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Witness: Brendan J. O'Brien, Garrett J. Murray and Marisa B. Paruta
Request from: Public Utilities Regulatory Authority

Question:

(STATE PAYROLL TAXES) Application, Schs. C-3.38 and WP C-3.38; Interrog. Resp. RRU-023, Att. 1. Regarding payroll taxes recorded for jurisdictions other than Connecticut and the capitalized portion of payroll taxes:

a. For each jurisdiction other than Connecticut in Attachment 1 of the response to Interrogatory RRU-023 with unemployment taxes in Schedule C-3.38 (Massachusetts $79,294, New Hampshire negative $484, Florida $135, Illinois $19, Indiana negative $42, New York $80 and Utah $16), and for the Massachusetts Health Tax of $16,938, of which $9,874 remains in the O&M Residual after the ZGS/ZPB adjustment of negative $7,065:
   i. state the number of employees and their work location;
   ii. identify the work performed for CL&P distribution operations; and
   iii. state the amount in each of calendar years 2021 through 2025 and the Rate Year, and the schedule and line on which the Rate Year amount appears. Reconcile Accounts 408IL0 and 408IN0 in Attachment 1 of the response to Interrogatory RRU-023 to Accounts 4081L0 and 4081N0 in note (a) on page 5 of Schedule WP C-3.38.
b. State the portion of the State Unemployment amount of $381,000 on pages 1 and 5 of Schedule WP C-3.38 attributable to jurisdictions other than Connecticut in the Test Year and the Rate Year, and the Rate Year revenue requirement effect of removing it. Provide an exhibit that shows the unemployment taxes incurred in each jurisdiction other than Connecticut for each of calendar years 2021 through 2024.
c. Identify the work orders and accounts to which the capitalized payroll taxes removed from the O&M Residual through the ZGS/ZPB in Attachment 1 of the response to Interrogatory RRU-023 (FICA $10,190,618, Medicare $2,612,127, Connecticut unemployment $334,687, federal unemployment $51,523 and Massachusetts unemployment $56,736) were charged Additionally, reconcile the $7,804,029 credited in the same ZGS/ZPB column to Account 408150 and the $8,062,119 credited to Account 408220, with the capitalized totals of $3,294,000 and $9,952,000, respectively, as reported in Schedule WP C-3.38.

Response:

a. (i) and (ii) Please refer to the Company's response to RRU-056[i] and OCC-332[ii] for information regarding payroll and employees of the Eversource Energy Service Company (ESC). The Company's payroll tax expense amounts identified in RRU-023, Attachment 1, are an automatic system generated expense derived from the underlying employees who provided a

service to CL&P in 2025 either directly or through an allocation, including (but not limited to) services for distribution operations, administrative, financial, accounting, customer service, IT, HR, legal, and other corporate or shared services. Payroll tax expense follows each employee's actual labor costs charged to Eversource affiliated business segments in 2025 through the general service company overhead (GSCOH). Each employee charges specific work orders in their timesheets over the course of a calendar year and those work orders determine where the employee labor costs are charged.

The accounting process that occurs during the month-end close will load the payroll tax expense onto each payroll dollar through the GSCOH and appropriately allocate the payroll tax expense accordingly to individual Eversource business segments for that month, including CL&P Distribution. The purpose of the GSCOH loader and accounting month-end close allocation process is to ensure, among other things, that all payroll costs of an ESC employee are appropriately charged to the Eversource affiliated business segment that is receiving the employee's service.

Producing the number of employees, individual work location, and employee-specific description of services would require the Company to identify the employees included in each non-Connecticut state's taxable wage base in 2025 and then perform a separate review of payroll records, work arrangements, organizational assignments, labor distributions, and ESC allocations for each employee. This would be particularly voluminous for Massachusetts where the costs may reflect a substantial population of ESC employees whose labor is directly charged or allocated to CL&P. Such an employee-level reconstruction supports approximately $89,000, net of capitalized portion, of payroll tax expense that is attributable to states other than Connecticut in the Test Year, of which Massachusetts represents almost the entire amount at $89,000. With the exception of Massachusetts, the Company was able to gather information on the remaining non-Connecticut states and the employees who performed certain work for CL&P Distribution. Please see Table 1 below.

Table 1 - Non-CT State Unemployment Taxes, # of Employees, Work Location, and CL&P services:

State	# of Employees	Work Location	Services
Florida	1	Florida	Senior Accountant, Tax
Illinois	1	Illinois	Senior Specialist, Human Resources Information System
Indiana	1	Indiana	Senior Internal Auditor
New York	1	New York	Siting and Project Engagement
Utah	1	Utah	Architect, Domain Cloud & Automation Technology

(iii) Please refer to RRU-186, Attachment 1, for the unemployment taxes incurred in each jurisdiction other than Connecticut for each year 2021 through 2025, and the Rate Year is consistent with the 2025 Test Year. The amounts in FERC Accounts 408IL0 and 408IN0 are included in the Test Year and Rate Year, totaling ($24).

b. There's approximately $79,000, net of capitalized portion, of State Unemployment Taxes that are attributable to jurisdictions other than Connecticut in the Test Year and Rate Year. The Company recognizes unemployment tax expense in jurisdictions other than Connecticut because these costs are incurred in the ordinary course of business. These non-Connecticut state unemployment taxes are ordinary payroll costs that arise directly from employing ESC personnel necessary to support the Company's operations, regardless of whether those employees are located in the state of Connecticut or elsewhere. As such, unemployment taxes are normal consequences of maintaining the workforce and are no different in character from other payroll taxes incurred in the ordinary course of providing utility services. Excluding reasonable payroll-related tax costs from the Rate Year revenue requirement solely because the applicable tax is imposed by jurisdictions other than Connecticut does not reflect the Company's costs in which the Company conducts its operations to provide safe and reliable service to its customers.

   Please refer to RRU-186, Attachment 1, for the unemployment taxes incurred in each jurisdiction other than Connecticut for each year 2021 through 2024.

c. Please refer to RRU-185, Attachment 4, for the Test Year capitalization support. The FICA $10,190,618 was charged to FERC Account 408020, Medicare $2,612,127 was charged to FERC Account 408050, federal unemployment $51,523 was charged to FERC Account 408010, and Massachusetts unemployment $56,736 was charged to FERC Account 408011.

Prior Referenced Response:

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[i] RRU-056 Question:

(VARIABLE COMPENSATION) Lazor, Eichler and O'Connor Pre-Filed Test., pp. 30-34; Application, Schs. C-3.6 and C-3.7; Interrog. Resp. OCC-289, Interrog. Resp. OCC-290, Atts. 1–4, and Interrog. Resp. OCC-369. Regarding the funding and level of the variable compensation reflected in Schedules C-3.6 and C-3.7:

a. The Company's response to Interrogatory OCC-369 states that no employee other than the Eversource Chief Executive Officer and Chief Financial Officer is paid variable compensation on the basis of corporate financial performance goals. The response to OCC-289 states that the 2025 corporate performance goals were based 70% on overall financial performance, and each plan document in OCC-290, Atts. 1-4 states that the funding pool is based on achievement of an Eversource Energy consolidated earnings per share goal. Reconcile the Company's response to Interrogatory OCC-369 with its responses to Interrogatories OCC-289 and OCC-290.
b. State, for each of plan years 2021 through 2025, the effect of the earnings per share results on the funding pool, and state the 2024 earnings per share goal and actual result. Provide the plan documents for plan years 2021 and 2022.
c. Provide an exhibit that shows, for each plan year 2021 through 2025, the threshold, target and maximum level of each corporate scorecard metric, the resulting funding percentage, the weighted average payout as a percentage of target, the enterprise pool and the amount allocated to CL&P, together with the 2024 scorecard in the form of OCC-198, Attachment 1.

d. Reconcile the 2025 total variable compensation allocated to CL&P of $11,308,184 in OCC-202, Attachment 1 and the 2025 total variable compensation for CL&P employees of $5,395,820 in OCC-202, Attachment 2 to the 2025 amounts in OCC-286, Attachment 1 and to the Test Year gross plan amounts of $12,731,000 for CL&P and $8,715,000 for EESCO in Schedule WP C-3.6. Reconcile OCC-286, Attachment 1 to Schedules C-3.6 and C-3.7 for the Test Year, the Test Year pro forma and the Rate Year. State the amounts accrued against the amounts actually paid for each of calendar years 2021 through 2025.

e. Provide an exhibit that shows the Rate Year amounts in Schedules C-3.6 and C-3.7 restated at a payout of 100% of target for every participant.

RRU-056 Response:

a. The Company's response to Interrogatory OCC-369i actually states that "[t]here is no employee that is paid for variable compensation ***on the basis of achievement*** of corporate financial performance goals, aside from the Eversource Energy Chief Executive Officer and the Chief Financial Officer." (emphasis added). It does not state that the CEO and CFO are "paid variable compensation on the basis of corporate financial performance goals." There is a difference in these two statements. The Company's statement means that their variable compensation *depends upon* whether the corporate performance goals are *achieved* and to what extent. It does not mean that their pay-out is determined in correlation with these goals, as achieved, which is what the statement in the question implies.

The response to OCC-289ii actually states that "[i]n the Eversource variable pay program, there ***are two different types*** of "financial goals." First, there are the corporate financial performance goals that are identified and discussed in the Eversource Energy annual proxy statement …." Second, the response to OCC-289 actually states that there are "'performance goals' within the Eversource variable pay program [that] are the ***employee-specific performance goals***." (emphasis in original). The question states that "the 2025 corporate performance goals were based 70% on overall financial performance …." This is not an incorrect statement; however, it is wholly incomplete. This statement is pertinent only to the corporate financial performance goals, which are pertinent only in limited respects to the overall variable pay compensation program.

The question further states that each plan document in OCC-290, Atts. 1-4, states that "the funding pool is based on achievement of an Eversource Energy consolidated earnings per share goal." However, the document actually states that "Your award will be based on ***the achievement of employee*** Annual incentive program goal results ***and incentive program funding****."* (emphasis added), meaning that the Employee's actual variable pay amount is a function of two independent drivers, which are both dependent on "achievement." These two drivers are: (1) whether the Employee achieved their own individual performance goals; and (2) whether the corporation achieved its corporate performance goals, triggering the funding of the overall variable compensation plan. To this point, OCC-290, Att. 1 states that "[a] funding pool will be based on the ***achievement*** of an ES Consolidated EPS Goal along with the achievement of certain strategic and high-level financial goals." (emphasis added).

Decisions on ***the amount*** of the funding pool are ***not*** determined by the Eversource Energy corporate financial performance goals, but rather is an amount set by the CFO (UPA-005(f)).

Therefore, in terms of "reconciling," the Company's response to Interrogatory OCC-369 with its responses to Interrogatories OCC-289 and OCC-290iii, it is unclear what needs to be "reconciled." The Company's responses to OCC-369, OCC-289, OCC-290, and numerous other responses including UPA-005iv, UPA-007v, UPA-039vi, all substantiate the two-tiered procedure that applies to determine: (1) whether corporate performance goals are achieved; how it applies to executive officers and how it triggers payment of the funding pool; and (2) how the amount of the funding pool is decided; how all other employees of the company, director and below are

determined to be eligible for variable pay and at what level; and how the funding pool is allocated among employees below the director level.

b. For each of plan years 2021 through 2025, the earnings per share results ***did not determine the amount of the funding pool***. The "earnings per share result" is part of the corporate financial performance goal that is a trigger for the Board of Trustee's overall funding of the pool, but does not determine the amount of the funding pool and has no mathematical connection to the funding level. RRU-056, Attachment 1, provides the plan documents for plan years 2021 and 2022.

c. This subpart requests, for each plan year 2021 through 2025, the threshold, target and maximum level of each corporate scorecard metric, along with "the resulting funding percentage," the "weighted average payout as a percentage of target," the "enterprise pool" and the "amount allocated to CL&P," together with the 2024 scorecard in the form of OCC-198, Attachment 1. However, these items are not connected. None of "the threshold, target and maximum levels of each corporate scorecard metric" have any connection to the "funding percentage." The ***amount of the funding pool*** is determined by the Chief Financial Officer each year, apart from the results of the corporate financial performance (UPA-005, UPA-007, UPA-039, indicating 145% performance over target in 2025 for the corporation and 122% for the amount of the funding pool).

It is unclear what is meant by "weighted average payout as a percentage of target," however, in response to OCC-201, Attachment 1, the Company provided the performance rating distribution, which shows the percentage payout as compared to target. The 2024 scorecard in the form of OCC-198, Attachment 1, is provided as RRU-056, Attachment 2, herewith.

	2021	2022	2023	2024	2025
Enterprise Funding	$58,751,968	$68,999,575	$71,893,634	$76,790,551	$83,771,560
CL&P Funding Allocation	$4,472,095	$5,010,711	$6,073,272	$6,096,262	$6,172,409
ESC Funding Allocation	$3,257,387	$4,317,413	$10,472,053	$10,928,330	$11,701,080

d. The total variable compensation of $11,308,184 in OCC-202, Attachment 1, represents the 2025 total gross variable compensation at target for Service Company employees and officers that were allocated to CL&P; and the amount of $5,395,829 in OCC-202, Attachment 2, is the 2025 total variable compensation at target for CL&P employees and officer directly charged to CL&P. The amounts cannot be directly compared and reconciled to the gross employee variable compensation plan amounts in Schedule C-3.6 as that schedule represents the Test Year accrual based on the budgeted target variable compensation and the estimated payout percentage for the year and includes prior period true-ups and other adjustments recorded to the G/L.

Please refer to RRU-056, Attachment 3, for the variable compensation amounts reconciled between OCC-286, Attachment 1, and Schedules C-3.6 and C-3.7 for the Test Year and Rate Year. The Company notes the Test Year costs are being revised to update for the capitalization amounts, however there is no change to the total Employee Variable Compensation Test Year amounts.

e. The Company's proposed cost of service in this proceeding includes the employee variable compensation charged to CL&P as earned in the Test Year, 2025, based on the payouts associated with that performance year, as adjusted

to Rate Year levels. The Company recognizes that the variable compensation payouts vary from year-to-year and may be more (or less) than target levels. The Company's experience in Massachusetts is to reflect the amount of variable cash incentive at target levels, rather than at paid amounts. Therefore, please refer to RRU-056, Attachment 4, for the revised employee variable plan Schedule C-3.6 at target level; and RRU-056, Attachment 5, for each Service Company employee at target incentive and RRU-056, Attachment 6, for each CL&P employee target incentive.

The Company's Rate Year amounts for CL&P and ESC would be $2.074 million and $6.225 million, respectively, as compared to $6.852 million and $4.443 million, respectively. Refer to UPA-015, Attachment 1, for the Officer Variable Compensation at target levels.

[ii] OCC-332 Question:

Payroll. State whether the Company used the same forecasting methodology used in the prior rate case. If not, explain in detail all changes.

OCC-332 Response:

Yes. The Company utilized a similar methodology that was used in the prior CL&P rate case in Docket No. 17-10-46 which was also the methodology used in the last Yankee Gas rate case in Docket No. 24-12-01 to calculate the Test Year Pro-Forma ("TYPF") payroll expense as well as the Rate Year payroll expense.

The Company's Test Year payroll data consists of hundreds of thousands of lines of individual transactions that are unique each and every year. Those transactions can vary based on a number of different conditions throughout the year such as weather events, supply chain issues, personnel availability, capital budgets and much more. To determine the normalized Test Year level of payroll expense, the Company performs an independent evaluation of the payroll expense utilizing actual employee salary information as of the end of the Test Year as described in greater detail below and supported by detailed calculations provided as attachments to this response.

(1) In order to calculate the TYPF level of payroll expense, the Company first begins with a listing of actual CL&P and Eversource Energy Service Company ("Service Company") salaries for each employee position that is **filled and active** as of December 31, 2025. It is important to begin with only those positions that are filled and active as those are the positions the Company is experiencing actual expenses for. This also ensures that an imputed vacancy rate is accounted for as the Company typically does not have 100% filled and active positions at any single point in time and therefore it would be inappropriate to include all positions (inclusive of unfilled and inactive positions) in the TYPF calculation. Please refer to OCC-332, Attachment 1, for the full listing of CL&P and Service Company employee salaries as of December 31, 2025.

(2) In a normal year it is expected that CL&P employees will charge 100% of their time to CL&P and therefore the amounts shown on OCC-332, Attachment 1, page 1, lines 6 through 10, support the TYPF amounts shown on Exhibit CLP-REVREQ-2, Work Paper C-3.5, page 1, lines 15 through 19. In a normal year it is typical for Service Company employees to charge their time to multiple operating companies throughout the year, and therefore the Company takes the total Service Company salaries shown in OCC-332, Attachment 1, page 38, lines 6 through 16, and allocates those costs to CL&P. In order to do so, the Company utilized the actual labor charged to CL&P by each Source Cost Center ("SCC") and compared that to the total actual labor charges for each of the same SCCs. Please see OCC-332, Attachment 2, for the calculation of the amount of Service Company salaries allocated to CL&P and OCC-332, Attachment 3, for the actual 2025 allocation of labor by SCC utilized in the calculation in OCC-332 Attachment 2. The allocated amounts shown in OCC-

332, Attachment 2, page 1, lines 8 through 18, support the amounts shown in Exhibit CLP-REVREQ-2, Work Paper C-3.5, page 1, lines 33 through 42.

(3) The base salaries calculated in items (1) and (2) above are total salaries prior to the split between capital and O&M; therefore, the final necessary adjustment to those CL&P allocated salary amounts is to account for the portion that will be capitalized, which is then removed from the payroll expense schedule. In order to do so, the Company utilized the actual Test Year capitalization ratios. Please see OCC-332, Attachment 4, for the calculation of the Test Year capitalization percentages.

In summary, the Company starts by taking actual salaries of active / filled positions as of December 31, 2025, and allocates those to CL&P and further assigns a portion to expense and capital all based on actual Test Year information. That resulting TYPF payroll expense becomes the basis for payroll expense increases utilizing annual merit adjustments. The difference between the TYPF amount above and the actual Test Year expense results in the $2.778 million pro-forma increase (or approximately 2%).

In addition, the Company is proposing incremental Full Time Equivalents ("FTEs") in Exhibit CLP-REVREQ-2, page 3 of 3. Page 3 of 3 shows the number of employees the Company expects to hire in each business area (i.e. Vegetation Management, Grid Modernization, Engineering Capital, Distribution System Planning, Asset Health and Field Engineering). It also shows the expected salary, hiring date, and resulting O&M payroll expense included in the Company's COS. This treatment is consistent with the Company's incremental FTE request in Docket No. 17-10-46.