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**APPLICATION OF CENTERPOINT §
ENERGY HOUSTON ELECTRIC, LLC §
FOR AUTHORITY TO CHANGE RATES §**

**BEFORE THE STATE OFFICE
OF
ADMINISTRATIVE HEARINGS**

DIRECT TESTIMONY AND EXHIBITS

OF

MARK E. GARRETT

ON BEHALF OF

CITY OF HOUSTON

AND

HOUSTON COALITION OF CITIES

June 6, 2019

**SOAH DOCKET NO. 473-19-3864
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DIRECT TESTIMONY AND EXHIBITS OF MARK E. GARRETT

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I. WITNESS IDENTIFICATION AND PURPOSE OF TESTIMONY

1 **Q: PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A: My name is Mark E. Garrett. My business address is 4028 Oakdale Farm Circle,
3 Edmond, Oklahoma 73013.

4

5 **Q: WHAT IS YOUR PRESENT OCCUPATION?**

6 A: I am the President of Garrett Group Consulting, Inc., a firm specializing in public utility
7 regulation, litigation and consulting services.

8

9 **Q: WOULD YOU PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND**
10 **AND YOUR PROFESSIONAL EXPERIENCE RELATED TO UTILITY**
11 **REGULATION?**

12 A: I received my bachelor's degree from The University of Oklahoma and completed post
13 graduate hours at Stephen F. Austin State University and the University of Texas at
14 Arlington and Pan American. I received my juris doctorate degree from Oklahoma City
15 University Law School and was admitted to the Oklahoma Bar in 1997. I am a Certified
16 Public Accountant licensed in the States of Texas and Oklahoma with a background in
17 public accounting, private industry, and utility regulation. In public accounting, as a
18 staff auditor for a firm in Dallas, I primarily audited financial institutions in the State of
19 Texas. In private industry, as controller for a mid-sized corporation in Dallas, I managed
20 the company's accounting function, including general ledger, accounts payable, financial
21 reporting, audits, tax returns, budgets, projections, and supervision of accounting

1 personnel. In utility regulation, I served as an auditor in the Public Utility Division of
2 the Oklahoma Corporation Commission (“Commission”) from 1991 to 1995. In that
3 position, I managed the audits of major gas and electric utility companies in Oklahoma.
4 Since leaving the Commission, I have testified in numerous rate cases and other
5 regulatory proceedings on behalf of various customer interveners.

6 Since leaving the Commission, I have worked on numerous rate cases and other
7 regulatory proceedings on behalf of various consumers, consumer groups, public utility
8 commission staffs and attorney general’s offices. I have provided testimony before the
9 public utility commissions in the states of Alaska, Arizona, Arkansas, Colorado, Florida,
10 Massachusetts, Nevada, Oklahoma, Texas, Utah and Washington. My qualifications
11 were accepted in each of those states. My clients primarily include industrial customers,
12 hospitals and hospital groups, universities, municipalities, and large commercial
13 customers. I have also testified on behalf of the commission staff in Utah and the offices
14 of attorneys general in Oklahoma, Washington, Nevada and Florida. I have also served
15 as a presenter at the NARUC subcommittee on Accounting and Finance on the issue of
16 incentive compensation, and as a regular instructor at the New Mexico State University’s
17 Center for Public Utilities course on basic utility regulation.

18
19 **Q: HAVE YOUR QUALIFICATIONS BEEN ACCEPTED BY THIS COMMISSION**
20 **IN PROCEEDINGS DEALING WITH REVENUE REQUIREMENT ISSUES?**

21 **A:** Yes, they have. A description of my qualifications and a list of the proceedings in which
22 I have been involved are attached to this testimony as Exhibit MG-1.

1

2 **Q: ON WHOSE BEHALF ARE YOU APPEARING IN THESE PROCEEDINGS?**

3 A: I am appearing on behalf of the City of Houston and Houston Coalition of Cities
4 (referred to collectively hereinafter as “COH/HCC”).

5

6 **Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

7 A: The purpose of my testimony is to address various revenue requirement issues identified
8 in the application for authority to change rates of CenterPoint Energy Houston Electric,
9 LLC, (“CEHE” or the “Company”), a wholly-owned subsidiary of CenterPoint Energy,
10 Inc., (“CNP”). My testimony addresses the need for adjustments to the Company’s
11 requested recovery of incentive compensation plan costs, payroll costs, supplemental
12 executive compensation costs, vegetation management costs and self- insurance plan
13 costs. I also sponsor *Exhibit MG 2* included with this testimony, which sets forth the
14 overall impact COH/HCC’s revenue requirement recommendations.

15

16 **Q: TO THE EXTENT THAT YOU DO NOT ADDRESS A SPECIFIC ITEM OR**
17 **ADJUSTMENT PROPOSED BY CEHE, SHOULD THAT BE CONSTRUED TO**
18 **MEAN THAT YOU AGREE WITH CEHE'S PROPOSAL FOR THAT ITEM?**

19 A: No. Exclusion from my testimony of specific adjustments or amounts proposed by
20 CEHE does not indicate my approval of those adjustments or amounts, but rather that the
21 scope of my testimony is limited to the specific items addressed herein.

II. SUMMARY OF RECOMMENDATIONS

1 Q: PLEASE SUMMARIZE THE ADJUSTMENTS YOU ARE PROPOSING IN THIS
2 CASE.

3 A: My proposed adjustments are set forth in the table below:

| <u>Rate Base Adjustments (in Thousands)</u> | <u>Rev. Req. Amount</u> |
|---|-----------------------------|
| To Adjust Rate Base for Disallowed Incentives (\$9,640) | \$ (846) |
| <u>Expense Adjustments (in Thousands)</u> | |
| To Remove Financially-based STI Expense | (14,759) |
| To Remove STI Related Payroll Tax Expense | (1,443) |
| To Adjust Long-Term Incentive Plan Costs | (11,250) |
| To Remove Supplemental Executive Retirement Costs | (1,783) |
| To Remove Non-Qualified Executive Compensation Costs | (1,144) |
| To Adjust Direct Payroll Expense of CEHE | (2,965) |
| To Reduce CEHE's Related Payroll Taxes | (227) |
| To Adjust Allocated Payroll Expense of CNP | (1,414) |
| To Reduce Related Payroll Taxes of CNP | (108) |
| To Adjust Insurance Plan Costs | (2,570) |
| Total Proposed Revenue Requirement Decrease from Adjustments | <u>\$38,509</u> |

III. INCENTIVE COMPENSATION EXPENSE ADJUSTMENTS

1 **Q. PLEASE DESCRIBE THE COMPANY’S TOTAL COMPENSATION PACKAGE.**

2 A. The Company offers its employees a compensation package that includes base salary,
3 annual short-term incentives (“STI”), long-term incentives (“LTI”), and benefits. The
4 Company’s incentive plans are described in the direct testimony and exhibits of
5 witnesses John J. Reed and Lynne Harkel-Rumford. The Company’s incentive
6 compensation plans are formal written plans that are heavily based on financial
7 performance measures. In this application, the Company is seeking to recover 100% of
8 its STI and LTI plan costs through rates.

9 In the following sections, I address this Commission’s policy and ratemaking
10 treatment of financially-based incentive compensation. I provide an overview of the
11 regulatory treatment of incentive compensation in other jurisdictions and discuss the
12 rationale that supports the Commission’s continued exclusion of financially-based
13 incentive compensation. Finally, I make recommendations for adjustments to align the
14 ratemaking treatment of the Company’s incentive compensation costs in this case with
15 the Commission’s well-recognized precedent.

A. **SHORT TERM INCENTIVE COMPENSATION**

16 **Q. PLEASE DESCRIBE THE FINANCIAL IMPACT OF THE COMPANY’S STI**
17 **PLAN.**

18 A. In this application, the Company seeks to include \$29.462M in rates for STI plan costs.¹
19 Of this amount, \$17.822M is in operating expense and \$11.640M is capitalized incentive

¹ See Exhibit MG2.3.

1 costs in rate base.²

2
3 **Q. DO FINANCIAL PERFORMANCE MEASURES COMPRISE A SIGNIFICANT**
4 **COMPONENT OF THE COMPANY’S STI PLAN?**

5 A. Yes. In its application, the Company breaks out its incentive plan payments into two
6 distinct categories: (1) Financial and (2) Operational goals, consisting of the following
7 metrics.

| <u>Financial Measures</u> | <u>Operational Measures</u> |
|---------------------------------------|-----------------------------|
| Overall Core Operating Income | O&M Expenditures |
| Consolidated Earnings per Share (EPS) | Customer Satisfaction |
| | Safety Performance |

8
9
10
11
12 The Company’s testimony and workpapers demonstrate that a significant portion of its
13 incentive STI plan costs, 69%, is directly tied to financially-based performance
14 measures.

15
16 **Q: DOES THE COMPANY’S SHORT-TERM INCENTIVE PLAN HAVE A**
17 **FINANCIAL TRIGGER?**

18 A: Yes. The Company’s response to COH 11-25 reveals that the STI plan has a financial
19 trigger. In order for the STI plan to be funded, operating income must equal or exceed a
20 certain defined level for each year’s plan. In 2018, the funding trigger was \$725 million
21 in core operating income. This means the Company had to achieve \$725 million before
22 any STI payments could be made. This effectively ensures that shareholders are taken
23 care of first, and then the employees can receive discretionary additional pay. In other

² Id.

1 words, with a financially-based funding mechanism, regardless of how well the
2 employees may perform on operational measures such as safety and customer service, if
3 the Company's stated financial threshold is not met, the STI plan would not be funded.

4
5 **Q. DID THE COMPANY REMOVE ANY PORTION OF ITS STI PLAN COSTS**
6 **BASED ON THE FACT THAT THE PLAN CONTAINS DIRECT FINANCIAL**
7 **PERFORMANCE MEASURES AND A FINANCIALLY-BASED FUNDING**
8 **MECHANISM?**

9 A. No. Despite the Public Utility Commission of Texas' ("the Commission") longstanding
10 precedent that a utility cannot recover the costs associated with financially-based
11 incentive compensation measures, the Company in this case seeks to recover 100% of its
12 STI plan costs, including the portions that the Company acknowledges are based on
13 financial measures. Company witness Harkel-Rumford asserts that the goals of its STI
14 plan "directly and materially" benefits customers, and that attainment of these goals,
15 including the financial goals, "serves to align the interests of shareholders and
16 customers."³ Company witness John J. Reed similarly testifies that the Company's use
17 of financial goals in its incentive plans is reasonable and that the full amount of the
18 incentive compensation costs should be recovered despite the Commission's policy.
19 Specifically, Mr. Reed states:

20 While I understand the Commission's position that the costs
21 associated with goals that are presumed to benefit
22 shareholders should be borne by the shareholders and not

³ See Direct Testimony of Lynne Harkel-Rumford, p. 26, lines 12-15; p. 27, lines 1-18.

1 customers, I believe the Company's customers are the
2 primary beneficiaries of achieving all the incentive goals.⁴

3 **Q: DID THE COMPANY ADDRESS THE COMMISSION'S REGULATORY**
4 **TREATMENT OF INCENTIVE COMPENSATION PLANS?**

5 A. Yes. Mr. Reed indicates that he reviewed prior rate case decisions in Texas and
6 indicates that he finds the regulatory treatment of incentive compensation "inconsistent."
7 Specifically, he states:

8 I think it is a fair characterization that the regulatory treatment
9 of incentive compensation costs in recent rate proceedings in
10 the state of Texas has been inconsistent.⁵

11 **Q: DO YOU AGREE THAT THE COMMISSION HAS BEEN INCONSISTENT IN**
12 **ITS REGULATORY TREATMENT OF FINANCIALLY-BASED INCENTIVE**
13 **COMPENSATION PLANS?**

14 A. Not at all. To the contrary, this Commission's prior decisions demonstrate a *consistent*
15 and well-established record of disallowing recovery of financially-based incentive
16 compensation costs. For years, this precedent has been routinely applied. It has been
17 openly and repeatedly discussed in Commission orders. For example, in the most recent
18 Southwestern Electric Power Company (SWEPCO) case, the Commission included the
19 following finding:

20 **194.** The Commission has *repeatedly ruled* that a utility cannot
21 recover the cost of financially-based incentive compensation
22 because *financial measures are of more immediate benefit to*

⁴ See Direct Testimony of John J. Reed, p. 16, lines 11-22.

⁵ See Reed Direct Testimony, p. 11, lines 12-19.

1 shareholders and financial measures are not necessary or
2 reasonable to provide utility services.⁶

3 This finding clearly articulates the longstanding precedent. However, in response to Mr.
4 Reed’s claim that the Commission has applied inconsistent treatment on the issue, I
5 conducted a review of several prior orders, as well as underlying proposals for decision
6 (PFDs) to determine whether the regulatory treatment has been inconsistent.

7 My review (summarized in the table below) shows that the Commission has been
8 consistent in both its **regulatory treatment** (excluding financially-based incentive
9 compensation) and its **reasoning**: (1) that financial measures are of more immediate
10 benefit to shareholders, and (2) that financial measures are not necessary or reasonable to
11 provide utility services. The prior decisions that I reviewed are set forth in the table
12 below:

⁶ *Application of Southwestern Electric Power Company for Authority to Change Rates*, Docket No. 46449, Finding No. 194, Order on Rehearing at p. 34 (March 19, 2018). (Emphasis added).

| Overview of Cases Before the Public Utility Commission of Texas in which the Issue of Financially-Based Incentive Compensation was Litigated | | | |
|---|-------------------------------|--|---|
| Date | PUC Docket No. | Utility Company | Excludes Financially-Based Incentives |
| 8/15/2005 | 28840 | AEP Texas Central Co. | YES ⁷ |
| 3/4/2008 | 33309 | AEP Texas Central Co. | YES ⁸ |
| 11/30/2009 | 35717 | Oncor Electric Delivery Co., LLC | YES ⁹ |
| 6/23/2011 | 38339 | CenterPoint Electric Delivery Co., LLC | YES (Except where there was insufficient evidence) ¹⁰ |
| 11/2/2012 | 39896 | Entergy Texas, Inc. | YES ¹¹ |
| 3/6/2014 | 40443 | Southwestern Electric Power Co. (SWEPCO) | YES ¹² |
| 2/23/2016 | 43695 | Southwestern Public Service Company (SP) | YES ¹³ |
| 3/19/2018 | 46449 | Southwestern Electric Power Co. (SWEPCO) | YES ¹⁴ |

⁷ See *Application of AEP Texas Central for Authority to Change Rates*, Docket No. 28840, Proposal for Decision at 92-97, Findings of Fact Nos. 164-170, Order at 35 (Aug. 15, 2005).

⁸ See *Application of AEP Texas Central Company for Authority to Change Rates*, Docket No. 33309, Proposal for Decision at 93-98, Finding of Fact No. 82, Order on Rehearing at 12 (March 4, 2008).

⁹ See *Application of Oncor Electric Delivery Company, LLC, for Authority to Change Rates*, Docket No. 35717, Proposal for Decision at 96-100, Finding of Fact Nos. 92-93, Order on Rehearing at 22 (Nov. 30, 2009).

¹⁰ See *Application of CenterPoint Electric Delivery Company, LLC, for Authority to Change Rates*, Docket No. 38339, Proposal for Decision at 65-68, Findings of Fact Nos. 81-83, Order on Rehearing at 22 (June 23, 2011). See discussion of the Commission's ratemaking treatment in the discussion below.

¹¹ See *Application of Entergy Texas, Inc., for Authority to Change Rates*, Docket No. 39896, Findings of Fact Nos. 127-133, Order on Rehearing at 24 (November 2, 2012).

¹² See *Application of Southwestern Electric Power Co., for Authority to Change Rates*, Docket No. 40443, Findings of Fact Nos. 214-220 Order on Rehearing at 38 (March 6, 2014).

¹³ See *Application of Southwestern Public Service Company for Authority to Change Rates*, Docket No. 43695, Findings of Fact Nos. 83A-85A Order on Rehearing at 27 (February 23, 2016).

¹⁴ See *Application of Southwestern Electric Power Co., for Authority to Change Rates*, Docket No. 46449, Findings of Fact Nos. 194-198, Order on Rehearing at 34 (March 19, 2018).

1 Q: PLEASE DESCRIBE HOW THIS COMMISSION TREATS SHORT-TERM
2 INCENTIVE COMPENSATION EXPENSE.

3 A: As shown on the table above, the Commission has a longstanding precedent of
4 disallowing incentive payments that are tied to financial performance measures. To my
5 knowledge, in every litigated rate case since the 2005 AEP Texas Central case (Docket No.
6 28840) the Commission has disallowed the portion of incentive compensation costs it
7 determines is related to financial performance measures. In recent cases, utility
8 companies have voluntarily removed the portion of incentive compensation associated
9 with financial goals. This occurred, for example, in the last SPS rate case (Docket No.
10 43695). Although SPS initially removed what it asserted were the *direct* financially-
11 based incentive costs, the Commission required that *all* incentive costs tied to financial
12 measures (direct and indirect) costs must be removed. The Commission's 2016 Final
13 Order in that case disallowed 100% of short-term incentives directly tied to financial
14 performance measures and 50% of the remaining incentives because they were indirectly
15 tied to financial performance through an earnings-per-share funding mechanism.¹⁵ The
16 Commission stated:

17 It is well-established that a utility may not include in its rates the costs of
18 incentives that are tied to financial performance measures. The
19 Commission agrees with the SOAH ALJs' characterization of the annual
20 incentive plan as "complicated" and notes that when a utility elects to
21 adopt a compensation plan that involves both financially-based and
22 performance-based metrics, **the utility still must show it has removed all**
23 **aspects of the financially-based goals from its requested expense.**¹⁶

¹⁵ See Docket No. 43695, Order on Rehearing at 5-6. This was the approach taken by the witness whose recommendations were adopted by the Commission.

¹⁶ Id. at 5. (Emphasis added).

1 Similarly, the Commission applied this treatment in the 2018 Order in the SWEPCO rate
2 case, (Docket No. 46449), in which the Commission adopted Staff's recommendation to
3 exclude all costs directly tied to financial performance measures, and 50% of the
4 remaining annual incentive plan costs as result of the earnings per share trigger.

5
6 **Q: IN ADDITION TO THE EIGHT CASES LISTED IN THE TABLE ABOVE, ARE**
7 **YOU AWARE OF OTHER COMMISSION DECISIONS ADDRESSING THE**
8 **PRECEDENT ON INCENTIVE COMPENSATION?**

9 A: Yes. In Docket No. 40295, the Commission addressed the request for rate-case expenses
10 pertaining to Docket No. 39896, Entergy Texas, Inc.¹⁷ The ALJs PFD stated:

11 All of the other parties in Docket 39896 opposed ETI's efforts to recover
12 the costs of its financially-based incentive compensation, uniformly
13 agreeing that the Commission has a well established and straightforward
14 policy that incentive compensation tied to financial goals is not
15 recoverable. In the PFD in Docket 39896, the ALJs concluded that ETI
16 should not be entitled to recover its financially-based incentive
17 compensation costs:

18 Simply put, the ALJs conclude that ETI has failed to establish a sufficient
19 justification for overturning the well-established Commission policy that
20 financially based incentive compensation is not recoverable.¹⁸

21 The Commission agreed with the ALJ recommendation,

22 Specifically, the Commission agrees with the ALJ that reductions should
23 be made to Entergy's recoverable rate-case expenses for Entergy
24 attempting to recover financially-based incentive compensation in base
25 rates. The Commission has repeatedly ruled that a utility cannot recover
26 the cost of financially-based incentive compensation because financial

¹⁷ See *Application of Entergy Texas, Inc., for Rate Case Expenses Pertaining to PUC Docket 39896*,
Docket No. 40295, Order at 2 (May 21, 2013).

¹⁸ See *Id.* ALJ's Proposal for Decision, at 22, Docket No. 40295, (February 19, 2013). (Emphasis added).

1 measures are of more immediate benefit to shareholders and financial
2 measures are not necessary or reasonable to provide utility services. The
3 Commission concludes that it should follow its well-established policy
4 here.¹⁹

5 Q: CEHE ARGUES THAT THE COMMISSION ALLOWED RECOVERY OF ITS
6 STI COSTS IN ITS LAST RATE CASE, DOCKET NO. 38339. DOES THIS
7 DEMONSTRATE INCONSISTENCY IN THE COMMISSION'S POLICY?

8 A: No. The Company's position is misleading. In the ALJ's Proposal for Decision in that
9 case, it is clear that CEHE's STI costs were allowed only due to a lack of sufficient
10 evidence presented in that particular docket, not because of a change of the
11 Commission's policy on financially-based incentives. The ALJ acknowledged the
12 Commission's policy, but declined to find CEHE's STI costs were financially-based due
13 to a lack of evidence presented in the hearing. The ALJ's findings indicate that although
14 TIEC raised the issue in its post-hearing brief, it provided no witness testimony
15 concerning STI. In describing the positions of the parties, the ALJ explains:

16 According to TIEC, these financial measures each represent 27 percent
17 (collectively, 54 percent) of the overall goals of CenterPoint's STI.
18 CenterPoint argues that no witness in this proceeding supports TIEC's
19 new position.

20 According to CenterPoint, the evidence provided by the Company
21 proving that STI is reasonable and necessary is undisputed in the record.
22 TIEC presented no evidence as to the nature of the goals it contended
23 constituted impermissible financial goals. As a consequence, the ALJs
24 find that TIEC's challenge to CenterPoint's inclusion of STI expenses fails
25 and, therefore, recommend that the Commission find that CenterPoint's
26 STI expenses are recoverable.

27 This is a far cry from the Company's claims that the Commission affirmatively

¹⁹ See *Application of Entergy Texas, Inc., for Rate Case Expenses Pertaining to PUC Docket 39896*,

1 approved the use of financially-based measures in its STI plan in its last rate case.
2 That decision was based on a lack of evidence in the record. Moreover, in that
3 case, the Commission disallowed CEHE's LTI, discussing at length the
4 Commission's longstanding precedent on the issue:

5 In Docket No. 28840, the Commission adopted the ALJs' findings that the
6 portions of American Electric Power Company's (AEP) incentive
7 compensation program that were tied to operational performance
8 measures are recoverable through rates but that portions tied to
9 financial performance measures are not. The ALJs examined AEP's
10 "CIP" incentive compensation program and determined that 66 percent of
11 the program was tied to financial. The Commission agreed with the ALJs
12 that these measures "are of more immediate benefit to shareholders" and
13 are not "necessary and reasonable to provide T&D utility service.

14 In Docket Nos. 33309 and 35717 the Commission reaffirmed the
15 incentive compensation policy it set out in Docket No. 28840. In Docket
16 No. 33309, the Commission found: "TCC's inclusion of annual and long-
17 term incentive compensation related to financial incentives in cost of
18 service is unreasonable because it is not necessary for the provision of
19 T&D utility services. In Docket No. 35717, the Commission similarly
20 found that "[o]f the amount Oncor requested for incentive compensation,
21 \$5,082,326 should be removed because it is related to financial
22 measures that are unreasonable and unnecessary for the provision of
23 T&D utility services."

24 Although CenterPoint points to a recent Railroad Commission of Texas
25 decision holding the incentive compensation should be recoverable, that
26 decision does not overcome the clear line of Commission precedent.
27 Based on the evidence presented and Commission precedent, the ALJs
28 recommend that the Commission exclude CenterPoint's LTI from
29 recoverable expenses.²⁰

30 In direct contravention of the Commission's longstanding policy, CEHE
31 continues to seek full recovery of both its STI and LTI in this case.

Docket No. 40295, Order at 2 (May 21, 2013).

²⁰ See *Application of CenterPoint Electric Delivery Company, LLC, for Authority to Change Rates*, Docket No. 38339, Proposal for Decision at 66-67 (October 3, 2010).

1 **Q: MR. REED POINTS TO OKLAHOMA AS AN EXAMPLE OF A STATE THAT**
2 **ALLOWS RECOVERY OF CNP INCENTIVES.²¹ IS HE CORRECT?**

3 A: No, not really. Oklahoma currently allows recovery of incentives for its two natural gas
4 utilities with formula-based rates, called Performance Based Rate Change (“PBRC”). It
5 allows STI for Oklahoma Natural Gas Company (“ONG”) and STI and LTI for CEHE
6 gas. The reason that the Oklahoma commission allows recovery of incentives for the gas
7 utilities is that the PBRC is an earnings-sharing mechanism whereby ratepayers share
8 75/25 in any excess earnings generated by the utility. The thinking is that financial
9 incentives can be allowed in rates in this situation because the sharing mechanism allows
10 the ratepayers to receive the financial benefits these financial-based incentives create.

11 Before the PBRCs were implemented, the Oklahoma commission disallowed
12 financial-based incentives for gas utilities. In its order in PUD 91-1190, at page 145, this
13 Commission addressed ONG’s Gainshare Plan and the Executive Stock Performance
14 Plan and disallowed the entire cost of both plans, finding that the incentive plans were
15 designed to increase corporate earnings. Again, in PUD 04-610, the ALJ recommended,
16 and the Commission ordered, the disallowance of the entire cost of ONG’s incentive
17 compensation payments. The ALJ made the following recommendation:

18 The ALJ finds that incentive compensation should be disallowed from
19 inclusion in the rates paid by Oklahoma Natural’s ratepayers. Incentive
20 compensation is typically tied to the attainment of certain financial goals,
21 efficiencies in operations or similar criteria, which create additional
22 income to the company, cost savings or other financial benefit. The ALJ
23 concurs with the argument of the Staff and AG that a well-designed
24 incentive compensation plan will generate resources from which to pay
25 the incentives to the employees. Therefore, the ALJ recommends

²¹ See Reed Direct Testimony at page 21, lines 1-3.

1 adoption of the Staff's recommended disallowance in the amount of
2 \$2,671,985.

3 **Q: FOR ELECTRIC UTILITIES WITHOUT PBRCs, HOW DOES THE**
4 **OKLAHOMA COMMISSION TREAT INCENTIVE PAY?**

5 A: The Oklahoma Commission has consistently disallowed financial-based incentive pay
6 for more than 25 years. In AEP-PSO's 2006 rate case, PUD 200600285, the
7 Commission disallowed 50% of the utility's annual incentive expense.²²

8 The Commission finds that 50% of PSO's incentive costs should be excluded
9 for ratemaking purposes, as recommended by OIEC. The amount of those
10 incentive costs is \$3,454,217 as referenced in HE-17 at page 16 of 24, OIEC
11 Adjustment No. H-4.

12 In AEP/PSO's 2008 rate case, PUD 200800144, the Commission again disallowed 50%
13 of the annual incentive plan.²³

14 The Commission finds that although there is no evidence to conclude
15 PSO's and AEPSC's overall salary levels are excessive, that the
16 recommendation of the AG and Staff to disallow 50% of PSO's and
17 AEPSC's incentive compensation should be adopted. Incentive
18 compensation benefits both shareholders and ratepayers equally, by
19 encouraging the attainment of goals that provide good customer service
20 and increase the earnings of the shareholders.

21 In AEP/PSO's 2015 rate case, Cause No. PUD 201500208, the Commission's final order
22 states the following with respect to incentive compensation:

23 The ALJ adopts Staff and AG's recommendation that an adjustment be
24 made to remove the portion of the Annual Incentive Program costs related
25 to financial performance measures. In many jurisdictions, including
26 Oklahoma, the cost of incentive plans tied to financial performance

²² See Final Order of the Oklahoma Corporation Commission in Cause No. PUD 200600285.

²³ See Final Order of the Oklahoma Corporation Commission in Cause No. PUD 200800144.

1 measures generally are excluded for ratemaking purposes for several
2 reasons. (See Garrett Responsive Testimony, pp. 23-33). The evidence in
3 this case established that the Company's incentive compensation is funded
4 primarily based on the Company's financial performance (75% earnings
5 per share). (See Garrett Responsive Testimony. p. 17)

6 The result of the above disallowances reduces the recoverable expenses of
7 PSO by . . . \$4,369,947 for short term incentive expense, which is 50% of
8 the \$8,739,895 requested by PSO. (See Garrett Responsive Testimony.
9 Ex. MG-2).

10 In AEP/PSO's 2017 rate case, the Commission again disallowed 50% of PSO's
11 short-term incentive plan. At page 24 of the final order, the Commission
12 states:

13 82. THE COMMISSION FURTHER FINDS that the annual incentive
14 plan expenses be reduced by \$4,863,954 to exclude 50 percent of the
15 target level of this expense from the revenue requirement.

16 In OG&E's 2005 rate case, PUD 200500151, the Commission's final order disallowed
17 60% of OG&E's TeamShare expense.

18 **Incentive Compensation.** OG&E presents \$9,308,619 in expense
19 for incentive compensation under the "TeamShare" plan. The
20 Referee does not accept the full amount as proposed by the
21 company but reduces the expense by \$5,582,192.

22 In OG&E's 2015 rate case, PUD 201500151, the requested amounts were again reduced
23 by 50%.

24
25 **Q: WHAT ABOUT THE OTHER STATES THAT MR. REED POINTS TO AS**
26 **STATES THAT ALLOW INCENTIVES IN RATES?**

27 **A:** These are outlier states. I even mention and explain Alaska and Colorado in the Survey
28 of the 24 Western States attached as Exhibit MG-3. Without question, the vast majority

1 of states apply the approach used in Texas, where financial-based incentives are not
2 allowed in rates. This can be seen in the survey results presented at Exhibit MG-3.

3
4 **Q: WHAT IS THE GENERAL RATIONALE FOR EXCLUDING INCENTIVE**
5 **COMPENSATION TIED TO FINANCIAL PERFORMANCE?**

6 A: In most jurisdictions, the cost of incentive plans tied to financial performance measures
7 are excluded for ratemaking purposes. The primary rationale is that financial-based
8 incentives benefit shareholders more than they do ratepayers. This is the rationale used
9 by the Commission. Several other rationales are set forth below:

10 (1) **Payment is uncertain.** Often, payment of incentive compensation is conditioned
11 upon meeting some predetermined financial goal such as achieving a certain
12 increase in earnings, reaching a targeted stock price or meeting budget objectives.
13 If the predetermined goals are not met, the incentive payment is not made, or
14 payment is made at some lesser amount. Therefore, one cannot know from year
15 to year what the level of the payment may be or whether the payment will be
16 made at all. It is generally considered inappropriate to set rates to recover a
17 tentative level of expense.²⁴

18 (2) **Many of the factors that significantly impact earnings are outside the control**
19 **of most company employees and have limited value to customers.** For
20 example, an unusually hot summer can easily trigger an incentive payment based
21 on company earnings for an electric utility, as a cold winter can for a gas utility.
22 Obviously, weather conditions are outside the control of utility employees and
23 customers receive no benefit from the higher utility bills that result from an
24 unusually hot or cold weather. Similarly, company earnings may increase, thus
25 triggering incentive payments, as a result of customer growth, which commonly
26 occurs without significant influence from company personnel. In fairness, since
27 shareholders enjoy the benefits of customer growth between rate cases,
28 shareholders should also bear the cost of any incentive payments such growth

²⁴ The 2008 rate case of Public Service Company of Oklahoma (PSO), PUD 08-144, is a good example of this problem. In 2009, AEP's below target EPS reduced the funding available for incentive compensation payments by 76.9%. Although in the Company's 2008 rate case, the Commission had included more than \$4 million in rates for incentives, the Company chose not to use all of that money to pay incentives but instead retained some of those funds for its shareholders to help bolster the Company's lower earnings that year.

1 may trigger. Finally, utility earnings may increase substantially if the utility is
2 able to successfully argue for a higher ROE in a rate case proceeding. Utility
3 efforts to maximize ROE in a rate proceeding, however, have little to do with
4 improving overall employee performance across the company. If utility
5 employees gear their efforts toward securing an *unreasonably* high ROE in a rate
6 proceeding, the incentive mechanism actually would work to the detriment of the
7 utility customers.

8 (3) **Earnings-based incentive plans can discourage conservation.** When incentive
9 payments are based on earnings, employees may not support conservation
10 programs designed to reduce usage if they perceive these programs could
11 adversely impact incentive payment levels. To the extent that earnings-based
12 incentive plans discourage conservation and demand-side management programs,
13 these plans do not serve the public interest. The growing focus on energy
14 efficiency at both the national and state level renders this point especially
15 important.

16 (4) **The utility and its stockholders assume none of the financial risks associated**
17 **with incentive payments.** Ratepayers assume the risk that the utility will instead
18 retain the amounts collected through rates for incentive payments whenever
19 targeted increases are not reached. Employees assume the risk that the incentive
20 payments will not be made in a given year. The utility and its stockholders,
21 however, assume no risk associated with these payments. Instead, the company's
22 only responsibility is to decide who gets the money, the stockholders or the
23 employees.²⁵

24 (5) **Incentive payments based on financial performance measures should be**
25 **made out of increased earnings.** Whatever the targets or goals may be that
26 trigger an incentive payment, when the plan is based in whole or in part on
27 financial performance measures the company always obtains a financial benefit
28 from achieving these objectives. This financial benefit should provide ample
29 funds from which to make the payment. If not, the incentive plan was poorly
30 conceived in the first place. As such, employees should be compensated out of
31 the increased earnings, and not through rates.

32 (6) **Incentive payments embedded in rates shelter the utility against the risk of**
33 **earnings erosion through attrition.** When utilities are allowed to embed
34 amounts for incentive payments in rates, that money is available to the utility not
35 only to pay the incentive payment when financial performance goals are met but
36 also to supplement earnings in those years when the company does not perform
37 well. In those years when financial performance measures are met, the increased
38 earnings of the company provide ample additional funds from which to make the
39 incentive payments to employees, and the incentive payment amount embedded

²⁵ Id.

1 in rates is not needed. In those years when financial performance measures are
2 not met and the incentive payments are not made, the amount embedded in rates
3 for incentive payments acts as a financial hedge to shelter the poor financial
4 performance of the company.

5 **Q: HOW DO OTHER JURISDICTIONS TREAT INCENTIVE COMPENSATION?**

6 A: The results of an Incentive Compensation Survey of the 24 Western States taken by the
7 Garrett Group in 2007, and updated in 2009, 2011, 2015 and 2018, attached hereto as
8 Exhibit MG-3, shows that a clear majority of the states surveyed follow the financial-
9 performance rule. While some states disallow incentive pay using other criteria, none of
10 the jurisdictions surveyed allow full recovery of incentive compensation through rates as
11 a general rule. The table below provides a summary of the survey results:

| Garrett Group, LLC 24 Western States Incentive Survey Results | | | |
|--|-------------------------------------|-----------------------------|-------------------------|
| Incentives Not Allowed in Rates | Financial Performance Rule Followed | Other Sharing Approach Used | Incentives Not at Issue |
| Hawaii | | | |
| | Arizona | | |
| | Arkansas | | |
| | California | | |
| | Idaho | | |
| | Kansas | | |
| | Louisiana | | |
| | Minnesota | | |
| | Missouri | | |
| | Nebraska | | |
| | Nevada | | |
| | New Mexico | | |
| | North Dakota | | |
| | Oklahoma | | |
| | Oregon | | |
| | South Dakota | | |
| | Texas | | |
| | Utah | | |
| | Washington | | |
| | Wyoming | | |
| | | Alaska ²⁶ | |
| | | Colorado ²⁷ | |
| | | | Iowa |
| | | | Montana |

1 **Q: IN YOUR EXPERIENCE, WHEN REGULATORS EXCLUDE THE PORTION**
2 **OF A UTILITY’S INCENTIVE PLAN TIED TO FINANCIAL PERFORMANCE**
3 **MEASURES, DOES THE UTILITY STOP OFFERING INCENTIVE**
4 **COMPENSATION TO HELP ACHIEVE ITS FINANCIAL GOALS?**

5 No. Even though regulators generally disallow incentive compensation tied to financial
6 performance for ratemaking purposes, utilities continue to include financial performance
7 as a key component of their plans. In my opinion, utilities continue to tie incentive

²⁶ Incentive compensation has not been an issue in the past, partly because most utilities in Alaska are municipalities and COOPs. In one recent case, however, the Commission approved incentives in rates, which may turn out to be an anomaly. See Exhibit MG-3.

1 payments to financial performance because by doing so they achieve the primary
2 objective of the incentive plans: to increase corporate earnings and, thereby, earnings per
3 share (EPS). However, since the utility retains the increased earnings these plans help
4 achieve, payments for these plans should be made from a portion of these increased
5 earnings, making subsidization by ratepayers unnecessary.

6
7 **Q: WHY IS THE DISTINCTION BETWEEN FINANCIAL PERFORMANCE**
8 **MEASURES AND OPERATIONAL MEASURES AN IMPORTANT**
9 **DISTINCTION FOR INCENTIVE COMPENSATION ANALYSIS?**

10 **A:** When incentive compensation payments are based on financial performance measures,
11 the compensation agreement between shareholders and employees could be loosely
12 stated in this manner: “if you will help increase shareholder earnings, we will pay you a
13 bonus.” The intended beneficiaries to this agreement are the shareholders and the
14 employees. Ratepayers have no stake in this agreement; therefore, they should bear none
15 of the costs that result from such an agreement. If, instead, the agreement was stated in
16 this manner: “if you will help increase reliability and quality of service to the customers,
17 we will pay you a bonus,” then, ratepayers would have a stake in the agreement, and
18 could share in a portion of the costs. However, so long as some portion of the incentive
19 plan is designed to increase earnings, that portion of the plan should be funded out of the
20 increased earnings the plan helps produce.

21

²⁷ Colorado followed the financial performance rule in the past. In one recent case, however, the Commission approved another approach, which may turn out to be an anomaly. See Exhibit MG-3.

1 Q: ARE THE COMPANY'S INCENTIVE PAYMENTS BASED ON FINANCIAL
2 PERFORMANCE MEASURES?

3 A: Yes. In its application, the Company breaks out its incentive plan payments into two
4 distinct categories: (1) Financial and (2) Operational goals, consisting of the following
5 metrics.

| <u>Financial Measures</u> | <u>Operational Measures</u> |
|---------------------------------|-----------------------------|
| Overall Core Operating Income | O&M Expenditures |
| Consolidated Earnings per Share | Customer Satisfaction |
| | Safety Performance |

10 The Company's *payout percentages* in 2018 for these categories is shown below.²⁸

| <u>2018 Plan Payout</u> | |
|-------------------------|-----|
| • Financial Measures | 69% |
| • Operational Measures | 31% |

14 It is interesting to note that the Company classifies the *O&M Expenditures* objective as
15 an Operational Measures category. O&M Expenditure goals are often classified as
16 Financial measures, rather than Operational measures, because they have a direct
17 financial benefit to the utility. While it is true that ratepayers eventually reap some
18 benefit from successful O&M cost control measures, it is also true that between rate
19 cases, the utility retains all of the benefits generated from these goals. I mention this
20 point to demonstrate that the disallowance could be much greater. In total, 83% of the
21 short-term incentive costs, rather than 69%, could be classified as being directly tied to
22 financial performance measures, since 14% of the total payout in 2018 was related to
23 *O&M Expenditure* goals.²⁹

²⁸ See calculation of 2018 Plan payout percentages at Exhibit MG-2.3
²⁹ See Exhibit MG2-3.

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Q: PLEASE ADDRESS THE COMPANY’S ASSERTIONS THAT INCENTIVE PLANS SHOULD BE INCLUDED IN RATES BECAUSE THEY ARE PART OF A TOTAL COMPENSATION PACKAGE THAT IS COMPARABLE WITH THE COMPENSATION PAID BY OTHER UTILITIES AND ARE NEEDED TO ATTRACT AND RETAIN QUALIFIED PERSONNEL?

A: The Company’s rationale for including incentive pay in rates is that incentive pay is needed to attract and retain qualified personnel. In my experience, this is the principle argument raised by utilities seeking to justify inclusion of incentive pay in rates. However, the argument is not persuasive. First, it misses the point. The question for regulators is not about what the company should pay; the question for regulators is about what ratepayers should pay. The utility is free to offer whatever compensation package it deems appropriate, but most commissions agree that ratepayers should not pay the costs of plans designed to increase corporate earnings. Also, as stated above, because incentive pay related to financial performance is generally disallowed, most of the utilities with which CEHE competes for talent generally do not recover all of their incentive compensation in rates. Therefore, CEHE is not put at a competitive disadvantage when its incentive pay is similarly adjusted.

The other common problem with the Company’s “total compensation package” argument is that when incentives based on financial goals are achieved, the Company receives ample additional funds from which to make the incentive payments. If not, the plan was poorly conceived. Thus, a utility is not placed at a competitive disadvantage

1 when incentive payments tied to financial performance are not collected through rates,
2 because the funding for these payments should come out of the additional earnings the
3 incentive plans help achieve.

4
5 **Q. HAS THE COMMISSION PREVIOUSLY ADDRESSED THE TOTAL**
6 **COMPENSATION PACKAGE ARGUMENTS?**

7 **A.** Yes. The Commission considered and rejected similar arguments in prior proceedings.
8 For example, in Docket No. 33309, in its Proposal for Decision the ALJs stated:

9 TCC argues that *incentive compensation is the norm*, and the Company's
10 *overall compensation levels are reasonable* when compared with similar
11 companies, citing to a number of surveys found in Mr. Jolley's direct
12 testimony. TCC further notes that its *incentive compensation plans are*
13 *widespread* in the electric, gas, and similar industries and consistent with
14 market practice.³⁰ . . . TCC witness David A. Jolley testified that
15 *incentive compensation is now a key element of total compensation* and
16 required in order for the Company to be competitive in the market place.³¹

17 The ALJs find that, while TCC's overall incentive compensation plans
18 may be reasonable when compared to similarly situated companies, *this*
19 *does not mean that compensation related to financial measures is a*
20 *reasonable and necessary component of the cost of service.*³²

21 **Q: ARE THERE OTHER PROBLEMS WITH THE ASSERTION THAT LARGE**
22 **INCENTIVE PAYMENTS ARE NEEDED TO ATTRACT AND RETAIN**
23 **QUALIFIED PERSONNEL?**

³⁰ See *Application of AEP Texas Central Company for Authority to Change Rates*, Docket No. 33309, Proposal for Decision at 95 (August 30, 2007). (Emphasis added).

³¹ Id. at 95, fn.313.

³² Id. (Emphasis added)

1 A: Yes. Although utility witnesses claim that large incentive payments are “reasonable and
2 necessary” for the provision of electric service,³³ this assertion is not actually true in
3 many instances. Much of the electricity in this country is provided by *municipal electric*
4 *providers* that do not pay short-term incentives, yet they are able to attract talent
5 sufficient to deliver safe and reliable electric service.³⁴ *Electric cooperatives* also
6 provide a substantial amount of the electricity used in this country but many do so
7 without the use of short-term incentives.³⁵ Likewise, most *state-run electric systems* also
8 provide electric service without the use of short-term incentives,³⁶ as do some *federally-*
9 *owned utilities*.³⁷ So, if municipal electric providers, electric cooperatives, state-run
10 electric systems and federally-owned utilities can provide electric service without the use
11 of incentive compensation, I believe it is not accurate to say that incentives are *necessary*
12 for the provision of electric service. They may be necessary for investor-owned utilities
13 to obtain a sufficient increase in shareholder wealth each year, but they certainly are not
14 necessary for the provision of safe and reliable electric service, which is the test for
15 ratemaking purposes.

16 The other problem with this argument is that it does nothing to explain why
17 incentive pay should be included in rates. Virtually all utilities have the same need to
18 attract qualified employees, but these other utilities are not recovering financial-based
19 incentive pay in rates.

³³ See *e.g.*, Direct Testimony of Lynne Harkel-Rumford, p. 28, lines 17-22 and p. 29, lines 1-2.

³⁴ See OG&E response to OIEC 9-8 in Oklahoma Cause No. PUD 201800140, provided by Michael Halloran, senior partner at Mercer (US) Inc., a firm specializing in employee compensation issues.

³⁵ *Id.*

³⁶ *Id.*

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Q: ARE YOU RECOMMENDING THAT THE COMPANY ELIMINATE ITS SHORT-TERM INCENTIVES?

A: No. The question for ratemaking purposes is not whether the utility should offer short-term incentives to its employees; the question is, who should pay for them. The consensus is that financial-based incentives benefit the shareholders more than the do the ratepayers, and, as a result, should be paid for by the shareholders.

Q: WHAT ARE YOU RECOMMENDING WITH RESPECT TO THE COMPANY'S STI EXPENSE?

A: Consistent with numerous prior Commission orders, I recommend that the amount of the Company's STI plan tied to financial performance be disallowed for ratemaking purposes. Costs related to operational goals such as customer satisfaction, safety and cost control measures (which could be viewed as a financial measure) should be included in rates.

Q: DO YOU BELIEVE IT IS IMPORTANT FOR THE COMMISSION TO CONTINUE TO FOLLOW ITS LONGSTANDING PRECEDENT REGARDING INCENTIVE PAY IN RATES?

A: Yes. I believe there would need to be a significant change in circumstances for the Commission to reverse its 15-year policy of excluding short-term incentive pay tied to financial performance measures. Customers must be able to rely on the Commission to

³⁷ Id.

1 be consistent on important issues such as this. Stability, consistency, and predictability
2 are fundamental attributes in our system of law. This is precisely why precedent is so
3 important. It allows people, here ratepayers, to conduct their affairs more efficiently. In
4 short, it allows residential and commercial customers alike to rely on prior precedent and
5 to organize their personal and business decisions accordingly. The bottom line is that the
6 need for stability, consistency, and predictability of the law requires that the Commission
7 follow its long-standing precedent unless there is a good, new reason not to. Since the
8 Company has raised no new circumstance or no new argument, the Commission should
9 be consistent and continue its policy of disallowing short-term incentive compensation
10 costs tied to financial measures.

11
12 **Q. WHAT ADJUSTMENT ARE YOU PROPOSING WITH RESPECT TO THE**
13 **COMPANY'S ANNUAL INCENTIVE PLAN?**

14 A. I am proposing to exclude 83% of the annual incentive plan costs. My recommendation
15 is comprised of a three-part adjustment. First, I adjusted the test year level to a target
16 level. Second, I removed amounts directly tied to financially-based performance
17 measures in the Company's plan; that is, Income Goals (35%) and EPS Goals (20%).
18 Finally, consistent with the Commission's treatment, I removed 50% of the remaining
19 incentive compensation expense which is indirectly financially-based because of the
20 financial-related funding mechanism.³⁸ Excluding financially-based incentives is

³⁸ See Exhibit MG2.3 and CEHE RFP Sch. Tab II-D-3.6.1a.

1 consistent with the regulatory treatment of commissions across the country.³⁹ Financial-
2 based incentives are excluded for a number of reasons but it is generally understood that
3 incentives tied to the financial performance of the utility and/or its parent typically
4 benefit shareholders more than they do ratepayers.

5
6 **Q: IS YOUR RECOMMENDATION THAT THE COMMISSION REMOVE ALL**
7 **STI DIRECTLY TIED TO FINANCIAL PERFORMANCE MEASURES AND**
8 **50% OF THE REMAINING STI AS A RESULT OF THE FINANCIAL**
9 **TRIGGER CONSISTENT WITH THE COMMISSION'S TREATMENT OF STI**
10 **IN THE SPS AND SWEPCO CASES MENTIONED ABOVE?**

11 A: Yes.

12
13 **Q: HOW IS YOUR ADJUSTMENT CALCULATED?**

³⁹ See Exhibit MG-3. Also, the following list of cases shows that incentives are disallowed in many states as a matter of policy. See, *U.S. West Communications, Inc. v. Public Service Comm'n*, 901 P.2d 270, 276-77 (Utah 1995); *Central Illinois Public Service Company Proposed General Increase In Natural Gas Rates*, Docket No. 02-0798 (Cons.), 2003 Ill. PUC LEXIS 824, p. 115 (Illinois Commerce Comm'n 2003); *Application of Wisconsin Power and Light Company as an Electric, Natural Gas and Water Utility for Authority to Change Electric, Natural Gas, and Water Rates*, Docket No. 6680-UR-113, 2003 Wisc. PUC LEXIS 822, pp. 40-41 (Wisconsin Public Service Comm'n 2003); *Petition of Northern States Power Company's Gas Utility for Authority to Change its Schedule of Gas Rates for Retail Customers Within the State of Minnesota*, 146 P.U.R.4th 1, pp. 40-43 (Minnesota Public Util. Comm'n 1993); *Application of Minnegasco, a Division of NorAm Energy Corp., for Authority to Increase its Natural Gas Rates in Minnesota*, 170 P.U.R.4th 193, pp. 69-77 (Minnesota Public Util. Comm'n 1996).

1 A: As set forth below, my three-part adjustment to incentive compensation is as follows:
 2 (1) adjust test year expense to target levels, (2) remove costs directly tied to financial
 3 performance measures, and (3) remove 50% of the remaining costs due to the financial
 4 trigger. This adjustment is set forth below, and shown at *Exhibit MG-2.3*.

| | | |
|---|---|----------------------|
| 5 | Adjust Test Year Levels to Target Levels of Expense | \$(4,217,000) |
| 6 | Remove 35% for Operating Income Goal | \$(4,761,000) |
| 7 | Remove 20% for Earnings per Share Goal | \$(2,720,000) |
| 8 | Remove 50% of Operational Goals for Financial Trigger | <u>\$(3,061,000)</u> |
| 9 | Total Potential Adjustment COH/HCC | <u>\$ 14,759,000</u> |

10

11 **Q: WHAT WOULD YOUR ADJUSTMENT BE IF YOU DISALLOWED ONLY THE**
 12 **AMOUNT PAID IN THE TEST YEAR DIRECTLY RELATED TO FINANCIAL**
 13 **PERFORMANCE?**

14 A: This alternative adjustment is set forth below and can be seen in greater detail at *Exhibit*
 15 *MG 2.3*.

| | | |
|----|---|-----------------------|
| 16 | Annual Incentive Plan Payments in Pro Forma Expense | \$17,822,000 |
| 17 | Financial Performance Measures Percentage | <u>69%</u> |
| 18 | Adjustment to Annual STI Plan Expense | <u>\$(12,297,000)</u> |
| 19 | Adjustment for STI related Payroll Taxes | <u>\$ (1,203,000)</u> |

20 **Q: DO YOU BELIEVE THE TEST YEAR PAYOUT LEVEL FOR STI COULD BE**
 21 **USED RATHER THAN THE TARGET LEVEL?**

1 A: Yes. I believe the test year level could be used rather than the lower target level, because
2 the Company is actually proposing an adjustment (within its payroll adjustment) to
3 increase STI expense based on a 4-year history of STI goal achievements. This means
4 the Company is expecting higher, not lower, STI expense levels going forward. As a
5 result, I think it would be acceptable to use the actual test year payout levels. However, I
6 am not recommending this approach in this case. In this case, I am instead following the
7 approach taken by the Commission in the recent SPS and SWEPCO cases.

B. LONG-TERM INCENTIVE COMPENSATION

8 **Q: WHAT HAS CEHE PROPOSED WITH RESPECT TO THE RECOVERY OF**
9 **LONG-TERM STOCK INCENTIVE PLAN FOR EXECUTIVES?**

10 A: The Company is proposing to recover \$11.25M⁴⁰ for its long-term incentive plan.

11 **Q: WHAT TYPES OF INCENTIVES ARE PROVIDED TO SENIOR**
12 **MANAGEMENT AT THE COMPANY?**

13 A: In addition to the company-wide incentive plans discussed above, highly compensated
14 executives and managers of the Company are provided additional incentive
15 compensation through the Company's Long-Term Incentive Plan. This plan provides
16 select individuals with awards of CNP stock in the form of *performance units* and
17 *restricted stock units*.⁴¹ The *performance units* are granted based on two strictly
18 financial-based performance measures: operating income and total shareholder returns.

⁴⁰ See Company's Response to TIEC 1-9. See also Exhibit MG 2-4.

⁴¹ See Harkel-Rumford Direct Testimony, at page 30.

1 The *restricted units* are Company stock awards that must be held over a period of years,
2 which incentivizes the recipient to increase the financial value of these shares over their
3 vesting period. As such, the Long-Term Incentive Plan is designed to align the interest
4 of the Company's management with the interest of shareholders, which is to promote the
5 financial success of the Company and the growth of CNP stock in particular.
6

7 **Q: WHY DO YOU BELIEVE THE PERFORMANCE UNITS AND THE**
8 **RESTRICTED STOCK UNITS ARE BOTH TIED TO THE FINANCIAL**
9 **PERFORMANCE OF THE COMPANY?**

10 A: The *performance units* are clearly tied to financial performance because the two
11 measures that determine the amount of these awards are: (1) operating income, and (2)
12 total shareholder return. The *restricted units* are tied to financial performance because
13 the value of these units is directly tied to the value of the Company's common stock. In
14 other words, the *restricted units* are tied to financial performance measures since the
15 value of the compensation the employees receive is tied to the appreciation of CNP's
16 stock price over the vesting period. Thus, both elements of the Company's Long-Term
17 Incentive Plan (performance units and restricted units) are designed to align the interest
18 of management with the interest of shareholders, which is to promote the financial
19 growth of the Company.

20 **Q: WHY DO YOU BELIEVE BOTH PERFORMANCE UNITS AND RESTRICTED**
21 **UNITS ARE DESIGNED PREDOMINANTLY TO BENEFIT THE COMPANY'S**
22 **SHAREHOLDERS RATHER THAN ITS ELECTRIC CUSTOMERS?**

1 A: This opinion is based on my review of the Company's Long-Term Incentive Plan
2 provide in response to PUC 03-03. The plan clearly describes the Company's goals with
3 respect to its long-term incentive grant program.

4 **Objectives.** The purpose of this Plan is to further the interests of
5 the Company, its Subsidiaries and its shareholders by providing
6 incentive in the form of awards to officers and employees. Such
7 awards will recognize and reward outstanding performances and
8 individual contributions and give Participants in the Plan an
9 interest in the Company parallel to that of the shareholders, thus
10 enhancing the proprietary and personal interests of such
11 Participants in the Company's continued success and progress.
12 This Plan will also enable the Company and its Subsidiaries to
13 attract and retain such officers and employees.

14 Based on the Company's stated goals in the excerpt above, it is clear that the
15 Performance Units and Restricted Stock Units are designed to align managements'
16 interests with the financially-based goals of the shareholders, rather than its customers.
17 For this reason, I recommend that all of the long-term incentives should be disallowed.

18

19 **Q: ARE THERE OTHER FACTORS THAT IMPACT HOW LONG-TERM**
20 **INCENTIVE COSTS ARE TREATED FOR RATEMAKING PURPOSES?**

21 A: Yes. Incentive compensation payments to officers, executives and highly-compensated
22 key employees of a utility are generally excluded for ratemaking purposes, and I agree
23 with this treatment. Officers of any corporation have a legal, fiduciary duty to put the
24 interests of the corporation first. This means that these individuals are required to put the
25 interests of the company above the interest of the customers. Undoubtedly, the interests
26 of the company and the interests of the customer are not always the same, and at times,

1 can be quite divergent. This natural divergence of interests creates a situation where not
2 every cost associated with executive compensation is presumed to be a necessary cost of
3 providing utility service. Regulators are inclined to exclude executive bonuses, incentive
4 compensation and supplemental benefits from utility rates, understanding that these costs
5 would be better borne by the utility shareholders.

6 In my experience, many utilities treat long-term executive incentive
7 compensation costs as a below-the-line item even without a commission order directing
8 them to do so. Further, long-term executive incentive plans are specifically designed to
9 tie executive compensation to the financial performance of the company. This is done to
10 further align the interest of the employee with those of the shareholder. Since the
11 compensation of the employee is tied over a long period of time to the company's stock
12 price, it motivates employees to make business decisions from the perspective of long-
13 term shareholders. This intentional alignment of employee and shareholder interests
14 means the costs of these plans should be borne solely by the shareholders. It would be
15 inappropriate to require ratepayers to bear the costs of incentive plans designed to
16 encourage employees to put the interest of the shareholders first.

17
18 **Q: WHO RECEIVES THE LONG-TERM INCENTIVE AWARDS?**

19 **A:** Generally, the eligible executive level employees include officers, directors and a few
20 select exempt employees.⁴² Moreover, only a very small percent of the highest paid
21 employees receive these awards: 1.5% at CEHE and 8.6% at CNP.⁴³

⁴² See response to COH 11-01.

⁴³ Id.

1

2 **Q: HOW IS LONG-TERM INCENTIVE COMPENSATION TREATED BY THIS**
3 **COMMISSION?**

4 A: This Commission has consistently disallowed incentives tied to financial performance,
5 which means 100% of long-term incentive costs is routinely excluded. This is the
6 correct treatment.

7

8 **Q: HOW IS LONG-TERM INCENTIVE COMPENSATION TREATED IN OTHER**
9 **STATES?**

10 A: The results of the Garrett Group Incentive Survey, discussed in the previous section of
11 this testimony, show that most states follow the general rule that incentive pay associated
12 with financial performance is not allowed in rates. This means that long-term, stock-
13 based incentives are not allowed in virtually every state. In the synopsis of the incentive
14 survey results from each state that is included as Exhibit MG-3, the treatment of long-
15 term stock-based incentives in each state is underlined. According to the survey, 20 of
16 the 24 western states tend to exclude all or virtually all long-term stock-based incentive
17 pay, either through an outright ban on stock-based incentives or through applying the
18 *financial performance* rule, which has the effect of excluding long-term earnings-based
19 and stock-based awards. These states include Arizona, Arkansas, California, Colorado,
20 Hawaii, Idaho, Kansas, Louisiana, Minnesota, Missouri, Nevada, New Mexico, North
21 Dakota, Oklahoma, Oregon, South Dakota, Texas, Utah, Washington and Wyoming. In

1 the other four states, Alaska, Iowa, Montana and Nebraska, long-term incentives have
2 not been an issue according to the survey.

3
4 **Q: IS YOUR RECOMMENDED TREATMENT TO EXCLUDE LONG-TERM**
5 **INCENTIVE COMPENSATION TO SENIOR MANAGEMENT CONSISTENT**
6 **WITH THE TREATMENT GENERALLY PRESCRIBED IN OTHER STATES?**

7 A: Yes. In our survey of incentive compensation treatment in other states, we found that
8 virtually all commissions exclude executive stock-based compensation, such as the
9 Company's Long-Term Incentive Plan.

10
11 **Q: WHEN UTILITIES SEEK TO INCLUDE LONG-TERM INCENTIVE**
12 **COMPENSATION IN RATES, WHAT RATIONALE IS GENERALLY**
13 **PROVIDED?**

14 A: Generally, utilities argue that executive incentives are part of an overall compensation
15 package that is designed to attract and retain qualified personnel. Since other utilities
16 offer incentive plans to their executives, a company would run the risk of not being able
17 to compete for key personnel if it did not offer a comparable plan.⁴⁴

18
19 **Q: IS THE COMPANY'S ARGUMENT PLAUSIBLE?**

20 A: No. The problem with the Company's argument is that when utilities, such as CEHE,
21 compete with other utilities for qualified executives, and the long-term incentive

⁴⁴ See for example, Direct Testimony of Harkel-Rumford, page 28, lines 8-9.

1 compensation plans of those other utilities are not being recovered through rates, CEHE
2 is not placed at a competitive disadvantage when its long-term incentive compensation is
3 excluded as well. The fact that other utilities offer long-term incentive plans is not
4 relevant; what is relevant is the fact that other utilities are not recovering the costs of
5 those plans in rates. In an order disallowing Nevada Power’s long-term incentive plan,
6 the Nevada Commission articulated this important ratemaking concept as follows:

7 Therefore, the Commission accepts BCP’s and SNHG’s
8 recommendations to disallow recovery of expenses associated with
9 LTIP. Both parties provide a valid argument that this type of
10 incentive plan is mainly for the benefit of shareholders. Further,
11 both BCP and SNHG provide examples of numerous other
12 jurisdictions that do not allow the recovery of these costs and,
13 therefore, disallowance in this instance would not place NPC in a
14 competitive disadvantage.⁴⁵ (Emphasis added).

15 Further, the problem with the Company’s “total compensation package” argument is that
16 when an incentive payment is paid based on the achievement of financial performance
17 goals there should be sufficient financial benefit to the company as the result of
18 achieving these goals. This financial benefit should provide ample additional funds from
19 which to make the incentive payments. If not, the plan was poorly conceived. Thus, a
20 utility is not placed at a competitive disadvantage when incentive payments tied to
21 financial performance are not collected through rates, because the funding for these
22 payments should come out of the additional earnings the incentive plans help achieve.

23
24 **Q: WHAT OTHER RATIONALE DOES THE COMPANY PROVIDE FOR**
25 **INCLUDING LONG-TERM STOCK-BASED INCENTIVES IN RATES?**

1 A: The Company claims that long-term incentives are *necessary* costs, and, as such, they
2 should be included in rates.⁴⁶ The problem with this assertion is that it is not actually
3 true. As discussed earlier in this testimony, much of the electricity in this country is
4 provided by *municipal electric providers* virtually none of which pay long-term stock-
5 based incentives, yet they are able to attract talent sufficient to deliver safe and reliable
6 electric service.⁴⁷ *Electric cooperatives* also provide a substantial amount of the
7 electricity used in this country but do so without the use of long-term stock-based
8 incentives.⁴⁸ Likewise, *state-run electric systems* provide electric service without the use
9 of long-term incentives,⁴⁹ as do *federally-owned utilities*.⁵⁰ So, if municipalities, CO-
10 OPs, state and federally-run electric systems can provide electric service without the use
11 of long-term incentive compensation, I believe it is completely inaccurate to say that
12 long-term incentives are *necessary* for the provision of electric service. They may be
13 necessary for investor-owned utilities to obtain a sufficient increase in shareholder
14 wealth from year to year, but they certainly are not necessary for the provision of safe
15 and reliable electric service, which is the test for inclusion of costs for ratemaking
16 purposes.

17
18 **Q: ARE THERE OTHER REASONS WHY STOCK-BASED INCENTIVES**
19 **SHOULD NOT BE ALLOWED IN RATES?**

⁴⁵ See Final Order in Docket 08-12002 at paragraph 549.

⁴⁶ See Harkel-Rumford Direct Testimony at 33, lines 17-22.

⁴⁷ See OG&E response to OIEC 9-8 in Oklahoma Cause No. PUD 201800140, provided by Michael Halloran, senior partner at Mercer (US) Inc., a firm specializing in employee compensation issues.

⁴⁸ Id.

⁴⁹ Id.

⁵⁰ Id.

1 A: Yes. There is no cash expense associated with stock-based incentive awards. So, if
2 these awards are included in rates, the utility will collect cash from ratepayers to cover a
3 cash expense that does not exist.
4

5 **Q: WHY IS THERE NO CASH ASSOCIATED WITH STOCK AWARDS?**

6 A: For stock awards, the accounting entries, both the debit and the credit, are effectively
7 made to the same account, the capital account. Thus, when the utility awards stock-
8 based incentives, there is no net impact on the financial position of the utility. When the
9 debit and the credit are each to the same account, they effectively wash each other out.
10 This is not true for any other recoverable expense for ratemaking purposes, where there
11 is a cash outlay that reduces the financial position of the utility. When the restriction
12 period expires and the stock is actually awarded to the employee there is *still no change*
13 in the financial position of the company. The only change is that the value of the stock
14 held by the other stockholders is minutely diminished. In effect, the utility is trying to
15 collect from ratepayers the diminution in value to its other stockholders caused by its
16 stock awards to executives and management level employees of the Company. In other
17 words, the utility is trying to collect cash from ratepayers for a cash expense that does
18 not exist. This is certainly not a cost that ratepayers should pay.
19

20 **Q: PLEASE DESCRIBE YOUR ADJUSTMENT TO THE COMPANY'S LONG-**
21 **TERM STOCK INCENTIVE PLAN FOR SENIOR MANAGEMENT.**

1 A: I recommend that all of the cost of the Company's Long-Term Incentive Plan be
2 excluded from rates. My adjustment removes 100% of the cost of the plan included in
3 pro forma operating expense in the amount of \$11,250,000. The calculations supporting
4 this adjustment are set forth at *Exhibit MG-2.4*.

5 **Adjustment to Exclude 100% of Long-Term Incentive Expense** **\$ 11,250,000**

IV. **SUPPLEMENTAL EXECUTIVE COMPENSATION ADJUSTMENTS**

6 **Q: PLEASE DESCRIBE THE SUPPLEMENTAL EMPLOYEE PENSION PLAN.**

7 A: The Company provides supplemental retirement plan benefits to certain highly-
8 compensated individuals at the Company. These supplemental retirement plans for highly
9 compensated individuals are provided because benefits under the general retirement plans
10 are subject to limitations under the Internal Revenue Code. Benefits payable under these
11 supplemental plans are typically equivalent to the amounts that would have been paid but
12 for the limitations imposed by the Code. In general, the limitations imposed by the Code
13 allow for the computation of benefits on annual compensation levels of up to \$260,000 for
14 2014, \$265,000 for 2015, \$270,000 for 2016, \$275,000 for 2017 and \$280,000 for 2018.
15 Retirement benefits on compensation levels in excess of annual compensation limits are
16 paid through supplemental plans. Thus, supplemental retirement plans for highly
17 compensated employees are designed to provide benefits in addition to the benefits
18 provided under the general pension plans of the company. These plans are referred to as
19 *non-qualified* plans because they do not qualify as a deductible tax expense under the code.

20

1 **Q: WHAT AMOUNTS WERE INCLUDED IN PRO FORMA OPERATING EXPENSE**
2 **FOR THE SUPPLEMENTAL EMPLOYEE RETIREMENT PLANS?**

3 A: The Company included \$1.783M for non-qualified plan in pro forma operating expense for
4 ratemaking purposes in the Company's application.⁵¹

5
6 **Q: WHAT DO YOU RECOMMEND WITH RESPECT TO SUPPLEMENTAL NON-**
7 **QUALIFYING COSTS FOR HIGHLY COMPENSATED EMPLOYEES?**

8 A: I recommend that supplemental costs be disallowed in their entirety. If these
9 supplemental costs are disallowed, ratepayers will pay for all of the executive benefits
10 included in the Company's *regular* pension plans, and shareholders will pay for the
11 additional executive benefits included in the *supplemental* plan. For ratemaking
12 purposes, shareholders should bear the additional costs associated with supplemental
13 benefits to highly compensated executives, since these costs are not necessary for the
14 provision of utility service but are instead discretionary costs of the shareholders
15 designed to attract, retain and reward highly compensated employees. Further, because
16 officers of any corporation have a duty of loyalty and duty of care to the corporation,
17 these individuals are required to put the interest of the company first. This creates a
18 situation where not every cost associated with executive compensation is presumed to be
19 a cost appropriately passed on to ratepayers. Many regulators are inclined to exclude
20 executive bonuses, incentive compensation and supplemental benefits from utility rates,
21 understanding that these costs would be better borne by the utility shareholders.

1 Q: HOW HAS SUPPLEMENTAL RETIREMENT PAY BEEN TREATED IN
2 STATES WHERE YOU HAVE TESTIFIED ON THIS ISSUE OVER A LONG
3 PERIOD TIME?

4 A: In the states where I have testified on this issue over a period of time, such as
5 Oklahoma,⁵² Nevada,⁵³ and Arkansas, these costs are disallowed.⁵⁴

6

7 Q: HOW IS NON-QUALIFIED SUPPLEMENTAL PAY TREATED IN TEXAS?

8 A: In Texas, in Entergy's rate case, Docket No. 39896, the Texas PUC disallowed all of the
9 Company's SERP costs.

10 140. ETI provides non-qualified supplemental executive
11 retirement plans for highly compensated individuals such as key
12 managerial employees and executives that, because of limitations
13 imposed under the Internal Revenue Code, would otherwise not
14 receive retirement benefits on their annual compensation over
15 \$245,000 per year.

16 141. ETI's non-qualified supplemental executive retirement
17 plans are discretionary costs designed to attract, retain, and reward
18 highly compensated employees whose interests are more closely
19 aligned with those of the shareholders than the customers.

20 142. ETI's non-qualified executive retirement benefits in the
21 amount of \$2,114,931 are not reasonable or necessary to provide
22 utility service to the public, not in the public interest, and should
23 not be included in ETI's cost of service.⁵⁵

⁵¹ See Exhibit MG-2.5.

⁵² See, for example, Cause No. PUD 200600285, Cause No. PUD 200800144, Cause No. PUD 201500208, Cause No. PUD 201700151.

⁵³ See, for example, Docket Nos. 01-10001, 03-10001, 06-11022, 08-12002, and 11-06006.

⁵⁴ In the Entergy Arkansas, Inc. litigated rate case (Docket No. 13-028-U), the Arkansas Public Service Commission agreed that shareholders, not ratepayers, should pay for the cost of Entergy Arkansas' Supplemental Executive Retirement Plans. In the Commission's Order No. 21 entered in this Docket, the Arkansas Commission determined that SERP expenses are not necessary to provide utility service, but rather are discretionary costs implemented by Entergy Arkansas and therefore should be disallowed.

⁵⁵ See *Application of Entergy Texas, Inc., for Authority to Change Rates*, Docket No. 39896, Findings of Fact Nos. 140-142, Order on Rehearing at 25-26 (November 2, 2012).

1 Similarly, in Docket No. 40443, the Commission denied SWEPCO's request to recover
2 its non-qualified executive retirement benefits:

3 227. SWEPCO's non-qualified executive retirement benefits in the
4 amount of \$191,007 are not reasonable or necessary to provide utility
5 service to the public, are not in the public interest, and should not be
6 included in SWEPCO's cost of service.⁵⁶
7

8 Again, in Docket No. 46449, the Commission denied SWEPCO's request for recovery of
9 non-qualified supplemental executive compensation costs:

10 202. SWEPCO provides non-qualified supplemental executive retirement
11 plans for highly compensated individuals such as key managerial
12 employees and executives that, because of limitations imposed under the
13 Internal Revenue Code, would otherwise not receive retirement benefits
14 on their annual compensation over \$270,000 per year.

15
16 203. SWEPCO's non-qualified supplemental executive retirement plans
17 are discretionary costs designed to attract, retain, and reward highly
18 compensated employees whose interests are more closely aligned with
19 those of the shareholders than the customers.
20

21 204. SWEPCO's requested non-qualified supplemental executive
22 retirement benefits are not reasonable or necessary to provide utility
23 service to the public, are not in the public interest, and should not be
24 included in SWEPCO's cost of service.⁵⁷

25 **Q: WHAT ADJUSTMENT ARE YOU RECOMMENDING?**

26 **A:** The impact of this adjustment is set forth below and is shown at *Exhibit MG 2.5*.

27 **Adjustment to Remove Supplemental Retirement Plan Expense \$(1,783,000)**

⁵⁶ See *Application of Southwestern Electric Power Co., for Authority to Change Rates*, Docket No. 40443, Findings of Fact No. 227 Order on Rehearing at 40 (March 6, 2014).

⁵⁷ See *Application of Southwestern Electric Power Co., for Authority to Change Rates*, Docket No. 46449, Findings of Fact Nos. 202-204, Order on Rehearing at 34 (March 19, 2018).

1 **Q: ARE YOU RECOMMENDING ANY OTHER ADJUSTMENTS FOR NON-**
2 **QUALIFIED COMPENSATION EXPENSES?**

3 A: Yes. The 2017 tax law, the Tax Cuts and Jobs Act, made salaries in excess of one
4 million dollars non-deductible. In response to COH 11-20, Att 1, the Company
5 identified \$1.143M in non-deductible salaries allocated to CEHE. In my opinion,
6 salaries in excess of \$1M are not *necessary* for the provision of electric service. As a
7 result, for ratemaking purposes, shareholders should bear the additional costs associated
8 with highly compensated executives. These costs are not *necessary* for the provision of
9 utility service but are instead discretionary costs of the shareholders designed to attract,
10 retain and reward highly compensated employees, for the primarily purpose of
11 increasing the company's stock price. Further, because officers of any corporation have
12 fiduciary duties of loyalty and care, these individuals are required to put the interest of
13 the company first. This creates a situation where not every cost associated with
14 executive compensation is presumed to be a cost appropriately passed on to ratepayers.
15 Many regulators are inclined to exclude executive bonuses, incentive compensation and
16 supplemental benefits from utility rates, understanding that these costs would be better
17 borne by the utility shareholders. In my opinion, this policy should extend to executive
18 salaries in excess of the allowed \$1M limits for tax purposes.

19
20 **Q: WHY DO YOU BELIEVE SALARIES IN EXCESS OF \$1M ARE NOT**
21 **NECESSARY FOR THE PROVISION OF ELECTRIC SERVICE?**

1 A: Investor-owned utility executives are paid not only to provide electricity, but also to
2 ensure that the utility's stock price maintains and increases its value. In other words,
3 much of the pay to executives in an investor-owned utility is incurred more for the
4 benefit of the shareholders than it is for ratepayers.

5
6 **Q: WHAT DO YOU RECOMMEND?**

7 A: I recommend that executive salaries in excess of the tax code \$1M limitation be
8 disallowed for ratemaking purposes. If these supplemental costs are disallowed,
9 ratepayers will pay for all of the executive salaries up to \$1M/year, and shareholders will
10 pay for the executive salaries in excess of \$1M. For ratemaking purposes, shareholders
11 should bear the additional costs associated with supplemental benefits to highly
12 compensated executives, since these costs are not necessary for the *provision of utility*
13 *service* but are instead discretionary costs of the shareholders designed to attract, retain
14 and reward highly compensated employees. Further, because officers of any corporation
15 have a fiduciary duty to put the interest of the company first, this creates a situation
16 where not every cost associated with executive compensation is presumed to be a cost
17 appropriately passed on to ratepayers.

18

19 **Q: WHAT ADJUSTMENT ARE YOU RECOMMENDING?**

20 A: The impact of this adjustment is set forth below and is shown at *Exhibit MG 2.5*.

21 **Remove Executive Salaries Expense in Excess of \$1M Limits \$(1,143,619)**

V. PAYROLL ADJUSTMENTS

1 **Q: PLEASE DESCRIBE THE COMPANY'S PROPOSED PAYROLL**
2 **ADJUSTMENTS.**

3 A: CEHE's proposed payroll adjustment has several components that were applied in a
4 similar manner for both the direct payroll and the affiliate allocated payroll. The
5 Company first annualizes pay increases that occurred during the test year for exempt
6 employees, non-exempt employees, and bargaining employees. The Company then
7 applies a three percent prospective increase for 2019, which is described as a
8 Competitive Pay Adjustment ("CPA"). Finally, the Company proposes an adjustment to
9 increase the Short-Term Incentives ("STI") for the pay increases and for the average
10 level of goal achievement for the last three years.⁵⁸

11

12 **Q: DO YOU AGREE WITH THE COMPANY'S APPROACH?**

13 A: No. Regarding the first part of the adjustment, an annualization that applies a nominal
14 mid-year pay increase across earlier parts of the year should be measured to ensure that
15 the resulting payroll is representative of year-end expense levels. Regarding the second
16 part of the adjustment, a projected additional increase for future pay raises based on the
17 nominal increase rate is almost never appropriate because it ignores offsetting factors
18 that tend to keep payroll costs in check.

19 The increase associated with a nominal pay raise by itself does not constitute a
20 known and measurable change to overall payroll expense because too many other factors
21 impact payroll expense. These factors include: (1) the normal turnover of employees in

1 a company the size of CEHE, where employees come onto and leave the payroll registers
2 on a regular basis, with retiring employees taking higher salaries levels off the system
3 and new employees coming on at lower pay scale levels; (2) workforce reorganizations,
4 where significant reductions in the workforce levels are achieved through new
5 technologies or other innovations; (3) productivity gains, where smaller reductions in the
6 workforce levels are achieved on an ongoing basis through increased employee
7 efficiencies; and (4) capitalization ratio changes, where more payroll costs are
8 capitalized (rather than expensed) during a period of capital expansion – such as many
9 utilities are experiencing now. All of these factors impact overall payroll cost levels as
10 much or more than pay raises do. Yet, regulated utilities, in their rate cases, often want
11 to only acknowledge the pay raise impacts while ignoring the impacts of these other
12 important changes that often lower overall expense levels.

13
14 **Q: ARE THERE OTHER REASONS TO REJECT A POST TEST YEAR**
15 **ADJUSTMENT TO PAYROLL COSTS?**

16 **A:** Yes. From a ratemaking perspective, it is appropriate to go beyond the test year in a
17 piecemeal manner to reflect higher cost levels in on area such as payroll expense but not
18 go beyond the test year to recognize other potential offsetting cost decreases. In my
19 opinion, it is better to synchronize all of the revenue requirement components – rate
20 base, cost of capital, revenues and expenses – at one point in time and not reach out
21 beyond the test year for increases in one area without considering changes to all of the
22 other areas over the same period of time.

⁵⁸ See the Direct Testimony of Kristie L. Colvin, page 13, line 8 through page 14, line 18.

1

2 **Q: WHAT IS YOUR RECOMMENDATION FOR THE PAYROLL COST**
3 **ADJUSTMENTS REQUESTED BY CEHE?**

4 A: I recommend that the post-test year estimated CPA adjustment be removed from the
5 requested pro forma expenses. I have addressed the STI costs in a separate adjustment in
6 a manner consistent with the Commission's precedent disallowing financial-based
7 incentive compensation.

8

9 **Q: WHAT ADJUSTMENT DO YOU RECOMMEND TO THE CEHE DIRECT**
10 **PAYROLL?**

11 A: My adjustment removes the impact of the 2019 CPA adjustment. The adjustments are
12 set forth below and can be seen at *Exhibit MG-2.1*.

| | | |
|----|---|----------------------|
| 13 | Reduce requested increase in CEHE Direct Payroll Expense | \$(2,965,000) |
| 14 | Reduce requested increase in Direct Payroll Tax Expense | \$(227,000) |

15

16 **Q: WHAT ADJUSTMENT DO YOU RECOMMEND FOR ALLOCATED PAYROLL**
17 **FROM CNP?**

18 A: My adjustment similarly removes the impact of the 2019 CPA adjustment. The
19 adjustments are set forth below and can be seen at *Exhibit MG-2.2*.

| | | |
|----|---|----------------------|
| 20 | Reduce requested increase in CNP (Affiliate) Payroll Expense | \$(1,414,000) |
| 21 | Reduce requested increase in CNP (Affiliate) Payroll Tax Expense | \$(108,000) |

VI. VEGETATION MANAGEMENT

1 **Q: PLEASE DISCUSS THE COMPANY'S VEGETATION MANAGEMENT**
2 **PROGRAM.**

3 A: CEHE has a vegetation management program for the distribution system based on
4 Project No. 37475, Rulemaking for Utility Infrastructure Storm Hardening which
5 required utilities to file a storm hardening plan by May 1, 2011. The Company adopted
6 storm hardening plans in compliance with the rule, and in the eight-year period that
7 began with 2011 the Company has spent \$222.5 million on tree trimming and removal,
8 an average of \$27.8 million a year.

9

10 **Q: HAVE THE TREE TRIMMING COSTS INCREASED IN RECENT YEARS?**

11 A: Mr. Randal Pryor, the Vice President of Distribution Operations for CEHE expressed
12 that opinion, but a review of the annual tree trimming expenditures indicates that the
13 Company has managed to keep these costs under control. In its initial efforts, the
14 Company spent \$26.2 million in 2011 and \$28.5 million in 2012. The expenditures were
15 reduced in 2013 to 25.5 million, and again in 2014 to \$22.9 million. The Company then
16 returned to spending levels comparable to their initial hardening efforts for the remaining
17 years. The annual expenditures for tree trimming remained below \$30 million until the
18 test year, which had a cost of \$35 million. The annual costs for proactive and reactive
19 tree trimming and removal are summarized in the following table which was included in
20 Mr. Pryor's workpapers.⁵⁹

⁵⁹ See Mr. Pryor's workpapers at WP RMP-1, page 2 of 3.

| Year | Cost |
|-------------|---------------------|
| 2011 | \$26,160,000 |
| 2012 | \$28,480,000 |
| 2013 | \$25,520,000 |
| 2014 | \$22,940,000 |
| 2015 | \$27,030,000 |
| 2016 | \$29,450,000 |
| 2017 | \$27,900,000 |
| 2018 | \$35,020,000 |
| Total | \$222,500,000 |
| Average | \$27,813,000 |

1 Q: **WHAT IS YOUR RECOMMENDATION REGARDING THE COMPANY'S**
2 **STORM HARDENING COSTS?**

3 A: COH/HCC's recommendations regarding tree trimming and removal costs are
4 encompassed in the O&M adjustments of Mr. Scott Norwood. He recommends that a 4-
5 year average of these costs, from 2014 through 2017, be used to set prospective rates.

6
7 Q: **IS THERE OVERLAP BETWEEN ANY OF YOUR PAYROLL RELATED**
8 **ADJUSTMENTS AND MR. NORWOOD'S O&M ADJUSTMENTS?**

9 A: No. My adjustments to STI were made to a normalized (target) level of incentive
10 expense, and my adjustments to Payroll Expense merely eliminated the Company's
11 proposed post-test year increases.

VII. SELF-INSURANCE ADJUSTMENT

1 **Q: PLEASE DESCRIBE THE COMPANY'S PROPOSAL RELATED TO ITS SELF -**
2 **INSURANCE PROGRAM.**

3 A: The Company is self-insured for property damage consistent with the Commission's
4 Rules.⁶⁰ The Company's annual reserve accrual was set at \$4.15 million in its last rate
5 case, Docket No. 38339, with a reserve target of \$13.38 million.⁶¹ The Company has
6 experienced higher than expected losses during the intervening eight years, and the
7 reserve account now has a deficit of \$5.79 million. Company witness, Gregory S.
8 Wilson, proposes that the annual accrual be set at \$7.685 million, of which \$3.575
9 million is to provide for average annual losses and \$4.11 million is to eliminate the
10 reserve deficiency and establish a target reserve of \$6.55 million within three years.

11

12 **Q: DO YOU AGREE WITH MR. WILSON'S RECOMMENDATION TO**
13 **ELIMINATE THE RESERVE DEFICIT OF \$5.79 MILLION AND DEVELOP A**
14 **NEW TARGET RESERVE \$6.55 MILLION IN THREE YEARS?**

15 A: No. The deficiency was the result of an eight-year delay between rate cases. If the
16 Company were to accrue the additional \$4.11 million annually, and it did not file another
17 rate case for eight years, then the reserve could be overfunded by \$20.55 million.⁶²
18 While that balance might be used to reduce future rates, the current ratepayers would
19 have paid an extra \$20.55 million in excessively high rates in the meantime. The
20 Commission should avoid that situation and not permit CEHE to include the \$4.11

⁶⁰ See the Direct Testimony of Gregory S. Wilson, page 4, lines 3 through page 5, line 12.

⁶¹ See the Direct Testimony of Gregory S. Wilson, page 5, lines 13-18.

⁶² Potential overfunded amount is calculated as follows: $(\$4.11 \times 8 = \$32.88 - 5.79 - 6.55 = \$20.55M)$.

1 million in the reserve accrual based on a three-year recovery period unless it requires
2 that the Company file a rate case at the end of the three-year period.

3
4 **Q: WHAT WOULD BE A MORE REASONABLE PERIOD FOR THE RECOVERY**
5 **OF THE RESERVE DEFICIT AND THE ESTABLISHMENT OF A**
6 **REASONABLE RESERVE?**

7 A: I recommend that the Commission permit the Company to recover the \$12.341 million to
8 eliminate the deficit and establish a reasonable reserve over an eight-year period. This is
9 the same period over which the deficit developed and the eight years period provides a
10 more reasonable level of costs for ratepayers to bear. If CEHE files a rate case before
11 the eight-year period is completed then it will provide interested parties an opportunity to
12 perform an interim review of the progress in establishing the reserve.

13
14 **Q: WHAT IS THE AMOUNT OF THE ACCRUAL TO FOR AN EIGHT YEAR**
15 **RECOVERY PERIOD?**

16 A: The amortization of the \$12.341 million over eight years would be \$1.543 million per
17 year, for a total self-insurance reserve accrual of \$5.118 million per year when it is
18 combined with the \$3.575 million accrual to cover average losses.

19
20 **Q: WHAT IS THE AMOUNT OF THE ADJUSTMENT THAT YOU RECOMMEND**
21 **TO SELF-INSURANCE EXPENSE?**

A: The adjustment to extend the reserve deficit recovery to eight years will reduce the self-insurance expense by **\$2,570,000**. This adjustment is found on Exhibit MG 2.7.

VIII. CONCLUSION

1 **Q: DO YOU HAVE ANY FURTHER COMMENTS?**

2 A: Yes. My testimony does not address every potential issue. The fact that I do not express
3 an opinion on a particular issue is not to be interpreted as agreement with the Company's
4 position on that issue.

5

6 **Q: DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?**

7 A: Yes, it does.

MARK E. GARRETT

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EDUCATION:

Juris Doctor Degree, With Honors, Oklahoma City University Law School, 1997
Post Graduate Hours in Accounting, Finance and Economics, 1984-85:
University of Texas at Arlington; University of Texas at Pan American;
Stephen F. Austin State University
Bachelor of Arts Degree, University of Oklahoma, 1978

CREDENTIALS:

Member Oklahoma Bar Association, 1997, License No. 017629
Certified Public Accountant in Oklahoma, 1992, Certificate No. 11707-R
Certified Public Accountant in Texas, 1986, Certificate No. 48514

WORK HISTORY:

GARRETT GROUP, LLC – Regulatory Consulting Practice (1996 - Present) Participates as a consultant and expert witness in electric utility, natural gas distribution company, and natural gas pipeline matters before regulatory agencies making recommendations related to cost-based rates. Reviews management decisions of regulated utility companies for reasonableness from a ratemaking perspective especially regarding the reasonableness of prices paid for natural gas supplies and transportation, coal supplies and transportation, purchased power and renewable energy projects. Participates in gas gathering, gas transportation, gas contract and royalty valuation disputes to determine pricing and damage calculations and to make recommendations concerning the reasonableness of charges to royalty and working interest owners and other interested parties. Participates in regulatory proceedings to restructure the electric and natural gas utility industries. Participates as an Instructor at NMSU Center for Public Utilities and as a Speaker at NARUC Staff Subcommittee on Accounting and Finance.

OKLAHOMA CORPORATION COMMISSION - Coordinator of Accounting and Financial Analysis (1991 - 1994) Planned and supervised the audits of major public utility companies doing business Oklahoma for the purpose of determining revenue requirements. Presented both oral and written testimony as an expert witness for Staff in defense of numerous accounting and financial recommendations related to cost-of-service based rates. Audit work and testimony covered all areas of rate base and operating expense. Supervised, trained and reviewed the audit work of numerous Staff CPAs and auditors. Promoted from Supervisor of Audits to Coordinator in 1992.

FREEDOM FINANCIAL CORPORATION - Controller (1987 - 1990) Responsible for all financial reporting including monthly and annual financial statements, cash flow statements, budget reports, long-term financial planning, tax planning and personnel development. Managed the General Ledger and Accounts Payable departments and supervised a staff of seven CPAs and accountants. Reviewed all subsidiary state and federal tax returns and facilitated the annual independent financial audit and all state or federal tax audits. Received promotion from Assistant Controller in September 1988.

SHELBY, RUCKSDASHEL & JONES, CPAs - Auditor (1986 - 1987) Audited the financial statements of businesses in the state of Texas, with an emphasis in financial institutions.

Previous Experience Related to Cost-of-Service, Rate Design, Pricing and Energy-Related Issues

1. **Air Liquide Hydrogen Energy U.S., 2019 (Nevada), (704B Exit Application)** – Participating as an expert witness on behalf of Air Liquide before the Nevada PUC. Sponsoring written and oral testimony in Air Liquide’s application to purchase energy and capacity from a provider other than NV Energy.
2. **Empire District Electric Company (Oklahoma), 2019 (Cause No. PUD 201800133)** – Participating as an expert witness on behalf of Oklahoma Industrial Energy Consumers (“OIEC”)¹ before the Oklahoma Corporation Commission in Empire’s general rate case to address various revenue requirement, rate design and tax issues.
3. **Anchorage Municipal Light and Power, 2019 (Alaska), (Docket No. U-18-102)** – Participating as an expert witness before the Regulatory Commission of Alaska on behalf of Providence Health and Services to provide testimony on the ratemaking treatment of ML&P’s acquired interest in the Beluga River Unit gas field with ratepayer funds.
4. **Oklahoma Gas and Electric Company, 2019 (Oklahoma), (Cause No. PUD 201800140)** – Participating as an expert witness on behalf of Oklahoma Industrial Energy Consumers (“OIEC”) before the Oklahoma Corporation Commission in OG&E’s General Rate Case application. Sponsoring testimony to address the utility’s overall revenue requirement and rate design proposals.
5. **Cascade Natural Gas, 2019 (Washington) (Docket No. 190210)** – Participating as an expert witness on behalf of Public Counsel in Cascade’s rate case application. Sponsoring testimony to address various revenue requirement and tax issues.
6. **CenterPoint Energy Houston Electric, 2019 (Texas) (Docket No. 49421)** – Participating as an expert witness on behalf of City of Houston before the Public Utility Commission of Texas in CenterPoint Energy’s rate case application to provide testimony on various revenue requirement issues.
7. **Oklahoma Gas & Electric Co., 2018 (Arkansas) (Docket No. 18-046-FR)** – Participated as an expert witness on behalf of the Arkansas River Valley Energy Consumers (“ARVEC”)² before the Arkansas Public Service Commission in OG&E’s Formula Rate Plan application to provide testimony on various revenue requirement, cost of service and rate design issues.
8. **Southwest Gas Corporation, 2018 (Nevada) (Docket No. 18-05031)** – Participated as an expert witness on behalf of Bureau of Consumer Protection (“BCP”) before the Nevada Public Utility Commission to address various revenue requirement issues.
9. **Puget Sound Energy, 2018 (Washington) (Docket No. UE 18089)** - Participated as an expert witness on behalf of Public Counsel in PSE’s Emergency Rate Relief proceeding. Sponsoring testimony to address the application itself and various revenue requirement and TCJA issues.
10. **Public Service Company of Oklahoma, 2018 (Oklahoma) (Cause No. PUD 201800097)** – Participated as an expert witness on behalf of OIEC before the OCC in AEP/PSO’s general rate case application to provide testimony on various revenue requirement, cost of service and rate design issues.

¹ OIEC is an association of approximately 25 large commercial and industrial customers in Oklahoma.

² ARVEC is an association of industrial manufacturing facilities in northwest Arkansas.

11. **Entergy Texas Inc., 2018 (Texas) (PUC Docket No. 48371)** – Participated as an expert witness on behalf of the Cities in ETI’s general rate case to provide testimony on various cost of service issues and on the utility’s overall revenue requirement.
12. **Atmos Energy Corp., Mid-Tex Division, 2018 (Texas) (Docket No. GUD No. 10779)** – Participated as an expert witness on behalf of the Atmos Texas Municipalities to review the utility’s requested revenue requirement including TCJA adjustments.
13. **CenterPoint Energy Houston Electric, LLC, 2018 (Texas) (Docket No. 48226)** – Participated as an expert witness on behalf of City of Houston before the Public Utility Commission of Texas in CenterPoint Energy’s application for approval to amend its distribution cost recovery factor (DCRF) to address the utility’s treatment of the Tax Cuts and Jobs Act of 2017 (“TCJA”).
14. **NV Energy, 2018 (Nevada) (Docket No. 17-10001)** – Participated as an expert witness on behalf of the Energy Choice Initiative (“ECI”) before the Governor’s Committee on Energy Choice, in an investigatory docket of an Issue of Public Importance Regarding the Pending Energy Choice Initiative and the Possible Restructuring of Nevada’s Energy Industry.
15. **Southwestern Electric Power Company, 2018 (Texas) (PUC Docket No. 48233)** – Participated as an expert witness on behalf of Cities Advocating Reasonable Deregulation (“CARD Cities”) before the Texas Public Utility Commission in SWEPCO’s application to implement base rate reductions as result of the Tax Cuts and Jobs Act of 2017 (“TCJA”).
16. **Oncor Electric Delivery Company (Texas), 2018 (PUC Docket No. 48325)** – Participated as an expert witness before the Texas Public Utility Commission in Oncor’s application for authority to decrease rates based on the Tax Cuts and Jobs Act of 2017 (“TCJA”).
17. **Public Service Company of Oklahoma (“PSO”) (Oklahoma), 2018 (Cause No. PUD 201800019)** – Participated as an expert witness on behalf of OIEC before the OCC in AEP/PSO’s application regarding ADIT under the Tax Cuts and Jobs Act of 2017 (“TCJA”).
18. **Oklahoma Natural Gas Company, 2018 (Cause No. PUD 201800028)** – Participated as an expert witness on behalf of the OIEC before the Oklahoma Corporation Commission in ONG’s Performance Based Rate Change Tariff, to address issues involving the impacts of the Tax Cuts and Jobs Act of 2017 (“TCJA”).
19. **Oklahoma Gas & Electric Co. (Arkansas), 2018 (Docket No. 18-006-U)** – Participated as an expert on behalf of the Arkansas River Valley Energy Consumers (“ARVEC”) before the Arkansas Public Service Commission in the matter of an Investigation of the Effect on Revenue Requirements Resulting from Changes to Corporate Income Tax Rates under the Tax Cuts and Jobs Act of 2017 (“TCJA”).
20. **Texas Gas Service, 2018** – Participated as a consulting expert on behalf of the City of El Paso regarding implementation of rate changes related to the Tax Cuts and Jobs Act of 2017 (“TCJA”).
21. **Sierra Pacific Power Company (Nevada), 2018 (Docket No. 18-02011 and 18-02015)** – Participated as an expert witness on behalf of the Northern Nevada Utility Customers³ before the Nevada PUC in SPPC’s application related to the Tax Cuts and Jobs Act of 2017 (“TCJA”).
22. **Nevada Power Company (Nevada), 2018 (Docket No. 18-02010 and 18-02014)** – Participated as

³ The Northern Nevada Utility Consumers is a group of large commercial and industrial customers in the SPPC service territory.

an expert witness on behalf of the Southern Nevada Gaming Group before the Nevada PUC in NPC's application related to the Tax Cuts and Jobs Act of 2017 ("TCJA").

23. **Public Service Company of Oklahoma ("PSO") (Oklahoma), 2017 (Cause No. PUD 201700572)** – Participated as an expert witness on behalf of OIEC before the OCC in AEP/PSO's application to examine the impacts of the Tax Cuts and Jobs Act of 2017 ("TCJA").
24. **Empire District Electric Company ("EPE") (Oklahoma), 2018 (Cause No. PUD 201700471)** – Participated as an expert witness on behalf of Oklahoma Industrial Energy Consumers ("OIEC") before the Oklahoma Corporation Commission in Empire's application to add 800MW of wind. Sponsoring testimony to address the various ratemaking and tax issues.
25. **Oklahoma Gas and Electric Company ("OG&E"), (Oklahoma), 2018 (Cause No. PUD 201700496)** – Participated as an expert witness on behalf of Oklahoma Industrial Energy Consumers ("OIEC") before the Oklahoma Corporation Commission in OG&E's General Rate Case application. Sponsoring testimony to address the utility's overall revenue requirement and rate design proposals.
26. **Public Service Company of Oklahoma ("PSO") (Oklahoma), 2017 (Cause No. PUD 201700276)** – Participated as an expert witness on behalf of OIEC before the OCC in AEP/PSO's Wind Catcher case to provide testimony on various ratemaking and tax issues.
27. **Southwestern Public Service Co. ("SPS") (Texas), 2017 (PUC Docket No. 47527)** – Participating as an expert witness on behalf of the Alliance of Xcel Municipalities ("AXM") in the SPS general rate case application to provide testimony before the Texas Public Utility Commission regarding rate base and operating expense issues and sponsor the AXM Accounting Exhibits.
28. **Southwestern Electric Power Company, ("SWEPCO") (Texas), 2017 (PUC Docket No. 47461)** – Participated as an expert witness on behalf of Cities Advocating Reasonable Deregulation ("CARD Cities") before the Texas Public Utility Commission in SWEPCO's Wind Catcher case proceeding to provide testimony on various ratemaking and tax issues.
29. **Atmos MidTex (Texas), 2017 (Docket No. 10640)** – Participated as an expert witness on behalf of the City of Dallas before the Texas Railroad Commission in Atmos's Dallas Annual Rate Review ("DARR") proceeding. Sponsoring testimony on various revenue requirement issues.
30. **Avista Utilities (Washington), 2017 (Docket Nos. UE-170485/UG-170486)** – Participated as an expert witness on behalf of Public Counsel in Avista's general rate case proceeding. Sponsoring testimony to address various revenue requirement issues and Avista's requested attrition adjustments.
31. **Nevada Power Company (Nevada), 2017 (Docket No. 17-06003)** – Participated as an expert witness on behalf of the Southern Nevada Hotel Group before the Nevada PUC in NPC's general rate case proceeding. Sponsoring testimony on various revenue requirement, depreciation, and rate design issues.
32. **Anchorage Municipal Light and Power (Alaska), 2017 (Docket No. U-17-008)** – Participating as an expert witness before the Regulatory Commission of Alaska on behalf of Providence Health and Services to provide testimony in ML&P's General Rate Case on various revenue requirement and rate design issues.
33. **Public Service Company of Oklahoma (Oklahoma), 2017 (Cause No. PUD 201700151)** – Participated as an expert witness on behalf of OIEC before the OCC in AEP/PSO's general rate case application to provide testimony on various revenue requirement and rate design issues.

34. **Oncor Electric Delivery Company (Texas), 2017 (PUC Docket No. 46957)** – Participated as an expert witness on behalf of the Steering Committee of Cities before the Texas Public Utility Commission in Oncor’s General Rate Case proceeding to provide testimony on various revenue requirement issues.
35. **EverSource (Massachusetts), 2017 (DPU Docket No. 17-05)** – Participated as an expert witness before the Massachusetts Department of Public Utilities EverSource’s General Rate Case application on behalf of Energy Freedom Coalition of America to provide testimony to address various revenue requirement issues.
36. **El Paso Electric Company (Texas), 2017 (PUC Docket No. 46831)** – Participated as an expert witness on behalf of the City of El Paso before the Texas Public Utility Commission in El Paso’s General Rate Case proceeding to provide testimony on various revenue requirement issues.
37. **Atmos Pipeline Texas (Texas), 2017 (Docket No. 10580)** – Participated as an expert witness on behalf of the City of Dallas before the Texas Railroad Commission in APT’s General Rate Case application, sponsoring testimony to address various revenue requirement proposals.
38. **Empire District Electric Company (Oklahoma), 2017 (Cause No. PUD 201600468)** – Participated as an expert witness on behalf of Oklahoma Industrial Energy Consumers (“OIEC”) before the Oklahoma Corporation Commission in Empire’s General Rate Case application. Sponsoring testimony to address the utility’s overall revenue requirement and rate design proposals.
39. **Caesars Enterprise Service, LLC (Nevada), 2016 (704B Exit Application)** – Participated as an expert witness on behalf of Caesars before the Nevada PUC. Sponsoring written and oral testimony in Caesar’s application to purchase energy and capacity from a provider other than Nevada Power.
40. **Southwestern Electric Power Company (Texas), 2016 (PUC Docket No. 46449)** – Participated as an expert witness on behalf of Cities Advocating Reasonable Deregulation (“CARD Cities”) before the Texas Public Utility Commission in SWEPCO’s general rate case proceeding to provide testimony on various revenue requirement issues.
41. **CenterPoint Texas, 2016 (Docket No. 10567)** – Participated as an expert witness on behalf of City of Houston before the Texas Railroad Commission in CenterPoint’s general rate case application, sponsoring testimony to address the utility’s overall revenue requirement and various rate design proposals.
42. **Entergy Texas, Inc., 2016 (Docket No. 46357)** – Participated as an expert witness on behalf Cities Served by Applicant before the Texas PUC in ETI’s application to amend its Transmission Cost Recovery Factor.
43. **Anchorage Municipal Light and Power, 2016 (Docket No. U-16-060)** – Participated as an expert witness before the Regulatory Commission of Alaska on behalf of Providence Health and Services to provide testimony on the ratemaking treatment of ML&P’s acquired interest in the Beluga River Unit gas field with ratepayer funds.
44. **Arizona Public Service Company, 2016 (Docket No. E-01345A-16-0036)** – Participated as an expert witness before the Arizona Corporation Commission in APS’s General Rate Case application on behalf of Energy Freedom Coalition of America to provide written and oral testimony to address various revenue requirement issues.

45. **Oklahoma Gas & Electric Co. (Arkansas), 2016 (Docket No. 16-052-U)** – Participated as an expert witness on behalf of the Arkansas River Valley Energy Consumers (“ARVEC”)⁴ before the Arkansas Public Service Commission in OG&E’s general rate case application to provide testimony on various revenue requirement, cost of service and rate design issues.
46. **Sierra Pacific Power Company (Nevada), 2016 (Docket No. 16-06006)** – Participated as an expert witness on behalf of the Northern Nevada Utility Customers⁵ before the Nevada PUC in SPPC’s general rate case proceeding. Sponsored testimony on various revenue requirement, depreciation, and rate design issues.
47. **Tucson Electric Power, 2016 (Docket No. E-01933A-15-0322)** – Participated as an expert witness before the Arizona Corporation Commission in TEP’s General Rate Case application, on behalf of Energy Freedom Coalition of America providing written and oral testimony to address the utility’s cost of service study and rate design proposals.
48. **Texas Gas Service, 2016 (Docket No. 10506)** – Participated as an expert witness on behalf of El Paso before the Texas Railroad Commission in TGS’s General Rate Case application, sponsoring testimony to address the utility’s overall revenue requirement and various rate design proposals.
49. **Texas Gas Service, 2016 (Docket No. 10488)** – Participated as an expert witness on behalf of South Jefferson County Service Area (“SJCSA”) before the Texas Railroad Commission in TGS’s General Rate Case application, sponsoring testimony to address the utility’s overall revenue requirement and various rate design proposals.
50. **Oklahoma Gas and Electric Company, 2016 (Cause No. PUD 201500273)** – Participated as an expert witness on behalf of Oklahoma Industrial Energy Consumers (“OIEC”) before the Oklahoma Corporation Commission in OG&E’s General Rate Case application. Sponsoring testimony to address the utility’s overall revenue requirement and rate design proposals.
51. **Oklahoma Gas & Electric Company, 2016 (Cause No. PUD 201500273)** – Participated as an expert witness on behalf of The Alliance for Solar Choice (“TASC”) before the Oklahoma Corporation Commission to address OG&E’s proposed Distributed Generation (“DG”) rates for solar DG customers.
52. **Anchorage Municipal Light and Power, 2016 (Docket No. U-13-097)** – Participated as an expert witness before the Regulatory Commission of Alaska on behalf of Providence Health and Services to provide testimony on rates and tariffs proposed for customer-owned combined heat and power plant generation.
53. **Oklahoma Natural Gas Company, 2015 (Cause No. PUD 201500213)** – Participated as an expert witness on behalf of the OIEC before the Oklahoma Corporation Commission in ONG’s General Rate Case application. Sponsored testimony to address the utility’s overall revenue requirement and rate design proposals.
54. **Oklahoma Gas & Electric Company, 2015 (Cause No. PUD 201500274)** – Participated as an expert witness on behalf of The Alliance for Solar Choice (“TASC”) before the Oklahoma Corporation Commission to address OG&E’s proposed Distributed Generation (“DG”) rates for solar DG customers.

⁴ ARVEC is an association of industrial manufacturing facilities in northwest Arkansas.

⁵ The Northern Nevada Utility Consumers is a group of large commercial and industrial customers in the SPPC service territory.

55. **Nevada Power Company, 2015** (Docket No. 15-07004) – Participated as an expert witness on behalf of the Southern Nevada Hotel Group (“SNHG”)⁶ before the Nevada PUC. Sponsoring written and oral testimony in NPC’s 2015 Integrated Resource Plan to provide analysis of the On Line transmission line allocation, the Siverhawk plant acquisition, and the Griffith contract termination.
56. **Oklahoma Gas & Electric Company, 2015 (Docket No. 15-034-U)** – Participated as an expert witness on behalf of the Arkansas River Valley Energy Consumers (“ARVEC”) before the Arkansas Public Service Commission in OG&E’s Act 310 application to implement a rider to recover environmental compliance costs.
57. **MGM Resorts, LLC, 2015** (Docket No. 15-05017) – Participated as an expert witness on behalf of the MGM Resorts, LLC before the Nevada PUC. Sponsoring written and oral testimony in MGM’s application to purchase energy and capacity from a provider other than Nevada Power.
58. **Entergy Arkansas, 2015 (Docket No. 15-015-U)** – Participated as an expert witness on behalf of the Hospital and Higher Education Group (“HHEG”) an intervener group that includes the University of Arkansas and several hospitals before the Arkansas PSC in Entergy’s general rate case to provide testimony on various revenue requirement issues.
59. **Public Service Company of Oklahoma, 2015 (Cause No. PUD 201500208)** – Participated as an expert witness on behalf of OIEC before the OCC in AEP/PSO’s general rate case application to provide testimony on various cost-of-service issues and on the utility’s overall revenue requirement and rate design proposals.
60. **Nevada Power Company, 2014** (Docket No. 14-05003) – Participated as an expert witness on behalf of the Southern Nevada Hotel Group (“SNHG”) before the Nevada PUC. Sponsored written and oral testimony in NPC environmental compliance case, called the Emissions Reduction and Capacity Replacement case. The main focus of our testimony was our recommendation to eliminate the \$438M Moapa solar project from the compliance plan.
61. **Nevada Power Company, 2014** (Docket No. 14-05004) – Participated as an expert witness on behalf of the Southern Nevada Hotel Group before the Nevada PUC to sponsor written and oral testimony in both the revenue requirement phase and the rate design phase of the proceedings to establish prospective cost-of-service based rates for the power company.
62. **Oklahoma Gas and Electric Co., 2014 (Cause No. PUD 201400229)** – Participated as an expert witness on behalf of Oklahoma Industrial Energy Consumers (“OIEC”) in OG&E’s Environmental Compliance and Mustang Modernization Plan before the Oklahoma Corporation Commission to provide testimony addressing the economics and rate impacts of the plan.
63. **Sourcegas Arkansas, Inc., 2014 (Docket No. 13-079-U)** Participated as an expert witness on behalf of the Hospital and Higher Education Group (“HHEG”), an intervener group that includes the University of Arkansas and several hospitals before the Arkansas PSC in SGA’s general rate case to provide testimony on various revenue requirement issues.
64. **Anchorage Municipal Light and Power, 2014 (Docket No. U-13-184)** – Participated as an expert witness before the Alaska Regulatory Utility Commission on behalf of Providence Health and Services to provide testimony on various revenue requirement and cost of service issues.
65. **Public Service Company of Oklahoma, 2014 (Cause No. PUD 201300217)** – Participated as an

⁶ The Southern Nevada Hotel Group is comprised of Boyd Gaming, Caesars Entertainment, MGM Resorts, Station Casinos, Venetian Casino Resort, and Wynn Las Vegas.

expert witness on behalf of OIEC before the OCC in AEP/PSO's general rate case application to provide testimony on various cost-of-service issues and on the utility's overall revenue requirement and rate design proposals.

66. **Entergy Texas Inc., 2013 (PUC Docket No. 41791)** – Participated as an expert witness on behalf of the Cities⁷ in ETI's general rate case to provide testimony on various cost of service issues and on the utility's overall revenue requirement.
67. **MidAmerican/NV Energy Merger, 2013 (Docket No. 13-07021)** – Participated as an expert witness on behalf of the Southern Nevada Hotel Group ("SNHG") before the Nevada PUC. Sponsored testimony to address various issues raised in the proposed acquisition of NV Energy by MidAmerican Energy Holdings Company, including capital structure and acquisition premium recovery issues.
68. **Entergy Arkansas, 2013 (Docket No. 13-028-U)** – Participated as an expert witness on behalf of the Hospital and Higher Education Group ("HHEG") an intervener group that includes the University of Arkansas and several hospitals before the Arkansas PSC in Entergy's general rate case to provide testimony on various revenue requirement issues.
69. **Sierra Pacific Power Company, 2013 (Docket No. 13-06002)** – Participated as an expert witness on behalf of the Northern Nevada Utility Customers⁸ before the Nevada PUC in SPPC's general rate case proceeding to provide testimony on various cost of service and revenue requirement issues. Sponsored written and oral testimony in the depreciation phase, the revenue requirement phase and the rate design phase of these proceedings.
70. **Gulf Power Company, 2013 (Docket No. 130140-EI)** – Participated as an expert witness on behalf of the Office of Public Counsel before the Florida Commission in Gulf Power's general rate case proceeding to provide testimony on various revenue requirement issues.
71. **Public Service Company of Oklahoma, 2013 (Cause No. PUD 201200054)** – Participated as an expert witness on behalf of the OIEC before the Oklahoma Corporation Commission ("OCC") to provide testimony in PSO's application seeking Commission approval of its settlement agreement with EPA.
72. **Southwestern Electric Power Company, 2012 (PUC Docket No. 40443)** – Participated as an expert witness on behalf of Cities Advocating Reasonable Deregulation ("CARD Cities") before the Texas Public Utility Commission in SWEPCO's general rate case proceeding to provide testimony on various cost of service issues and on the utility's overall revenue requirement.
73. **Doyon Utilities, 2012 Alaska Rate Case (Docket No. TA7-717)** – Participated as an expert witness consultant on behalf of the Department of Defense to provide expert testimony in twelve rate case reviews for the utility systems of Fort Wainwright, Fort Greely and Joint Base Elmendorf-Richardson before the Regulatory Commission of Alaska.
74. **University of Oklahoma, 2012** – Participated as an expert witness on behalf of the University of Oklahoma to provide expert testimony on various revenue requirement issues in the University's general rate case with the Corix Group, which provides utility services to the University.
75. **Public Service Company of Oklahoma, 2012 (Cause No. PUD 201200079)** – Participated as an

⁷ The Cities include Beaumont, Conroe, Groves, Houston, Huntsville, Orange, Navasota, Nederland, Pine Forest, Pinehurst, Port Arthur, Port Neches, Rose City, Shenandoah, Silsbee, Sour Lake, Vidor, and West Orange.

⁸ The Northern Nevada Utility Consumers is a group of large commercial and industrial customers in the SPPC service territory.

expert witness on behalf of the OIEC before the Oklahoma Corporation Commission to provide expert testimony addressing the utility's request to earn additional compensation on a 510MW purchased power agreement with Exelon

76. **Centerpoint Energy Texas Gas, 2012 (Docket No. GUD 10182)** – Participated as an expert witness on behalf of the Steering Committee of Cities before the Texas Railroad Commission to provide expert testimony on various revenue requirement issues.
77. **Entergy Texas Inc., 2012 (PUC Docket No. 39896)** – Participated as an expert witness on behalf of the Cities in ETI's general rate case to provide testimony on various cost of service issues and on the utility's overall revenue requirement.
78. **Oklahoma Natural Gas Company, 2012 (Cause No. PUD 2012-029)** – Participated as an expert witness on behalf of the OIEC before the OCC in ONG's Performance Based Rate ("PBR") application seeking Commission approval of a requested rate increase based upon formula results for 2011.
79. **University of Oklahoma, 2012** – Assisted the University of Oklahoma with an audit of the costs associated with its six utility operations and its contract with the Corix Group to provide utility services to the university.
80. **Oklahoma Gas and Electric Company, 2012 (Cause No. PUD 2011-186)** – Participated as an expert witness on behalf of the OIEC before the OCC in OG&E's application seeking Commission approval of a special contract with Oklahoma State University and a wind energy purchase agreement in connection therewith.
81. **Empire Electric Company, 2011, (Cause No. PUD 11-082)** – Participated as an expert witness on behalf of Enbridge before the OCC in Empire's rate case to provided testimony in both the revenue requirement and rate design phases of the proceedings to establish prospective cost-of-service based rates for the power company.
82. **Nevada Power Company, 2011, (Docket No. 11-04010)** - Participated as an expert witness on behalf of the Southern Nevada Hotel Group ("SNHG") before the Nevada PUC. Sponsored written and oral testimony to address proposed changes to the Company's customer deposit rules.
83. **Nevada Power Company, 2011, (Docket No. 11-06006)** - Participated as an expert witness on behalf of the Southern Nevada Hotel Group before the Nevada PUC. Sponsored written and oral testimony in both the revenue requirement phase and the rate design phase of the proceedings to establish prospective cost-of-service based rates for the power company.
84. **Public Service Company of Oklahoma, 2011 (Cause No. PUD 2011-106)** – Participated as an expert witness on behalf of the OIEC before the OCC in PSO's application seeking rider recovery of third party SPP transmission costs and fees.
85. **Oklahoma Gas and Electric Company, 2011 (Cause No. PUD 2011-087)** – Participated as an expert witness on behalf of OIEC before the OCC in OG&E's rate case to provided testimony in both the revenue requirement and rate design phases of the proceedings to establish prospective cost-of-service based rates for the power company.
86. **Oklahoma Gas & Electric Company, 2011 (Docket No. 10-109-U)** – Participated as an expert witness on behalf of Gerdau Macsteel before the Arkansas Public Service Commission in OG&E's application to recover Smart Grid costs to make recommendations regarding the allocation of the Smart Grid costs.

87. **Oklahoma Gas & Electric Company, 2011 (Cause No. PUD 2011-027)** – Participated as an expert witness on behalf of the OIEC before the OCC in OG&E’s application seeking to include retiree medical expense in the Company’s pension tracker mechanism.
88. **Public Service Company of Oklahoma, 2011 (Cause No. PUD 2010-50)** – Participated as an expert witness on behalf of OIEC before the Oklahoma Corporation Commission in AEP/PSO’s application to recover ice storm O&M expenses through a regulatory asset/rider mechanism to address tax impact and return issues in the proposed rider.
89. **Public Service Company of Colorado, 2011 (Docket No. 10AL-908E)** – Participated as an expert witness on behalf of the Colorado Retail Council (“CRC”) before the Colorado Public Utilities Commission providing written and live testimony to address PSCo’s proposed Environmental Tariff.
90. **Oklahoma Gas & Electric Company, 2011 (Docket No. 10-067-U)** – Participated as an expert witness on behalf of the Northwest Arkansas Industrial Energy Consumers (“NWIEC”)⁹ before the Arkansas Public Service Commission in OG&E’s general rate case application to provide testimony on various revenue requirement, cost of service and rate design issues.
91. **Oklahoma Gas & Electric Company, 2010 (Cause No. PUD 2010-146)** – Participated as an expert witness on behalf of the OIEC before the OCC in OG&E’s application seeking rider recovery of third party SPP transmission costs and SPP administration fees.
92. **Massachusetts Electric Co. & Nantucket Electric Co. d/b/a National Grid, 2010 (Docket No. DPU 10-54)** – Participated as an expert witness providing both written and live testimony before the Massachusetts Department of Public Utilities on behalf of the Associated Industries of Massachusetts (“AIM”) to address the Company’s proposed participation in the 438MW Cape Wind project in Nantucket Sound.
93. **Public Service Company of Oklahoma, 2010 (Cause No. PUD 2010-50)** – Participated as an expert witness on behalf of the OIEC before the OCC in AEP/PSO’s general rate case application to provide testimony on various cost-of-service issues and on the utility’s overall revenue requirement and rate design proposals.
94. **Texas-New Mexico Power Co., 2010 (Docket 38480)** – Participated as an expert witness on behalf of the Alliance of Texas Municipalities (“ATM”) before the Texas PUC in TMNP’s general rate case application to address various revenue requirement and rate design issues to establish prospective cost-of-service based rates.
95. **Southwestern Public Service Co., 2010 (PUCT Docket No. 38147)** – Participated as an expert witness on behalf of the Alliance of Xcel Municipalities (“AXM”) in the SPS general rate case application to provide testimony before the Texas Public Utility Commission regarding rate base and operating expense issues and sponsor the AXM Accounting Exhibits.
96. **Oklahoma Gas & Electric Company, 2010 (Cause No. PUD 2010-37)** – Participated as an expert witness on behalf of OIEC before the OCC to address the preapproval and ratemaking treatment of OG&E’s 220MW self-build wind project.
97. **Oklahoma Gas & Electric Company, 2010 (Cause No. PUD 2010-29)** – Participated as an expert witness on behalf of the OIEC before the OCC in OG&E’s application seeking pre-approval of

⁹NWIEC is an association of industrial manufacturing facilities in northwest Arkansas.

deployment of smart-grid technology and rider-recovery of the associated costs. Sponsored written testimony to address smart-grid deployment and time-differentiated fuel rates.

98. **Public Service Company of Oklahoma, 2010 (Cause No. PUD 2010-01)** – Participated as an expert witness on behalf of the OIEC before the OCC in the Company’s proposed Green Energy Choice Tariff. Sponsored testimony to address the pricing and ratemaking treatment of the Company’s proposed wind subscription tariff.
99. **Nevada Power Company, 2010 (Docket No. 10-02009)** – Participated as an expert witness on behalf of the Southern Nevada Hotel Group (“SNHG”) before the Nevada PUC to provide testimony in NPC’s Internal Resource Plan to address the ratemaking treatment of the proposed ON Line transmission line.
100. **Entergy Texas Inc., 2010 (PUC Docket No. 37744)** – Participated as an expert witness on behalf of the Cities in ETT’s general rate case to provide testimony on various cost of service issues and on the utility’s overall revenue requirement.
101. **El Paso Electric Company, 2010 (PUC Docket No. 37690)** – Participated as an expert witness on behalf of the City of El Paso in the EPI general rate case to provide testimony on various cost of service issues and on the utility’s overall revenue requirement.
102. **Public Service Company of Oklahoma, 2009 (Cause No. 09-196)** – Participated as an expert witness on behalf of the OIEC before the OCC in PSO’s application for approval of DSM programs and cost recovery. Sponsored testimony to address program costs, lost revenue recovery, cost allocations and incentives.
103. **Oklahoma Gas and Electric Company, 2009 (Cause No. PUD 09-230 and 09-231)** – Participated as an expert witness on behalf of OIEC before the OCC in OG&E’s application to add wind resources from two purchased power contracts. Sponsored written testimony to address the proper ratemaking treatment of the contract costs and the renewable energy certificates.
104. **Oklahoma Gas and Electric Company, 2009 (Cause No. PUD 08-398)** – Participated as an expert witness on behalf of OIEC before the OCC in OG&E’s rate case. Provided testimony in both the revenue requirement and rate design phases of the proceedings to establish prospective cost-of-service based rates for the power company.
105. **Nevada Power Company, 2009, (Docket No. 08-12002)** - Participated as an expert witness on behalf of the Southern Nevada Hotel Group before the Nevada PUC. Sponsored written and oral testimony in both the revenue requirement phase and the rate design phase of the proceedings to establish prospective cost-of-service based rates for the power company.
106. **Public Service Company of Oklahoma, 2009 (Cause No. 09-031)** – Participated as an expert witness on behalf of OIEC before the OCC in PSO’s application to add wind resources from two purchased power contracts. Sponsored written testimony to address the proper ratemaking treatment of the contract costs and the renewable energy certificates.
107. **Oklahoma Natural Gas Co., 2009 (Cause No. PUD 08-348)** – Participated as an expert witness on witness on behalf of the OIEC before the OCC in ONG’s application to establish a Performance Based Rate tariff. Sponsored both written and oral testimony to address the merits of the utility’s proposed PBR.
108. **Rocky Mountain Power, 2009 (Docket No. 08-035-38)** – Participated as an expert witness on behalf of the Division of Public Utilities (Staff) in PacifiCorp’s general rate case to provide testimony on

various revenue requirement issues.

109. **Texas-New Mexico Power Co., 2008 (Docket 36025)** – Participated as an expert witness on behalf of the Alliance of Texas Municipalities (“ATM”) before the Texas PUC in TMNP’s general rate case application to address various revenue requirement and rate design issues to establish prospective cost-of-service based rates.
110. **Public Service Company of Oklahoma, 2008 (Cause No. 08-144)** – Participated as an expert witness on behalf of the OIEC before the OCC in PSO’s general rate case application to address revenue requirement and rate design issues to establish prospective cost-of-service based rates.
111. **Public Service Company of Oklahoma, 2008 (Cause No. 08-150)** – Participated as an expert witness on behalf of the OIEC before the OCC to address PSO’s calculation of its Fuel Clause Adjustment for 2008.
112. **Oklahoma Gas and Electric Company, 2008 (Cause No. PUD 08-059)** – Participated as an expert witness on behalf of the OIEC before the OCC in OG&E’s application seeking authorization of its Demand Side Management (“DSM”) programs and the establishment of a DSM Rider to recover program costs, lost revenues and utility incentives.
113. **Entergy Gulf States, 2008 (PUC Docket No. 34800, SOAH Docket No. 473-08-0334)** – Participated as an expert witness on behalf of the Cities in EGSI’s general rate case to provide testimony on various cost of service issues and on the utility’s overall revenue requirement.
114. **Public Service Company of Oklahoma, 2008 (Cause No. 07-465)** – Participated as an expert witness on behalf of the OIEC before the OCC in PSO’s application to recover the pre-construction costs of the cancelled Red Rock coal generation facility.
115. **Oklahoma Gas and Electric Company, 2008 (Cause No. 07-447)** – Participated as an expert witness on behalf of the OIEC before the OCC in OG&E’s application seeking authorization to recover the pre-construction costs of the cancelled Red Rock coal generation facility using proceeds from sales of excess SO₂ allowances.
116. **Rocky Mountain Power, 2008 (Docket No. 07-035-93)** – Participated as an expert witness on behalf of Division of Public Utilities (Staff) in PacifiCorp’s general rate case to provide testimony on various revenue requirement issues.
117. **Public Service Company of Oklahoma, 2008 (Cause No. PUD 07-449)** – Participated as an expert witness on behalf of the OIEC before the OCC in PSO’s application seeking authorization of its Demand Side Management (“DSM”) programs and the establishment of a DSM Rider to recover program costs, lost revenues and utility incentives.
118. **Public Service Company of Oklahoma, 2008 (Cause No. PUD 07-397)** – Participated as an expert witness on behalf of OIEC before the OCC in PSO’s application seeking authorization to defer storm damage costs in a regulatory asset account and to recover the costs using the proceeds from sales of excess SO₂ allowances.
119. **Oklahoma Gas & Electric Co., 2007 (Cause No. PUD 07-012)** – Participated as an expert witness on behalf of OIEC before the OCC in OG&E’s application seeking pre-approval to construct the Red Rock coal plant to address the Company’s proposed rider recovery mechanism.
120. **Oklahoma Natural Gas Co., 2007 (Cause No. PUD 07-335)** – Participated as an expert witness on behalf of the OIEC before the OCC in ONG’s application proposing alternative cost recovery for the

Company's ongoing capital expenditures through the proposed Capital Investment Mechanism Rider ("CIM Rider"). Sponsored testimony to address ONG's proposal.

121. **Public Service Company of Oklahoma, 2007 (Cause No. PUD-06-030)** – Participated as an expert witness on behalf of the OIEC before the OCC in PSO's application seeking a used and useful determination for its planned addition of the Red Rock coal plant to address the Company's use of debt equivalency in the competitive bidding process for new resources.
122. **Public Service Company of Oklahoma, 2006 (Cause No. PUD 06-285)** – Participated as an expert witness on behalf of the OIEC before the OCC in PSO's general rate case application to address various revenue requirement and rate design issues to establish prospective cost-of-service based rates.
123. **Nevada Power Company, 2007, (Docket No. 07-01022)** - Participated as an expert witness on behalf of the MGM MIRAGE before the Nevada PUC in Nevada Power Company's deferred energy docket to determine the level of prudent company expenditures for fuel and purchased power.
124. **Nevada Power Company, 2006, (Docket No. 06-11022)** - Participated as an expert witness on behalf of the MGM MIRAGE properties before the Nevada PUC. Sponsored written and oral testimony in both the revenue requirement phase and the rate design phase of the proceedings to establish prospective cost-of-service based rates for the power company.
125. **Southwestern Public Service Co., 2006 (PUCT Docket No. 37766)** – Participated as an expert witness on behalf of the Alliance of Xcel Municipalities ("AXM") in the SPS general rate case application. Provided testimony before the Texas Public Utility Commission regarding rate base and operating expense issues and sponsored the Accounting Exhibits on behalf of AXM.
126. **Atmos Energy Corp., Mid-Tex Division, 2006 (Texas GUD 9676)** – Participated as an expert witness in the Atmos Mid-Tex general rate case application on behalf of the Atmos Texas Municipalities ("ATM"). Provided written and oral testimony before the Railroad Commission of Texas regarding the revenue requirements of Mid-Tex including various rate base, operating expense, depreciation and tax issues. Sponsored the Accounting Exhibits for ATM.
127. **Nevada Power Company, 2006 (Docket No. 06-06007)** – Participated as an expert witness on behalf of the MGM MIRAGE in the Sinatra Substation Electric Line Extension and Service Contract case. Provided both written and oral testimony before the Nevada Public Utility Commission to provide the Commission with information as to why the application is consistent with the line extension requirements of Rule 9 and why the cost recovery proposals set forth in the application provide a least cost approach to adding necessary new capacity in the Las Vegas strip area.
128. **Public Service Co. of Oklahoma, 2006 (Cause No. PUD 05-00516)** - Participated as an expert witness on behalf of the OIEC to review PSO's application for a "used and useful" determination of its proposed peaking facility.
129. **Oklahoma Gas and Electric Co., 2006 (Cause No. PUD 06-00041)** – Participated as an expert witness on behalf of the OIEC in OG&E's application to propose an incentive sharing mechanism for SO₂ allowance proceeds.
130. **Chermac Energy Corporation, 2006 (Cause No. PUD 05-00059 and 05-00177)** – Participated as an expert witness on behalf of the OIEC in Chermac's PURPA application. Sponsored written responsive and rebuttal testimony to address various rate design issues arising under the application.
131. **Oklahoma Gas and Electric Co., 2006 (Cause No. PUD 05-00140)** – Participated as an expert

witness on behalf of the OIEC in OG&E's 2003 and 2004 Fuel Clause reviews. Sponsored written testimony to address the purchasing practices of the Company, its transactions with affiliates, and the prices paid for natural gas, coal and purchased power.

132. **Nevada Power Company, 2006, (Docket No. 06-01016)** - Participated as an expert witness on behalf of the MGM MIRAGE properties before the Nevada PUC. Sponsored written testimony in NPC's deferred energy docket to determine the level of prudent company expenditures for fuel and purchased power.
133. **Oklahoma Gas and Electric Co., 2005 (Cause No. PUD 05-151)** – Participated as an expert witness on behalf of the OIEC in OG&E's general rate case application. Sponsored both written and oral testimony before the OCC to address various revenue requirement and rate design issues for the purpose of setting prospective cost-of-service based rates.
134. **Oklahoma Natural Gas Co., 2005 (Cause No. PUD 04-610)** – Participated as an expert witness on behalf of the Attorney General of Oklahoma. Sponsored written and oral testimony to address numerous rate base, operating expense and depreciation issues for the purpose of setting prospective cost-of-service based rates.
135. **CenterPoint Energy Arkla, 2004 (Cause No. PUD 04-0187)** – Participated as an expert witness on behalf of the Attorney General of Oklahoma: Sponsored written testimony to provide the OCC with analysis from an accounting and ratemaking perspective of the Co.'s proposed change in depreciation rates from an Average Life Group to an Equal Life Group methodology. Addressed the Co.'s proposed increase in depreciation rates associated with increased negative salvage value calculations.
136. **Public Service Co. of Oklahoma, 2004 (Cause No. PUD 02-0754)** – Participated as an expert witness on behalf of the OIEC. Sponsored written testimony (1) making adjustments to PSO's requested recovery of an ICR programming error, (2) correcting errors in the allocation of trading margins on off-system sales of electricity from AEP East to West and among the AEP West utilities and (3) recommending an annual rather than a quarterly change in the FAC rates.
137. **PowerSmith Cogeneration Project, 2004 (Cause No. PUD 03-0564)** - Participated as an expert witness on behalf of the OIEC to provide the OCC with direction in setting an avoided cost for the PowerSmith Cogeneration project under PURPA requirements. Provided both written and oral testimony on the provisions of the proposed contract under PURPA:
138. **Electric Utility Rules for Affiliate Transactions, 2004 (Cause No. RM 03-0003)** – Participated as a consultant on behalf of the OIEC to draft comments to assist the OCC in developing rules for affiliate transactions. Assisted in drafting the proposed rules. Successful in having the Lower of Cost or Market rule adopted for affiliate transactions in Oklahoma.
139. **Nevada Power Company, 2003, (Docket No. 03-10001)** - Participated as an expert witness on behalf of the MGM MIRAGE properties before the Nevada PUC. Sponsored written and oral testimony in both the revenue requirement phase and the rate design phase of the proceedings to establish prospective cost-of-service based rates for the power company.
140. **Nevada Power Company, 2003, (Docket No. 03-11019)** - Participated as an expert witness on behalf of the MGM MIRAGE before the Nevada PUC in Nevada Power Company's deferred energy docket to determine the level of prudent company expenditures for fuel and purchased power.
141. **Public Service Company of Oklahoma, 2003 (Cause No. PUD 03-0076)** – Participated as an expert witness on behalf of the OIEC before the OCC in PSO's general rate case application to address various revenue requirement and rate design issues to establish prospective cost-of-service based

rates.

142. **Oklahoma Gas & Electric Co., 2003 (Cause No. PUD 03-0226)** – Participated as an expert witness on behalf of the OIEC. Provided both written and oral testimony before the OCC to determine the appropriate level to include in rates for natural gas transportation and storage services acquired from an affiliated company.
143. **Nevada Power Company, 2003 (Docket No. 02-5003-5007)** - Participated as an expert witness on behalf of the MGM Mirage before the Nevada PUC. Sponsored written and oral testimony to calculate the appropriate exit fee in MGM Mirage's 661 Application to leave the system.
144. **McCarthy Family Farms, 2003** – Participated as a consultant to assist McCarthy Family Farms in converting a biomass and biosolids composting process into a renewable energy power producing business in California.
145. **Bice v. Petro Hunt, 2003 (ND, Supreme Court No. 20030306)** - Participated as an expert witness in a class certification proceeding to provide cost-of-service calculations for royalty valuation deductions for natural gas gathering, dehydration, compression, treatment and processing fees in North Dakota.
146. **Nevada Power Company, 2003 (Docket No. 03-11019)** - Participated as a consulting expert on behalf of the MGM Mirage before the Nevada PUC in Nevada Power Company's deferred energy docket to determine the level of prudent company expenditures for fuel and purchased power. Provided written and oral testimony on the reasonableness of the cost allocations to the utility's various customer classes.
147. **Wind River Reservation, 2003 (Fed. Claims Ct. No. 458-79L, 459-79L)** – Participated as a consulting expert on behalf of the Shoshone and Arapaho Tribes to provide cost-of-service calculations for royalty valuation deductions for gathering, dehydration, treatment and compression of natural gas and the reasonableness of deductions for gas transportation.
148. **Oklahoma Gas & Electric Co., 2002 (Cause No. PUD 01-0455)** – Participated as an expert witness on behalf of the OIEC before the OCC. Sponsored written and oral testimony on numerous revenue requirement issues including rate base, operating expense and rate design issues to establish prospective cost-of-service based rates.
149. **Nevada Power Company, 2002 (Docket No. 02-11021)** - Participated as an expert witness on behalf of the MGM Mirage before the Nevada PUC in Nevada Power Company's deferred energy docket to determine the level of prudent company expenditures for fuel and purchased power and to make recommendations with respect to rate design.
150. **Nevada Power Company, 2002 (Docket No. 01-11029)** - Participated as a consulting expert on behalf of the MGM Mirage before the Nevada PUC in Nevada Power Company's deferred energy docket to determine the level of prudent company expenditures for fuel and purchased power included in the Company's \$928 million deferred energy balances.
151. **Nevada Power Company, 2002 (Docket No. 01-10001)** - Participated as an expert witness on behalf of the MGM Mirage before the Nevada PUC. Sponsored written and oral testimony in both the revenue requirement phase and the rate design phase of the proceedings to establish prospective cost-of-service based rates for the power company.
152. **Chesapeake v. Kinder Morgan, 2001 (CIV-00-397L)** - Participated as an expert witness on behalf of Chesapeake Energy in a gas gathering dispute. Sponsored testimony to calculate and support a

reasonable rate on the gas gathering system. Performed necessary calculations to determine appropriate levels of operating expense, depreciation and cost of capital to include in a reasonable gathering charge and developed an appropriate rate design to recover these costs.

153. **Southern Union Gas Company, 2001** - Participated as a consultant to the City of El Paso in its review of SUG's gas purchasing practices, gas storage position, and potential use of financial hedging instruments and ratemaking incentives to devise strategies to help shelter customers from the risk of high commodity price spikes during the winter months.
154. **Nevada Power Company, 2001** - Participated as an expert witness on behalf of the MGM-Mirage, Park Place and Mandalay Bay Group before the Nevada Public Utility Commission to review NPC's Comprehensive Energy Plan (CEP) for the State of Nevada and make recommendations regarding the appropriate level of additional costs to include in rates for the Company's prospective power costs associated with natural gas and gas transportation, coal and coal transportation and purchased power.
155. **Bridenstine v. Kaiser-Francis Oil Co. et al., 2001 (CJ-95-54)** - Participated as an expert witness on behalf of royalty owner plaintiffs in a valuation dispute regarding gathering, dehydration, metering, compression, and marketing costs. Provided cost-of-service calculations to determine the reasonableness of the gathering rate charged to the royalty interest. Also provided calculations as to the average price available in the field based upon a study of royalty payments received on other wells in the area.
156. **Klatt v. Hunt et al., 2000 (ND)** - Participated as an expert witness and filed report in United States District Court for the District of North Dakota in a natural gas gathering contract dispute to calculate charges and allocations for processing, sour gas compression, treatment, overhead, depreciation expense, use of residue gas, purchase price allocations, and risk capital.
157. **Oklahoma Gas and Electric Co., 2000 (Cause No. PUD 00-0020)** - Participated as an expert witness on behalf of the OIEC before the OCC. Sponsored testimony on OG&E's proposed Generation Efficiency Performance Rider (GEPR). Provided a list of criteria with which to measure a utility's proposal for alternative ratemaking. Recommended modifications to the Company's proposed GEPR to bring it within the boundaries of an acceptable alternative ratemaking formula.
158. **Oklahoma Gas and Electric Co., 1999** - Participated as an expert witness on behalf of the OIEC before the OCC. Sponsored testimony on OG&E's proposed Performance Based Ratemaking (PBR) proposal including analysis of the Company's regulated return on equity, fluctuations in the capital investment and operating expense accounts of the Company and the impact that various rate base, operating expense and cost of capital adjustments would have on the Company's proposal.
159. **Nevada Power Company, 1999 (Docket No. 99-7035)** - Participated as an expert witness on behalf of the Mirage, Park Place and Mandalay Bay Group before the Nevada PUC. Sponsored written and oral testimony addressing the appropriate ratemaking treatment of the Company's deferred energy balances, prospective power costs for natural gas, coal and purchased power and deferred capacity payments for purchased power.
160. **Nevada Power Company, 1999 (Docket No. 99-4005)** - Participated as an expert witness on behalf of the Mirage, Park Place and Mandalay Bay Group before the Nevada PUC. Sponsored written and oral testimony to unbundle the utility services of the NPC and to establish the appropriate cost-of-service allocations and rate design for the utility in Nevada's new competitive electric utility industry.
161. **Nevada Power Company, 1999 (Docket No. 99-4005)** - Participated as an expert witness on behalf of the Mirage, Park Place and Mandalay Bay Group before the Nevada PUC. Sponsored written and oral testimony to establish the cost-of-service revenue requirement of the Company.

162. **Nevada Power/Sierra Pacific Merger, 1998 (Docket No. 98-7023)** - Participated as an expert witness on behalf of the Mirage and MGM Grand before the Nevada PUC. Sponsored written and oral testimony to establish (1) appropriate conditions on the merger (2) the proper sequence of regulatory events to unbundle utility services and deregulate the electric utility industry in Nevada (3) the proper accounting treatment of the acquisition premium and the gain on divestiture of generation assets. The recommendations regarding conditions on the merger, the sequence of regulatory events to unbundle and deregulate, and the accounting treatment of the acquisition premium were specifically adopted in the Commission's final order.
163. **Oklahoma Natural Gas Company, 1998 (Cause No. PUD 98-0177)** - Participated as an expert witness in ONG's unbundling proceedings before the OCC. Sponsored written and oral testimony on behalf of Transok, LLC to establish the cost of ONG's unbundled upstream gas services. Substantially all of the cost-of-service recommendations to unbundle ONG's gas services were adopted in the Commission's interim order.
164. **Public Service Company of Oklahoma, 1997 (Cause No. PUD 96-0214)** - Audited both rate base investment and operating revenue and expense to determine the Company's revenue requirement and cost-of-service. Sponsored written testimony before the OCC on behalf of the OIEC.
165. **Oklahoma Natural Gas /Western Resources Merger, 1997 (Cause No. PUD 97-0106)** - Sponsored testimony on behalf of the OIEC regarding the appropriate accounting treatment of acquisition premiums resulting from the purchase of regulated assets.
166. **Oklahoma Gas and Electric Co., 1996 (Cause No. PUD 96-0116)** - Audited both rate base investment and operating income. Sponsored testimony on behalf of the OIEC for the purpose of determining the Company's revenue requirement and cost-of-service allocations.
167. **Oklahoma Corporation Commission, 1996** - Provided technical assistance to Commissioner Anthony's office in analyzing gas contracts and related legal proceedings involving ONG and certain of its gas supply contracts. Assignment included comparison of pricing terms of subject gas contracts to portfolio of gas contracts and other data obtained through annual fuel audits analyzing ONG's gas purchasing practices.
168. **Tenkiller Water Company, 1996** - Provided technical assistance to the Attorney General of Oklahoma in his review of the Company's regulated cost-of-service for the purpose of setting prospective utility rates.
169. **Arkansas Oklahoma Gas Company, 1995 (Cause No. PUD 95-0134)** - Sponsored written and oral testimony before the OCC on behalf of the Attorney General of Oklahoma regarding the price of natural gas on AOG's system and the impact of AOG's proposed cost of gas allocations and gas transportation rates and tariffs on AOG's various customer classes.
170. **Enogex, Inc., 1995 (FERC 95-10-000)** - Analyzed Enogex's application before the FERC to increase gas transportation rates for the Oklahoma Independent Petroleum Association and made recommendations regarding revenue requirement, cost-of-service and rate design on behalf of independent producers and shippers.
171. **Oklahoma Natural Gas Company, 1995 (Cause No. PUD 94-0477)** - Analyzed a portfolio of ONG's gas purchase contracts in the Company's Payment-In-Kind (PIK) gas purchase program and made recommendations to the OCC Staff on behalf of Terra Nitrogen, Inc. regarding the inappropriate profits made by ONG on the sale of the gas commodity through the PIK program pricing formula. Also analyzed the price of gas on ONG's system, ONG's cost-of-service based rates,

and certain class cross-subsidizations in ONG's existing rate design.

172. **Arkansas Louisiana Gas Company, 1994 (Cause No. PUD 94-0354)** - Planned and supervised the rate case audit for the OCC Staff and reviewed the workpapers and testimony of the other auditors on the case. Sponsored cost-of-service testimony on cash working capital and developed policy recommendations on post test year adjustments.
173. **Empire District Electric Company, 1994 (Cause No. PUD 94-0343)** - Planned and supervised the rate case audit for the OCC Staff and reviewed the workpapers and testimony of other auditors. Sponsored cost-of-service testimony on rate base investment areas including cash working capital.
174. **Oklahoma Natural Gas Company, 1992 through 1993 (Cause No. PUD 92-1190)** - Planned and supervised the rate case audit of ONG for the OCC Staff. Reviewed all workpapers and testimony of the other auditors on the case. Sponsored written and oral testimony on numerous cost-of-service adjustments. Analyzed ONG's gas supply contracts under the Company's PIC program.
175. **Oklahoma Gas and Electric Company, 1991 through 1992 (Cause No. PUD 91-1055)** - Audited the rate base, operating revenue and operating expense accounts of OG&E on behalf of the OCC Staff. Sponsored written and oral testimony on numerous revenue requirement adjustments to establish the appropriate level of costs to include for the purpose of setting prospective rates.

Exhibit MG2

CenterPoint Energy Houston Electric, LLC
 City of Houston Adjustment Summary
 Test Year End December 31, 2018; Docket Number 49421

| Line No. | Description | Ref. | Rate Base (Thousands) | Pre-Tax ROR | Rate Increase (Thousands) |
|-------------------------------------|--|-------|-----------------------|-------------|---------------------------|
| <u>Rate Base Adjustments</u> | | | | | |
| | Eliminate Financial-Based STI in Rate Base | MG2.3 | \$ (9,640) | 8.77207% | \$ (846) |
| <u>Operating Income Adjustments</u> | | | | | |
| | Direct Payroll | MG2.1 | | | (2,965) |
| | Direct Payroll Taxes | MG2.1 | | | (227) |
| | Affiliate Payroll | MG2.2 | | | (1,414) |
| | Affiliate Payroll Taxes | MG2.2 | | | (108) |
| | Short-Term Incentive Compensation | MG2.3 | | | (14,759) |
| | Short-Term Incentive Compensation Taxes | MG2.3 | | | (1,443) |
| | Long-Term Incentives | MG2.4 | | | (11,250) |
| | Non-Qualified Pension Expense | MG2.5 | | | (1,783) |
| | Remove Non-Deductible Compensation | MG2.5 | | | (1,144) |
| | Self Insurance Expense | MG2.7 | | | (2,570) |
| | Total Adjustments | | | \$ | (38,509) |

Exhibit MG2.1

**CenterPoint Energy Houston Electric, LLC
 City of Houston Direct Payroll Adjustment
 Test Year End December 31, 2018; Docket Number 49421**

| Line No. | Description | Ref. | Amount (Thousands) | |
|-----------------|--|--------------------|--------------------------------|--|
| 1 | CEHE Adjusted Affiliate Payroll Expense | RFP WP II-D-3 | \$ 140,207 | CEHE RFP Workpapers (redacted).xlsx, tab WP II-D-3, cell G123 |
| 2 | Post Test Year Portion of Adjusted Payroll | | <u>2.11%</u> | |
| 3 | Post Test Year Component of Payroll Increase | | \$ 2,965 | |
| 4 | Adjustment to Exclude Post-Test Year Pay Increases | | <u>\$ (2,965)</u> | |
| 5 | Payroll Tax Rate | | <u>7.65%</u> | |
| 6 | Adjustment to Payroll Taxes | | <u>\$ (227)</u> | |
| 7 | Totals Adjustment to Exclude Projected Pay Increases | | <u>\$ (3,192)</u> | |
| | | | CEHE Payroll (Thousands) | |
| 8 | Test Year Payroll | RFP WP II-D-3 Adj2 | \$ 144,486 | CEHE RFP Workpapers (redacted).xlsx, tab WP II-D-3 Adj 2, cell M3767 |
| 9 | 2018 Increase | | 2,562 | CEHE RFP Workpapers (redacted).xlsx, tab WP II-D-3 Adj 2, cell Q3767 |
| 10 | STI Adjustment | | (280) | CEHE RFP Workpapers (redacted).xlsx, tab WP II-D-3 Adj 2, cell X3767 |
| 11 | Post-Test Year CPA Adjustments | 2.11% | <u>3,171</u> | CEHE RFP Workpapers (redacted).xlsx, tab WP II-D-3 Adj 2, cell U3767 + cell AA3767 |
| 12 | Total Adjusted Payroll | | <u>\$ 149,939</u> | |

Exhibit MG-2.2

CenterPoint Energy Houston Electric, LLC
 City of Houston Affiliate Payroll Adjustment
 Test Year End December 31, 2018; Docket Number 49421

| Line No. | Description | Ref. | Amount (Thousands) | |
|----------|--|---------------------|-----------------------|---|
| 1 | CEHE Adjusted Affiliate Payroll Expense | RFP WP II-D-1 Adj 4 | \$ 64,900 | CEHE RFP Workpapers (redacted).xlsx, tab WP II-D-1 Adj 4, cell N192 |
| 2 | Post Test Year Portion of Adjusted Payroll | | <u>2.18%</u> | |
| 3 | Post Test Year Component of Payroll Increase | | \$ 1,414 | |
| 4 | Adjustment to Exclude Post-Test Year Pay Increases | | <u>\$ (1,414)</u> | |
| 5 | Payroll Tax Rate | | <u>7.65%</u> | |
| 6 | Adjustment to Payroll Taxes | | <u>\$ (108)</u> | |
| 7 | Totals Adjustment to Exclude Projected Pay Increases | | <u>\$ (1,522)</u> | |
| | | | CEHE Affiliate | |
| | | | Payroll | |
| 8 | Affiliate Test Year Payroll | | <u>\$ 135,441,772</u> | CEHE RFP Workpapers (redacted).xlsx, tab WP II-D-1 Adj 4, cell E185 |
| 9 | 2018 Increase | | 4,642,473 | CEHE RFP Workpapers (redacted).xlsx, tab WP II-D-1 Adj 4, cell G185 |
| 10 | Post-Test Year Increase | 2.18% | <u>3,120,382</u> | CEHE RFP Workpapers (redacted).xlsx, tab WP II-D-1 Adj 4, cell I185 |
| 11 | Total Adjusted Affiliate Payroll | | <u>\$ 143,204,627</u> | |

Exhibit MG-2.3

CenterPoint Energy Houston Electric, LLC
 City of Houston Short-Term Incentive Adjustment
 Test Year End December 31, 2018; Docket Number 49421

| Line No. | Description | % | FN | Ref. | CEHE (Thousands) | Service Co (Thousands) | Amount (Thousands) |
|----------|--|-------|-----|------------------------------|------------------|------------------------|---|
| 1 | Short-Term Incentive Compensation | | | CEHE RFP Sch. Tab II-D-3.6.1 | \$ 17,300 | \$ 12,162 | \$ 29,462 |
| | | | | | | | CEHE & SC from CEHE RFP Schedules (redacted).xlsx, tab II-D-3.6.1; CERC from COH 3-17 |
| 2 | Percent Expense | | | WP II-D-1 Adj 4; WP II-D-3f | 47.68% | 78.71% | |
| | | | | | | | CEHE from CEHE RFP Workpapers (redacted).xlsx, tab WP II-D-3f, cell A1134; Service Co. from CEHE RFP Workpapers (redacted).xlsx, tab WP II-D-1 Adj 4, sum(Z158:Z182)/Z185 |
| 3 | Amount To Expense | | | Calc | \$ 8,249 | \$ 9,573 | \$ 17,822 |
| 4 | Operational Incentives | 31.0% | (1) | Calc. | \$ 2,560 | \$ 2,972 | \$ 5,532 |
| 5 | Financial Incentives | 69.0% | (2) | Calc. | \$ 5,692 | \$ 6,606 | \$ 12,297 |
| 6 | Adjustment to Exclude Financial STI Expenses | | | | \$ (5,692) | \$ (6,606) | \$ (12,297) |
| | | | | | | | -69% |
| 7 | STI Employment Taxes | | | CEHE RFP Sch. Tab II-E-2a | | | \$ 1,743 |
| | | | | | | | from CEHE RFP Schedules (redacted).xlsx, tab II-E-2a |
| 8 | Operational Related Employment Taxes | 31.0% | (1) | Calc. | | | \$ 541 |
| 9 | STI Adjustment to Employment Taxes | 69.0% | (2) | Calc. | | | \$ 1,203 |
| 10 | Adjustment to Exclude Financial STI Taxes | | | | | | \$ (1,203) |
| 11 | Amount to Rate Base | | | Ln 1- Ln 3 | | | \$ 11,640 |
| | | | | | | | 82.8% |
| 11 | Adjustment to Exclude Financial STI in Rate Base | | | Ln 3- Ln 1 | | | \$ (9,640) |

Recap: Financial-based Incentives in Cost of Service

Financial Measures

| | Direct | Service Co. |
|--------------------------------------|----------|-------------|
| Overall Company Operating Income | \$ 6,651 | \$ 4,676 |
| Overall CNP Earnings per Share (EPS) | 5,279 | 3,711 |
| Financial Subtotal | 11,930 | 8,387 |
| | 69.0% | 69.0% |

Operational Measures

| | | | |
|--------------------------|----------|----------|--|
| Overall O&M Expenditures | \$ 2,375 | \$ 1,670 | CEHE & SC from CEHE RFP Schedules (redacted).xlsx, tab II-D-3.6.1a; CERC from COH 3-17 |
| Customer Satisfaction | 1,227 | 863 | CEHE & SC from CEHE RFP Schedules (redacted).xlsx, tab II-D-3.6.1a; CERC from COH 3-17 |
| Safety | 1,768 | 1,243 | CEHE & SC from CEHE RFP Schedules (redacted).xlsx, tab II-D-3.6.1a; CERC from COH 3-17 |
| Operational Subtotal | \$ 5,370 | \$ 3,776 | |
| | 31.0% | 31.0% | |

Total Awards

| | | | |
|--------------|-----------|-----------|--|
| Ties to Ln 1 | \$ 17,300 | \$ 12,162 | CEHE & SC from CEHE RFP Schedules (redacted).xlsx, tab II-D-3.6.1a; CERC from COH 3-17 |
|--------------|-----------|-----------|--|

Adjust to Target; Remove Target Levels for Financial Goals; Remove 50% of Operational Goals for Financial Trigger

| | | |
|---|---|-----------|
| Source: COH 3-18 Att1 (Confidential) | 1 Adjust Test Year Levels to Target Level | \$ 4,217 |
| (These numbers do not reveal any confidential material) | 2 Remove 35% for Income Goals | \$ 4,761 |
| | 3 Remove 20% for EPS Goals | \$ 2,720 |
| | 4 Remove 50% of Operational Goals | \$ 3,061 |
| | 5 Total COH/HCC STI Adjustment | \$ 14,759 |
| | | 83% |
| | Payroll Taxes | \$ 1,443 |

Exhibit MG-2.4

CenterPoint Energy Houston Electric, LLC
City of Houston Long Term Incentive Adjustment
Test Year End December 31, 2018; Docket Number 49421

| Line No. | Description | Ref. | Amount (Thousands) |
|----------|---|----------|--------------------|
| 1 | CEHE Direct Long-Term Incentives | TIEC 1-9 | \$ 1,796 |
| 2 | Affiliate Allocated Long-Term Incentives | TIEC 1-9 | <u>9,454</u> |
| 3 | Total Long-Term Incentives | | \$ 11,250 |
| 4 | Adjustment to Remove Long-Term Incentives | | <u>\$ (11,250)</u> |

Exhibit MG-2.5

CenterPoint Energy Houston Electric, LLC
 City of Houston Non-Qualified Pensions Adjustment
 Test Year End December 31, 2018; Docket Number 49421

| Line No. | Description | Ref. | Amount (Thousands) |
|----------|---|------------------|--------------------------|
| 1 | CEHE Non-Qualified Pension Expense | PUC 2-20 | \$ 304 |
| 2 | Affiliate Non-Qualified Pension Expense | PUC 2-20 | <u>1,479</u> |
| 3 | Total Non-Qualified Pension Expense | | \$ 1,783 |
| 4 | Adjustment for Non-Qualified Pension Exp. | | <u><u>\$ (1,783)</u></u> |
| 5 | Non-Deductible Salary from Affiliates | COH 11-20, Att 1 | \$ 1,144 |
| 6 | Federal Corporate Income Tax Rate | | <u>21%</u> |
| 7 | Increased to Income Tax Expense | | \$ 240 |
| 8 | Adjustment to Income Tax Expense | | \$ (240) |
| 9 | Pre-Tax Factor | | <u>1.265823</u> |
| 10 | Impact of Income Tax Adjustment | | <u><u>\$ (304)</u></u> |

Exhibit MG-2.6

**CenterPoint Energy Houston Electric, LLC
City of Houston Vegetation Management Adjustment
Test Year End December 31, 2018; Docket Number 49421**

| Line No. | Description | Ref. | Amount (Thousands) |
|-----------------|---|-----------------------|---------------------------|
| 1 | 2011 Total Tree Trimming Cost | WP RMP-1, page 2 of 3 | \$ 26,160 |
| 2 | 2012 Total Tree Trimming Cost | WP RMP-1, page 2 of 3 | 28,480 |
| 3 | 2013 Total Tree Trimming Cost | WP RMP-1, page 2 of 3 | 25,520 |
| 4 | 2014 Total Tree Trimming Cost | WP RMP-1, page 2 of 3 | 22,940 |
| 5 | 2015 Total Tree Trimming Cost | WP RMP-1, page 2 of 3 | 27,030 |
| 6 | 2016 Total Tree Trimming Cost | WP RMP-1, page 2 of 3 | 29,450 |
| 7 | 2017 Total Tree Trimming Cost | WP RMP-1, page 2 of 3 | 27,900 |
| 8 | 2018 Test Year Total Tree Trimming Cost | WP RMP-1, page 2 of 3 | 35,020 |

Exhibit MG-2.7

CenterPoint Energy Houston Electric, LLC
City of Houston Self Insurance Adjustment
Test Year End December 31, 2018; Docket Number 49421

| Line No. | Description | Amount (Thousands) |
|----------|--|--|
| 1 | Self Insurance Reserve | RFP Sch. Tab II- B-7.1, cell H15 \$ 5,791 |
| 2 | Proposed Self Insurance Reserve | <u>(6,550)</u> |
| 3 | Balance to Recover | \$ 12,341 |
| 4 | Recovery Period, Years | <u>8</u> |
| 5 | Recommended Accrual for Target Reserve | \$ 1,543 |
| 6 | CEHE Requested Accrual | <u>4,113</u> |
| 7 | Adjustment to Self Insurance Accrual | <u><u>\$ (2,570)</u></u> |

Exhibit MG-2.8

CenterPoint Energy Houston Electric, LLC
 City of Houston Adjustment Summary
 Test Year End December 31, 2018; Docket Number 49421

| Line No. | Description | Percent of Total | Cost | Weighted Cost | Federal Pre-Tax Factor | Pre-Tax Weighted Cost | |
|-------------------------------|----------------|------------------|---------|---------------|------------------------|-----------------------|---|
| <u>CEHE Requested Amounts</u> | | | | | | | |
| | Long-Term Debt | 50.000% | 4.380% | 2.190% | 1 | 2.190% | Schedule II-C-2.1, line 5 |
| | Common Equity | <u>50.000%</u> | 10.400% | <u>5.200%</u> | 1.265823 | <u>6.582%</u> | Schedule II-C-2.1, line 2; Federal tax factor calculated |
| | Totals | 100.000% | | 7.390% | | 8.772% | |

GARRETT GROUP INCENTIVE COMPENSATION SURVEY SUMMARY

States that follow the Financial-Performance Rule or Where Incentives Not Allowed in

Rates:

Arizona The Commission deals with incentive compensation plans on a case by case basis. Evaluation centers on the criteria of benefit to customers. This treatment tends to make long-term programs harder to justify, but the same criteria are used to evaluate all plans including those for executives.¹ In practice, this means that the costs of long-term plans are generally excluded altogether and the costs of the short-term annual cash plans are shared 50/50 between shareholders and ratepayers.²

Arkansas The Arkansas Commission continues to follow the precedent of its previous orders and generally disallows 50% of financially based short-term incentive plans and 100% of long-term plans (which include the executive plans). There is some flexibility for considering a utility’s particular situation on a case by case basis, but the two larger utilities in Arkansas, Entergy and CenterPoint, are both on formula rate plans and the 50%/100% disallowance treatment is incorporated in those FRPs, based on their most recent respective rate cases, 15-015-U and 15-098-U, in which the Commission specifically expressed this preference.³

California: The CPUC examines utility company requests to include incentive compensation in rates on a case by case basis, but the criteria are well established. Generally, incentive compensation expense can be charged to ratepayers only to the extent it is aligned with ratepayer interests. Typically, this treatment results in disallowance of the portion of short-term incentives tied to financial performance.⁴ The Commission’s consistent practice is to reject recovery of long-term incentives, “because, LTI does not align executives’ interests with ratepayer interests.”⁵ Since the 2010 San Bruno pipeline explosion (and other events including the Aliso Canyon Leak, and the Witch, Guejito and Rice Wildfires which were found to be caused by utilities), legislative and regulatory interest in

¹ See Epcor Water, Docket No. WS-01303A-14-0010. See also APS 2008 rate case, Decision 70360, Southwest Gas 2008 rate case, Decision 70665 and UNS Gas 2008 rate case, Decision 70011.

² See e.g., APS 2008 rate case, Decision 70360, Southwest Gas 2008 rate case, Decision 70665 and UNS Gas 2008 rate case, Decision 70011. See also Staff’s testimony in the 2016 APS rate case, Docket No. E-1345A-16-0036.

³ In Docket No. 15-015-U, Order No.18, pp. 18-20, the Commission reversed a settlement treatment which disallowed only 25% of financially-based Short-term incentives, imposing instead a 50% disallowance.

⁴ Examples of this treatment: Decision 15-11-021, Decision 12-11-051 and Decision14-08-032.

⁵ Decision 15-11-021 at 262

1 utility safety has intensified⁶. Consequently, the treatment of incentives is
2 increasingly framed by asking whether the incentives are safety-focused or
3 earnings-focused.

4 **Hawaii** Incentive compensation of all types is excluded from rates. Hawaii's longstanding
5 policy to exclude all incentive compensation expense from rates remains firmly
6 in place. The Commission upholds the position stated in Docket No. 6531 that
7 incentives tied to company income and earnings benefit stockholders, not
8 ratepayers. The Commission stated at page 59, "We recognize that incentives
9 encourage cost reductions in some instances. However, we believe that a utility
10 employee, especially at the executive level, should perform at an optimum level
11 without additional compensation. Ratepayers should not be burdened with
12 additional costs for expected levels of service." This treatment is not challenged
13 by the utilities.

14 **Idaho** The Commission allows in rates those incentives that benefit customers and
15 exclude those based on financial measures that benefit shareholders. This
16 treatment is the same for incentives at all levels, but executive plans receive closer
17 scrutiny as it is often harder to find customer benefit in these plans. The
18 Commission typically does not include executive compensation in rates.⁷

19 **Kansas** For officer level incentives plans, the financially-based portion is borne by the
20 shareholders and the portion supporting operational goals is allowed in rates.
21 Non-officer incentive compensation plans for workers are allowed in rates.⁸ The
22 consumer advocacy branch, Citizens' Utility Ratepayer Board (CURB) has
23 consistently recommended applying the same financial/operational criteria to non-
24 officer plans as well. In the current KCPL rate case the company has voluntarily
25 excluded 100% of the performance-based plans and 50% of the short-term plans
26 with an earnings-per-share qualifier. The Company also removed the earnings-
27 per-share portion of their annual plan for all employees.

⁶ CPUC's view of incentives in terms of promoting a positive or negative safety culture is discussed at length in Decision 16-06-054 (San Diego Gas & Electric). Also see R.15-09-010, D.11-06-017 and Public Utilities Code Section 706.

⁷ The Commission's focus on customer benefit is reflected in the direct testimony of Staff witness Leckie, and in the Final Order in IPC-E-08-10. For earlier examples of the basic policy, see Idaho Power Company Rate Case IPC-E-05-28, Corrected Motion for Approval of Stipulation 3/1/06, 6e, p. 4; Idaho Power Company IPC-05-28, Order No. 30035, p. 4/10.

⁸ This treatment is based on the 2012 KCPL rate case (12-KCPE-764-RTS) in which the short-term plan was split 50:50, and for the long-term incentives, the Commission excluded 100% of the portion based on stockholder return and 50% of the time-based restricted stock portion of the plan. Time-based plans which vest solely on the passage of time are seen as being neutral and therefore split 50:50 between shareholders and ratepayers.

1 **Louisiana** The LPSC does not allow executive incentive compensation plans to be recovered
2 from ratepayers. Lower level management and employee incentive awards may
3 be included, assuming they are reasonable. The Commission also looks at who
4 benefits, ratepayers or shareholders. Stock based compensation plans at all levels
5 are excluded.

6 **Minnesota** Minnesota continues to distinguish between incentive plans tied to financial
7 triggers (such as a threshold ROE) and plans tied to criteria benefitting the
8 ratepayer. Plans based on goals which benefit ratepayers are generally allowed in
9 rates, but their costs are frequently capped at a percentage of base salaries such as
10 15% or 25%.⁹ Utilities are usually required to return to ratepayers any portion of
11 incentive pay that was allowed into rates and is not subsequently paid out to
12 employees. Executive and long-term IC measures are frequently more closely
13 aligned with shareholder interests and thus are not usually allowed in rates.¹⁰

14 **Missouri** Missouri's treatment for incentives, generally, is to allow rate recovery for those
15 plans with goals that, if achieved, would lead to improved or more economical
16 service to customers and with the goals known to employees in advance so as to
17 be a real motivational tool. Incentives tied to financial goals such as earnings per
18 share, net income or stock price growth are not allowed. The same criteria are
19 used for executive plans and few are allowed.¹¹

20 **Nebraska** The Commission still practices the policy that cost should follow benefit and
21 allows in rates the actual amount paid on incentive plans that benefit ratepayers.

⁹ This general policy is demonstrated in the Minnesota Power and Ottertail rate cases: E002/GR-09-1151 and E002/GR-10-239 respectively.

¹⁰ Minnesota's general policy is demonstrated in CenterPoint Energy rate case G-008/GR-13-316 and the Minnesota Power and Ottertail rate cases: E-002/GR-09-1151 and E-002/GR-10-239 respectively. *See also* Minnesota Power General Rate Cases E-002/GR-05-1428, and E-015/GR-16-664, March 12, 2018 Findings of Fact, Conclusions, and Order at pages 31-34 and 110.

¹¹ *See e.g.*, in the Missouri American rate case (WR-2010-0131), not only were plans based on financial goals disallowed, but incentive payments based on customer satisfaction were disallowed due to the unreasonably small sample size used to establish a positive rating (a phone survey of 927 of roughly 450,000 customers). The Commission also removed incentive payments tied to lobbying and charitable activity. In the subsequent Ameren UE rate case, the company did not seek even short-term incentive compensation tied to earnings, providing further indication that staff's practice of disallowing financial performance-based incentives is accepted by the companies. All incentive compensation adjustments were made not only to expense charges, but to construction charges as well. *See also* Kansas City Power and Light and Empire Electric District orders on the Commission's website.

1 This treatment is the same for all incentive plans. There are no recent orders on
2 point and no changes are anticipated.¹²

3 **Nevada** The Commission excludes 100% of the long-term plans and all short-term plan
4 costs directly related to financial performance.¹³ Utilities in Nevada generally do
5 not seek to include long-term incentives in rates.

6 **New Mexico** The Commission considers this issue on a case by case basis and generally allows
7 recovery through rates of those incentives that are reasonable in amount and tied
8 to metrics that have benefit for customers, such as operational excellence and
9 safety. Incentives that are financially based, for example those tied to stock price
10 performance or earnings, are not allowed in rates. This standard is applied to all
11 levels of utility employees and tends to eliminate the greater portion of executive
12 plans.¹⁴ Executive incentive plans receive more scrutiny as they are more likely
13 to have financial measures. They can also be challenged if the overall percentage
14 is out of line. One major utility in New Mexico no longer includes the
15 compensation of its top 5 executives in rate applications and some utilities in New
16 Mexico no longer seek recovery of management incentives in rates..

17 **N. Dakota** Incentives are treated on a case by case basis, but the Commission's general policy
18 is to allow in rates incentive compensation that is tied to customer benefit and to
19 disallow incentives tied to company financials and corporate benefit. This
20 treatment is the same for all types of incentive plans. Historically, executive
21 incentive compensation is not allowed in rates, and is typically not sought by the
22 company.

23 **Oklahoma** The Commission excludes incentive payments tied to financial performance.
24 From a practical perspective this means that all long-term plans are excluded and
25 some portion of the annual short-term cash plan are excluded. The Commission
26 does not determine the precise portion of the annual plans tied to financial
27 measures but instead excludes 50% of the annual plans. On occasion, the OCC
28 has excluded 100% of the utility's short-term plan when the plan had a financial
29 trigger.¹⁵ 100% of the long-term stock-based plans are excluded.¹⁶ In some

¹² In a 2007 rate case, NG-0041, the Commission disallowed 50%, directing that cost should follow benefit and stating, "However, the Commission further finds that the nature of the objectives appear to benefit both ratepayers and shareholders and it would be improper for the ratepayers to bear the full cost of this benefit."

¹³ See e.g., PUCN's final order in Docket 11-06006.

¹⁴ See Docket 07-00077-UT, 15-00261-UT, 17-00255-UT.

¹⁵ See Cause Nos. 91-1190 and 200400610.

¹⁶ See e.g., AEP-PSO Cause Nos. PUD 06-285, PUD 08-144, and PUD 15-208; OG&E Cause Nos. PUD 05-151 and PUD 15-273; and ONG Cause No. PUD 04-610.

1 instances, the Commission allows gas utilities with formula rates plans that share
2 excess earnings with customers to include incentives in rates.

3 **Oregon** Short-term, non-officer incentive plans are seen as having some benefit to
4 ratepayers; therefore, 50% of merit-based plans are disallowed from rates and
5 75% of plans related to company performance are disallowed.¹⁷ Long-term officer
6 and executive plans are seen as benefitting shareholders and are 100%
7 disallowed.¹⁸

8 **S. Dakota** Incentives with stockholder-benefiting financial goals are excluded from rates.
9 This treatment is the same for incentive plans at all levels.¹⁹ Current treatment
10 also includes disallowing both executive and non-executive management
11 incentive compensation. Several utilities have whole incentive programs that
12 hinge on whether or not the company earns a certain return. These financial
13 prerequisites cause the whole plans to be excluded from rates.

14 **Texas** At the Texas PUC, the well-established precedent is that incentive payments
15 designed to improve financial performance are excluded.²⁰ Texas has even
16 disallowed rate case expenses for a utility seeking to include financial-based
17 incentives.²¹ In the recent Southwestern Public Service Company (“SPS”) rate
18 case, Docket No. 43695, the Texas Public Utility Commission disallowed 100%
19 of the short-term incentives directly tied to financial performance measures and
20 50% of the remaining incentives because they were indirectly tied to financial

¹⁷ See Order 76-601 p.13; Order 77-125 p. 10; and Order 87-406 pp. 42-43.

¹⁸ See Order 99-033 p. 62 and Order 97-171 pp.74-76.

¹⁹ This treatment is set forth in EL 15-024, NG 15-005 and EL14-026 in which the order specifically excluded the amount "tied to the Company's financial results." In Docket No. EL 08-030 the settlement excluded bonuses related to "stockholder-benefiting financial goals." The settlement in Xcel rate case Docket No. EL09-009 removed payments based on financial performance indicators. In the settlement agreement signed July 7, 2010, in the Black Hills Power rate case Docket No. EL09-018 the *Staff Memorandum* states, "The settlement removes financial based incentive payments that were included in the capitalized labor costs for plant. Shareholders are the overwhelming beneficiaries of incentive plans that promote the financial performance of the Company and therefore should be responsible for the cost of such compensation."

²⁰ This has been the consistent policy of the Commission since 2005 when it issued the Final Order in the AEP Texas Central rate case Docket No. 28840., Proposal for Decision at 92-97, Findings of Fact Nos. 164-170, Order at 35 (Aug. 15, 2005); See also, *Application of AEP Texas Central Company for Authority to Change Rates*, Docket No. 33309, Proposal for Decision at 116-121, Finding of Fact No. 82, Order on Rehearing at 12 (March 4, 2008); *Application of Oncor Electric Delivery Company, LLC, for Authority to Change Rates*, Docket No. 35717, Proposal for Decision at 96-100, Finding of Fact No. 93, Order on Rehearing at 22 (Nov. 30, 2009); and *Application of CenterPoint Electric Delivery Company, LLC, for Authority to Change Rates*, Docket No. 38339, Proposal for Decision at 66-67, Findings of Fact Nos. 81-83, Order on Rehearing at 22 (June 23, 2011).

²¹ See Docket No. 40295 (the rate case expense docket for Docket No. 39896) where the PUC disallowed \$730,734 in Entergy's rate case expense for including Long-Term incentives in its rate application.

1 performance through an earnings-per-share funding mechanism.²² The
2 Commission also followed this approach in the recent SWEPCO cases, Docket
3 Nos. 40443 and 46449. Long-term stock incentives are excluded.

4 At the Railroad Commission of Texas, financial incentives are generally excluded
5 and customer-related incentives are allowed. Examples include: Atmos (GUD
6 No. 9670 Order and Order on Rehearing), Texas Gas Service Company ("TGS")
7 (GUD No. 9988 Final Order), CenterPoint (GUD No. 9902 Final Order), TGS El
8 Paso (GUD No. 10508) and CenterPoint (GUD No. 10106 Final Order). In GUD
9 No. 9670, both the executive and employee plans for Atmos Mid-Tex were found
10 not to be just and reasonable because they, "advanced the interest of shareholders,
11 and [are] driven by Company earnings." None of the costs of these programs were
12 allowed in rates. In more recent Atmos cases, the Commission has allowed the
13 incentives at the operating company level and disallowed the incentives allocated
14 from shared services. This results in about a 50/50 split of the annual incentives.
15 In TGS GUD No. 9988, the RRC found 100% of long-term and 90% of short-term
16 incentives expense was "unreasonable" because it was related to the financial
17 performance of ONEOK Inc. 10% of the short-term plan was allowed in rates
18 because it was based on safety metrics.

19 **Utah** The Commission's general policy is to allow in rates the parts of a plan that are
20 tied to ratepayer benefit and disallow the parts tied to financial goals. Equity-
21 based incentive compensation is excluded from rates.²³

22 **Washington** Incentive plans are evaluated on a case by case basis. Short-term incentives are
23 generally allowed in rates and Long-term incentives are excluded. Incentives tied
24 to operational efficiency or other measures which benefit ratepayers are allowed
25 in rates and incentives based on return on earnings or other measures that benefit
26 the shareholders are disallowed.²⁴

27 **Wyoming** Historically, employee incentive compensation plans are evaluated on a case by
28 case basis, distinguishing between employee programs that benefit the ratepayer
29 or the stockholders and requiring the benefitting party to pay. Executive incentive
30 compensation plans are generally excluded from rates.

²² See Docket No. 43695, Order on Rehearing at 5-6.

²³ The final order in Docket 09-035-23 follows this general policy as does the order in Docket 07-35-93. See also Missouri Corp. Rate Case Docket 97-035-01, pp. 10-12; US West Communications Rate Case Docket 95-049-05.

²⁴ See the Order in Pacific Power and Light Docket 061546.

1 **States that use another approach:**

2 **Alaska** The Commission in Alaska reviews requests to include incentive compensation in
3 rates to determine if they are reasonable and if they benefit ratepayers. Short and
4 long-term incentives receive the same treatment. The issue is handled on a case
5 by case basis. In a recent Enstar Natural Gas case, U-16-066, the Commission
6 allowed the Company's short and long-term incentive expense to be included in
7 revenue requirement.

8 **Colorado** Executive incentives are excluded from rates and typically no longer sought in
9 company filings. Long-term incentives are not allowed in rates. Recovery of
10 short-term plans is limited to 15% of base salary without evaluating plan goals.
11 This treatment was followed in the PSCo Gas rate case in 2018, Proceeding No.
12 17AL-0363G. No change to this treatment is anticipated.

13 **States where Incentives are not an issue:**

14 **Iowa** There have been no changes in the treatment of Incentive Compensation. There
15 are no specific treatments in place and the issues is handled on a case by case
16 basis.

17 **Montana** Incentive compensation has not been a contested issue in Montana.