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

**Question:**

(OFFICER VARIABLE COMPENSATION—RATE YEAR ESCALATION OF VARIABLE COMPENSATION) Application, Schs.C-3.6, and C-3.7. Provide the formula, dates, assumptions, and source data used to calculate the Rate Year adjustments in Schedules C-3.6, and C-3.7. For Schedule C-3.7, specifically, explain the increase from the $3.501 million Test Year Pro Forma amount to the $3.769 million Rate Year amount, including the separate calculations for CL&P short-term, ESC short-term, CL&P long-term, and ESC long-term compensation. Confirm whether the calculation applies the Company's 3% annual compensation escalation for approximately 2.5 years; if not, provide the actual methodology. Explain why an escalation based on base-pay merit assumptions is appropriate for variable compensation that also depends on pool funding and individual performance.

**Response:**

Please refer to UPA-016, Attachment 1, for the excel file with formulas to calculate the Officer Variable Compensation Rate Year Adjustments showing the increase from the $3.501 million to the $3.769 million. The Company's notes this response is based on updated Exhibit CLP-REVREQ-2, WP C-3.7, showing the corrected short-term and long-term variable compensation provided in UPA-014.

The Company confirms the use of the 3% annual merit escalation from the Test Year through to the Rate Year. There are two separate and distinct issue to address in this answer. First, target variable compensation is calculated as a multiple of base salary. A 3% merit increase, for example, carries to target variable compensation. Secondly, the payout of variable compensation is a separate calculation that is aligned with both the pool funding and individual performance. This approach aligns compensation with performance and ensures that variable pay targets reflect current base salary levels.