;
g. whether the funded pool was fully distributed;
h. any amount retained, returned, forfeited, or otherwise not distributed;
i. how the funded amount was allocated among business units; and
j. how amounts available to each business unit or manager were translated into individual awards.

Response:

This question continues to improperly intermingle the two <u>independent</u> processes applicable to the Company's variable pay compensation framework, which are (1) the process to determine the annual funding pool and the Board of Trustee's determination of variable pay for the CEO; and (2) the process to determine how each individual's actual payout percentage is determined <u>for every other employee</u> in the business aside from the named officers. Below are data points and references to better explain and detail the process with each subsection denoted as to whether it applies to the first or second process.

(a) <u>The threshold, target, and maximum scoring or payout curve for each metric</u>. Each year, the Eversource Energy Board of Trustee's evaluates the corporation's performance in the prior calendar year against a set of pre-designated performance metrics and assigned ratings. Based on that evaluation, the Board of Trustee's makes a determination that variable pay compensation will be funded for the year. In addition, the Board of Trustees determines the variable pay compensation for the CEO, which is also granted on the basis of the corporation's achievement of those same pre-designated performance goals. Thus,

the threshold, target and maximum ranges for each performance goal in CLP-EMPLOYEE-1, at pages 30-35, pertain exclusively to the ***funding process*** and to the determination of variable pay for the CEO. These performance metrics and assigned ratings ***do not apply*** to any other individual employees, except for the CEO, whose compensation is determined by the Board of Trustee's Compensation Committee.

Metric	Threshold	Target	Maximum
Financial Performance (70%)			
Non-GAAP Earnings Per Share	$4.59	$4.71	$4.80
Dividend Growth	$2.97	$3.00	$3.03
Strategic Growth Initiatives			
Strategic Growth Initiatives	Regulatory filings, storm cost recovery, and strategic positioning		
Operational Performance (30%)			
Reliability Average Months Between Service Interruptions (MBI)	15 Months	21.3 Months	22 Months
Restoration System Average Restoration Duration (SAIDI)	70 Minutes	63.7 Minutes	62 Minutes
Safety Rate	1.25 Rate	0.85 Rate	0.75 Rate
Gas Emergency Response	93.0%	98.2%	99.2%
% Candidate Slate	50.0%	59.5%	65.0%

Sustainability Ranking	65.0%	87.0%	107.0%
Key Strategic Customer and Clean Energy Operational Results			
Enhance the Customer Experience	Advanced Metering Infrastructure rollout, Energy Efficiency programs, stakeholder and community engagement and data security programs		
Clean Energy Execution	Non-pipe alternatives, execution of Massachusetts Grid Modernization, geothermal and decarbonization projects		

(b) through (e)

For 2025, the Board of Trustees Compensation Committee approved corporate performance at 145% of target based on the following computation:

Table 1
Targeted and Actual Performance

Threshold	**Target**	**Maximum**	**Financial**	**Payout**	**Approved**
Metric 50%	100%	200%	Results	Factor	Weighting
Financial Performance					
2025 Non-GAAP Earnings Per Share $4.59	$4.71	$4.80	$4.76	155%	60%
Dividend Growth $2.97	$3.00	$3.03	$3.01	131%	10%
3.85%	5.00%	5.94%			

Table 2

Key Strategic Financial and Regulatory Results

Strategic Financial Initiatives and Regulatory Outcomes	Regulatory filings, storm cost recovery and strategic positioning				175%	30%
Operational Performance						
Reliability Average Months Between Service Interruptions (MBI)	15 Months	21.3 Months	22 Months	21.0 Months	95%	25%
Restoration System Average Restoration Duration (SAIDI)	70 Mins.	63.7 Mins.	62 Mins.	66 Mins.	63%	25%
Safety Rate	1.25 Rate	0.85 Rate	0.75 Rate	0.87 Rate	95%	8.33%
Gas Emergency Response	95%	98.2%	99.2%	98.0%	94%	8.33%
% Candidate Slate	50.0%	59.5%	65.0%	64.3%	187%	8.33%
Sustainability Index	65.0%	87.0%	107.0%	102.6%	178%	8.33%
	Key Strategic Customer and Clean Energy Operational Results					
Enhance the Customer Experience	Advanced Metering Infrastructure rollout, Energy Efficiency programs, stakeholder and community engagement and data security programs				165%	8.33%
Clean Energy Execution	Non-pipe alternatives, execution of Massachusetts Grid Modernization, geothermal and decarbonization projects				160%	8.33%
Financial Performance (weighted 70%)	at 159%	111%				
Operational Performance (weighted 30%)	at 113%	34%				
Overall Performance	**145%**					

Subpart (b) asks for "actual 2025 performance." Table 1 provides the "actual 2025 performance" for the corporation, for the purposes of the Funding Pool decision. Table 1 does not pertain to any individual employee in the enterprise other than the CEO.

Subpart (c) asks for the "score or performance factor assigned to each metric." Table 2 provides the "score or performance factor assigned to each metric," for the corporation, for purposes of the Funding Pool decision. Table 1 does not pertain to any individual employee in the enterprise other than the CEO.

Subpart (d) asks for the "resulting financial score and operational score." Table 1 provides the "resulting financial score and operational score" for the corporation, for the purposes of the Funding Pool decision. Table 1 does not pertain to any individual employee in the enterprise other than the CEO.

Subpart (e) asks for the "resulting overall pool funding percentage/factor." Table 2 provides the "resulting overall pool funding percentage/factor" for the corporation, for the purposes of the Funding Pool decision. Table 2 does not pertain to any individual employee in the enterprise other than the CEO.

As noted in Table 2, the "overall pool funding percentage/factor" is 145%.

f. Subpart (f) of the question asks about "the dollar amount of the pool at target and the actual amount funded. Based on the overall results of the corporation against the pre-established goals, the corporation's performance was calculated as 145% of target for 2025, reflecting the Company's strong performance and the executive team's execution of the Company's Operating Plan.

The 2025 overall funding pool percentage is used to set the variable pay compensation of the CEO. The CEO's variable pay component was based on the 145% of target factor. For the other Named Executive Officers, their variable pay compensation was paid out at 145% of target, *in the aggregate,* for the group of five officers, although individuals in the group received different percentages depending on their individual performance.

Similarly, for the vice presidents, their variable pay compensation was paid out at 145% of target, *in the aggregate,* for the entire group, although individuals in the group received different percentages depending on their individual performance. The 145% performance achievement does not apply at any other level of the organization for establishing pay-outs to individual contributors.

For performance in 2025, the Chief Financial Officer established the funding pool shown below, which was above target:

2025 Variable Compensation Target	**2025 Actual Variable Compensation Paid Out to Employees**
$80,308,863	$101,113,911

g. Subpart (g) of the question asks whether the funded pool was fully distributed. Once the funding pool is established (at $101,113,911), all amounts were paid out across the organization because variable pay compensation is part of total employee compensation and is not used or diverted for other purposes once the pool is established. Once funded, the dollars are distributed to employees or "individual contributors" across the organization in accordance with the allocation process that is handled by the Eversource Energy Human Resource Department.

h. Subpart (h) asks whether any amount (of the funding pool) is retained, returned, forfeited, or otherwise not distributed. As answered in subpart (g), none of the variable compensation funded pool was retained, returned, forfeited or otherwise not distributed. To the contrary, each year, variable pay compensation is accrued in the operating budget for every business unit, reflecting the expectation that variable pay compensation will be paid out to employees. Generally, variable compensation is budgeted at target levels as this is the level of total compensation that the Company would expect to pay if every employee met the expectations of their job positions exactly as anticipated for the individual job position. In this case, the Company is requesting to include the target level in rates as representative of the amount of variable pay compensation that the Company will pay to employees on a year-to-year basis, although in the Test Year 2025, Eversource paid out greater than the target level to employees and may do so again in the future.

i. With respect to how the funded amount is allocated among business units, the process starts with a bottom-up assessment of target funding levels. For each eligible employee, Eversource multiplies the employee's base salary times the employee's variable compensation target (i.e. $100,000 times 10% = $10,000) to define the eligible variable compensation dollar target. This calculation is conducted for each eligible department of the Company to define the target dollar amount for each department.

   Once the funding pool is set, the eligible funding pool is distributed to each department on the basis of the department's employee count and the identified pay-out level associated with the funding pool approved by the CFO, correlating to the target amounts for that department.

j. With respect to how amounts available to each business unit or manager are translated into individual awards, funding pools are allocated to each department/manager through the

Company's Workday Human Resources Information System (HRIS). Through this system, managers enter recommendations for grants to eligible employees in their departments, in conjunction with their performance assessments of those employees (only up to the amount of the funding pool for that department). Through the Workday system, these recommendations are rolled up to the Executive Vice President of each respective organization for review, consultation and final approval. This process was described in the Company's response to UPA-010[i].

k. All eligible individual employees or "contributors" below the six Named Executive Officers, have individual scorecards delineating the individual's performance goals for the calendar year. These individual performance goals are not designed to correlate directly or tie to the corporation's performance goals, nor are there any weightings that apply to individual employee goals. All of the corporation's goals, whether financial or operational, are part of the corporation's service mission to customers and are furthered by the efforts of our employees across the organizations. Therefore, individual goals are designed to support corporate objectives to provide safe and reliable service to customers with rigorous cost control and responsible management. The performance of each employee is reviewed by the respective manager and decisions are made within the various levels of management as to how the funding pool for that department will be allocated among its own contributors. Employees are ranked by their level of contribution and the variable pay is paid out to employees on the basis of the contribution level assigned by management. The Company's response to OCC-201, Attachment 1, shows the allocation of variable pay compensation across the base of employee contributors.

Prior Referenced Response:

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[i] UPA-010 Question:

(OFFICER VARIABLE COMPENSATION—PAYOUT DISCRETION) Application, Ex. CLP-EMPLOYEE-1, pp. 37–38. Exhibit CLP-EMPLOYEE-1 states that an individual variable-pay award may range from 0% to 200% of target and that supervisors exercise discretion based on individual performance. Explain the criteria, documentation, calibration process, approval hierarchy, and internal controls governing that discretion. In the response, identify:

a. who can increase or decrease an officer/executive award;
b. any limits on discretion;
c. whether ratings or awards are calibrated across managers/business units;
d. the role of senior management and the Compensation Committee;
e. required supporting documentation;
f. circumstances in which an employee can receive an award despite missing one or more stated goals; and
g. the process used to ensure consistency among similarly situated employees.

UPA-010 Response:

Eversource's variable pay program provides leaders with the ability to differentiate awards based on individual performance within established performance rating categories. To support the annual variable, pay process, the HR Consulting and Compensation teams develop, communicate, and administer the program, providing employees and leaders with a regular cadence of communications throughout the cycle (please refer to UPA-010, Attachment 1). A comprehensive suite of resources is available on the company intranet, and training sessions are offered throughout the process: Performance Management Training (please refer to UPA-010, Attachment 2), HRBP Information Sessions (please refer to UPA-010, Attachment 3), and Information Sessions for Leaders. (please refer to UPA-010, Attachment 4).

Annual performance reviews serve as the foundation for the calibration process and ultimately support variable pay recommendations and approvals. The calibration process is designed to promote consistency in the evaluation of similarly situated employees across each department. HR partners with department leaders to prepare for and facilitate calibration sessions, helping to ensure they are productive, effective, and aligned with established guidelines. The following resources are used: Calibration Guidelines (please refer to UPA-010, Attachment 5) and Unconscious Bias (please refer to UPA-010, Attachment 6).

During these discussions, leaders present information supporting their recommendations, and ratings are reviewed in detail. Where appropriate, adjustments are made to ensure consistency and fairness. Once consensus is reached, final ratings are submitted to executive leadership for review.

Each year, the Compensation department establishes and communicates variable pay award guidelines (please refer to UPA-010, Attachment 7: Compensation Cycle Guidelines). Leaders are responsible for submitting variable pay award recommendations through the HRIS system. These recommendations are subject to approval at each level of the management chain, with final approval provided by the Executive Vice President. Throughout the recommendation and approval process, HR Consulting and Compensation monitor proposed awards to ensure recommendations are within established guidelines.

Officer awards are administered through a separate process. Recommendations for officer awards are made by the Senior Vice President or Executive Vice President to whom they report. The Senior Team reviews and approves award recommendations for those officers in their overall organizations. The Board of Trustees Compensation Committee approves award recommendations for the CEO's direct reports, while the CEO's compensation is recommended by the Compensation Committee and approved by the full Board of Trustees.

Employees are evaluated annually against established performance goals as well as broader measures of overall performance and behavior. While a Successful Contributor rating generally reflects achievement of all established goals, there may be circumstances in which an employee does not fully achieve a specific goal but is nevertheless determined to have met overall performance expectations based on the totality of their contributions and performance during the evaluation period. As shown in OCC-201, Attachment 1, employees are rated along a curve, with the general expectation that the majority of employees fall into the Successful Contributor category. The variable compensation payout ranges are defined by employee performance rating, and the manager’s assessment of the individual’s performance informs the individual’s payout generally within the range. Employees who fall below Successful Contributor are expected to demonstrate improved performance over the next and subsequent review periods. Failure to demonstrate improved and sustained performance generally results in the employee being exited from the Company.