Date Filed: October 16, 2026

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

Question:

(OFFICER VARIABLE COMPENSATION—ACCOUNTING, CAPITALIZATION AND ACCOUNTS) Application, Ex. CLP-EMPLOYEE-1, p. 36. The referenced exhibit explains that non-executive variable compensation is capitalized using a ratio derived from capitalized non-executive base pay, and Schedule WP C-3.6 separately identifies capitalized employee variable compensation. Explain the accounting treatment for officer short-term and long-term variable compensation in Schedule C-3.7. Specifically:

a. identify all FERC Uniform System of Accounts and general-ledger accounts charged;
b. state whether officer base salary is ever capitalized;
c. state whether any officer short-term or long-term variable compensation is capitalized;
d. if not, explain why the treatment differs from non-executive variable compensation;
e. identify the amount expensed and capitalized in the Test Year, pro forma, and Rate Year; and
f. provide the accounting policy, workpaper, or other support for the treatment.

Response:

a. With respect to the accounting treatment for officer short-term and long-term variable compensation in Schedule C-3.7, CL&P follows the FERC Uniform System of Accounts ("USofA") and charges FERC Account 920 (Administrative and General Salaries) and general-ledger account 920000.

b. With respect to an officer's base salary, the only portion that is capitalized is when it relates to certain Vice Presidents ("VPs") whose timesheets charge Engineering & Supervision ("E&S") work orders. The E&S work orders are selected by certain VPs who actively support construction activities directly related to capital projects, which are not readily identified to a specific capital project work order. Having these VPs direct charge specific capital project work orders on a daily basis becomes impracticable to decipher for timesheet reporting purposes because of the extensive number of capital projects they support. Therefore, the E&S work order allows for a more practical, effective, and expedient timesheet reporting mechanism for certain VP's to capture their time appropriately. E&S is not ascribed to individual capital projects on a discrete, quantifiable basis for individual projects or programs. The labor and labor-related costs associated with the E&S function are ascribable to all eligible capital projects and are pooled into closing accounts that are then applied on an aggregated basis to active workorders on a month-to-month basis as a "clearing rate."

The E&S overhead "pool" captures costs incurred in support of the Company's construction activities that are not readily identified to a specific capital project work order. The nature of these costs includes labor costs/payroll and associated overheads. Such classification is required under the FERC Uniform System of Accounts ("USoA"), which states: "Engineering and supervision includes the portion of the pay and expenses of engineers, surveyors, draftsmen, inspectors, superintendents and their assistants applicable to construction work." Thus, the types of charges included in FERC Account 107ES0 (Construction Work in Progress) are employee labor and external vendor labor costs that support capital project construction activities through engineering and supervisory functions.

Once a capital project is placed in service in FERC Account 101 (Electric Plant in Service), the E&S costs are classified to property units in the same manner as all other capital charges on the project work orders. With the assistance of project managers and engineers, Plant Accounting determines what percentage of the total project each property unit represents. All capital charges to the project work orders, including E&S charges, are ascribed to the installed property units based on these percentages. An officer's base salary is not discernible as a line item through this process.

c. With respect to an officer's short-term or long-term variable compensation, all officer short-term and long-term variable compensation is charged to FERC Account 920 and general-ledger account 920000.

d. Under Generally Accepted Accounting Principles (GAAP) and the FERC USofA, the Company is allowed to capitalize all payroll costs, including cash or stock-based incentive compensation paid to employees who are directly associated with, or who devote their time to, capital projects and construction activities. Therefore, variable compensation is capitalizable when it meets the capitalization criteria, similar to base salary. Saying that, the Company does not directly capitalize officer short-term and long-term variable compensation in the normal course of business. Please refer to part e. below for additional information regarding the Administrative, Support and Engineering (AS&E) loader.

e. Please refer to Schedule WP C-3.6 (Employee Variable Compensation) for the amounts expensed and capitalized in the Test Year, pro forma, and Rate Year. Please note the amounts in Schedule WP C-3.7 (Officer Variable Compensation) are directly charged to expense as the Company does not directly capitalize officer variable compensation as noted in part d. of this response. The only portion of officer variable compensation that is capitalized is reflected in Schedule WP C-3.7 as the Administrative, Support and Engineering (AS&E) loader, which is an indirect cost allocation factor that provides for the capitalization of essential centralized back-office and support services that are recorded to and appropriately includible in FERC Account 920 (Administrative and General Salaries).

f. Please refer to EOE-060, Attachment 3, for the Company's Accounting Policy Statement on Capital vs. Expense Criteria.