

## ReSolved Energy Consulting, LLC

11044 Research Blvd, A-420  
Austin, Texas 78759  
Phone (512) 331-4949

## Invoice

DATE	INVOICE NUMBER
7/3/2018	4202

### BILL TO

The Lawton Law Firm  
Dan Lawton  
12600 Hill Country Blvd., Ste R-275  
Austin, Tx 78738

### PROJECT

Lawton ETI 18 RC

DESCRIPTION	HOURS	RATE	AMOUNT
Consulting (Nalepa)	12.4	260.00	3,224.00
Consulting (Murphy)	28.4	205.00	5,822.00
Consulting (Cromleigh)	4.5	175.00	787.50
Total Labor			9,833.50
Work Completed thru - June 30, 2018		<b>TOTAL DUE</b>	<b>\$9,833.50</b>

## Monthly Recap

Karl Nalepa

Date	Task	Hours
June 1, 2018	Review filing and work on analysis of issues. Review and edit discovery and send to D. Lawton.	1.50
June 5, 2018	Download and review latest filings. Review issues with B. Murphy.	0.70
June 7, 2018	Call with D. Lawton to discuss case issues. Review B. Murphy memo on PTY issues.	1.00
June 8, 2018	Review storm reserve analysis.	0.50
June 11, 2018	Review additional discovery. Provide processing speeds on computers to run COS models. Review additional storm reserve analysis.	0.70
June 12, 2018	Review B. Murphy memo on case issues. Call with M. Mayhall Vandervoort to discuss discovery issues.	0.80
June 13, 2018	Work on analysis of issues.	1.20
June 14, 2018	Call with D. Lawton to discuss case issues.	0.50
June 15, 2018	Review responses to discovery on COS model. Download and review latest filings. Review and edit draft discovery.	1.00
June 18, 2018	Review responses to discovery. Respond to ETI's proposal to make the COS model "available" to parties.	0.70
June 19, 2018	Download and review COS models.	0.30
June 20, 2018	Lunch meeting with D. Lawton and M. Mayhall Vandervoort to discuss COS model and case issues. Discuss model with E. Cromleigh.	0.80
June 26, 2018	Review revised responses to discovery. Download latest case documents. Review case issues and quantification with B. Murphy.	1.20
June 28, 2018	Review and discuss case issues with B. Murphy.	1.00
June 29, 2018	Review revised discovery and send to M. Mayhall Vandervoort.	0.50

**12.40**

## Monthly Recap

Brian T. Murphy

Date	Task	Hours
<i>June 1, 2018</i>	Work on Spindletop issue. Research storm amortization precedents.	1.70
<i>June 5, 2018</i>	Review historical information on post-test year plant additions and draft related RFI questions.	3.10
<i>June 6, 2018</i>	Draft RFIs on PTYA issue. Research DN43695 PTYA precedent. Draft memo on PTYA issue.	4.10
<i>June 7, 2018</i>	Draft memo on PTYA issue.	3.30
<i>June 11, 2018</i>	Review memo on PTYA. Draft RFIs. Review TCJA rider issue.	2.80
<i>June 12, 2018</i>	Review amended notice. Review RFI responses. Draft RFIs. Call with M. Mayhall Vandervoort on RFI issues.	2.60
<i>June 26, 2018</i>	Review other parties' discovery responses. Meet with K. Nalepa on case status.	3.60
<i>June 27, 2018</i>	Review RFI responses. Research potential issues. Review FERC rider support.	3.20
<i>June 28, 2018</i>	Review FERC rider calculations. Review TCRF true-up and develop independent analysis. Discuss with K. Nalepa.	4.00

**28.40**

## Monthly Recap

Erin Cromleigh

Date	Task	Hours
<i>June 20, 2018</i>	Lunch with D. Lawton to discuss issues and COS model. Review model.	3.50
<i>June 21, 2018</i>	Review COS model instructions and model.	1.00
		<b>4.50</b>

## ReSolved Energy Consulting, LLC

11044 Research Blvd, A-420  
Austin, Texas 78759  
Phone (512) 331-4949

## Invoice

DATE	INVOICE NUMBER
8/6/2018	4228

### BILL TO

The Lawton Law Firm  
Dan Lawton  
12600 Hill Country Blvd., Ste R-275  
Austin, Tx 78738

### PROJECT

Lawton ETI 18 RC

DESCRIPTION	HOURS	RATE	AMOUNT
Consulting (Nalepa)	24	260.00	6,240.00
Consulting (Murphy)	39	205.00	7,995.00
Consulting (Cromleigh)	31	175.00	5,425.00
Total Labor			19,660.00
Work Completed thru - July 31, 2018		<b>TOTAL DUE</b>	<b>\$19,660.00</b>

## Monthly Recap

Karl Nalepa

Date	Task	Hours
July 2, 2018	Work on analysis of issues.	1.00
July 3, 2018	Call with D. Lawton to discuss case issues. Discuss with B. Murphy.	0.70
July 16, 2018	Download and review responses to discovery and filing updates.	0.70
July 17, 2018	Work on analysis of issues. Discuss with B. Murphy. Emails with D. Garrett regarding adjustments. Review responses to discovery.	1.50
July 18, 2018	Prepare for and participate in consultant's meeting to discuss issues and preliminary adjustments. Review COS model with E. Cromleigh.	2.50
July 19, 2018	Review Murphy draft testimony. Review discovery. Prepare draft testimony on TCJA Refund.	2.00
July 20, 2018	Call with C. Cannady regarding case issues. Review discovery. Complete draft testimony and send to D. Lawton for review.	2.20
July 23, 2018	Update responses to discovery. Discuss case issues with B. Murphy.	0.70
July 24, 2018	Work with E. Cromleigh on adjustments to the COS model.	1.00
July 25, 2018	Review M. Garrett draft testimony and adjustments. Work on adjustments.	1.50
July 26, 2018	Call with D. Lawton to discuss case issues. Discuss with B. Murphy.	1.70
July 27, 2018	Call with D. Lawton to discuss adjustments and additional issues. Work with E. Cromleigh to input adjustments. Review Murphy draft testimony.	1.50
July 29, 2018	Compile Cities' witness adjustments, prepare draft testimony and send to D. Lawton for review.	2.00
July 30, 2018	Work on revisions to testimony. Review adjustments in model.	2.50
July 31, 2018	Work with E. Cromleigh to input remaining adjustments in model. Complete testimony and send to D. Lawton for review.	2.50
		<b>24.00</b>

## Monthly Recap

Brian T. Murphy

Date	Task	Hours
July 3, 2018	Call with D. Lawton to discuss case status. Discuss with K. Nalepa.	0.70
July 11, 2018	Prepare TCRF true-up calculations. Review FERC rider issue.	1.80
July 12, 2018	Draft RFIs. Review RFI responses. Review skylining issue.	3.90
July 13, 2018	Work on TCRF true-up issue and calculations.	3.60
July 16, 2018	Draft testimony on Spindletop and other issues.	3.90
July 17, 2018	Draft testimony on PTYA and other issues. Discuss with K. Nalepa.	4.10
July 18, 2018	Meet with counsel and consultants to discuss case issues. Draft testimony.	4.00
July 23, 2018	Discuss status with K. Nalepa. Review M. Garrett draft testimony.	0.50
July 24, 2018	Call with M. Mayhall Vandervoort to discuss case issues. Work on draft testimony.	1.60
July 25, 2018	Work on second draft testimony.	4.10
July 26, 2018	Work on second draft testimony. Discuss with K. Nalepa.	3.20
July 27, 2018	Work on second draft testimony.	4.00
July 30, 2018	Finalize testimony and send to D. Lawton.	3.00
July 31, 2018	Compile and send workpapers to M. Mayhall Vandervoort.	0.60

**39.00**

## Monthly Recap

Erin Cromleigh

Date	Task	Hours
July 2, 2018	Review COS models.	0.30
July 12, 2018	Review testimony and models.	1.60
July 13, 2018	Review testimony and models.	1.50
July 18, 2018	Conference call with consultants to discuss adjustments. Work on model. Review with K. Nalepa.	2.80
July 19, 2018	Incorporate K. O'Donnell's ROE adjustment into model.	2.60
July 20, 2018	Work on model and insert D. Garrett's depreciation adjustments.	2.20
July 23, 2018	Incorporate D. Garrett's adjustments into model.	2.00
July 24, 2018	Incorporate D. Garrett's adjustments into model. Review with K. Nalepa.	3.50
July 25, 2018	Incorporate D. Garrett's and M. Garrett's accounting adjustments into model.	2.60
July 26, 2018	Incorporate M. Garrett's adjustments into model.	3.50
July 27, 2018	Incorporate M. Garrett's adjustments into model. Review with K. Nalepa.	3.00
July 30, 2018	Incorporate B. Murphy's adjustments. Review combined adjustments.	3.40
July 31, 2018	Review and revise adjustments. Discuss with K. Nalepa.	2.00

**31.00**



## ReSolved Energy Consulting, LLC

11044 Research Blvd, A-420  
Austin, Texas 78759  
Phone (512) 331-4949

## Invoice

DATE	INVOICE NUMBER
9/6/2018	4244

### BILL TO

The Lawton Law Firm  
Dan Lawton  
12600 Hill Country Blvd., Ste R-275  
Austin, Tx 78738

### PROJECT

Lawton ETI 18 RC

DESCRIPTION	HOURS	RATE	AMOUNT
Consulting (Nalepa)	10.2	260.00	2,652.00
Consulting (Murphy)	7.2	205.00	1,476.00
Total Labor			4,128.00
Work Completed thru - August 31, 2018		<b>TOTAL DUE</b>	<b>\$4,128.00</b>

## Monthly Recap

Karl Nalepa

Date	Task	Hours
August 3, 2018	Review intervenor testimony.	1.00
August 6, 2018	Review responses to discovery.	0.50
August 7, 2018	Review and respond to ETI discovery requests. Emails with M. Vandervoort to discuss.	0.70
August 8, 2018	Review and respond to ETI discovery requests. Emails with M. Vandervoort to discuss.	0.80
August 9, 2018	Emails with M. Vandervoort regarding discovery responses. Review Staff testimony.	1.20
August 10, 2018	Review Staff testimony.	1.00
August 16, 2018	Review rebuttal and cross rebuttal testimony. Call with D. Lawton to discuss proposed settlement terms. Review intervenor testimony to compile adjustments.	2.50
August 17, 2018	Review rebuttal testimony. Complete compilation of adjustments and send to D. Lawton for review.	2.30
August 20, 2018	Review settlement terms.	0.20

10.20

## Monthly Recap

Brian T Murphy

Date	Task	Hours
<i>August 1, 2018</i>	Assemble workpapers and send to M. Vandervoort.	1.00
<i>August 3, 2018</i>	Review intervenor testimony.	1.80
<i>August 10, 2018</i>	Review Staff testimony.	1.70
<i>August 16, 2018</i>	Review company rebuttal.	1.20
<i>August 17, 2018</i>	Review company rebuttal.	1.50

**7.20**

# ReSolved Energy Consulting, LLC

11044 Research Blvd, A-420

Austin, Texas 78759

Phone (512) 331-4949

## Invoice

DATE	INVOICE NUMBER
10/4/2018	4272

### BILL TO

The Lawton Law Firm

Dan Lawton

12600 Hill Country Blvd., Ste R-275

Austin, Tx 78738

PROJECT			
Lawton ETI 18 RC			
DESCRIPTION	HOURS	RATE	AMOUNT
Consulting (Nalepa)	1.3	260.00	338.00
Consulting (Cromleigh)	0.8	175.00	140.00
Total Labor			478.00
Work Completed thru - September 30, 2018		TOTAL DUE	\$478.00

### Monthly Recap

Karl Nalepa

Date	Task	Hours
September 4, 2018	Emails with M. Vandervoort regarding COS model output.	0.30
September 21, 2018	Prepare and send rate case expense affidavit to M. Vandervoort.	1.00
		1.30

Lawton ETI 18 RC

Recap\_September 2018\_KJN

### Monthly Recap

Erin Cromleigh

Date	Task	Hours
September 5, 2018	Research and email to M. Vandervoort the class allocation amounts from COS model.	0.80
		0.80

Lawton ETI 18 RC

Recap\_September 2018\_EJC

**HOURLY RATES CHARGED IN RECENT RATE CASES**

PUC Docket 48439  
 Schedule NJG-3  
 Page 1 of 4  
 January 25, 2019

**ATTORNEYS**

**Public Utility Commission of Texas**

<u>Attorney</u>	<u>Firm</u>	<u>Docket</u>	<u>Rate (\$)</u> per hour	<u>Source:</u>
1 Lino Mendiola	Eversheds Sutherland	48371	\$620	Direct Testimony of Stephen Morris
2 Taggart Morton	Taggart Morton	40443	\$305	Direct Testimony of Matthew Henry
3 Jager Smith	Jager Smith	40443	\$330	Direct Testimony of Matthew Henry
4 Alfred R. Herrera	Herrera Law & Associates	47588	\$400	Docket 47141 Affidavit
5 Ron Moss	Winstead	47588	\$395	Docket 47588 Filing 9/27/18
6 Stephen Morris	Naman Howell	48371	\$375	Direct Testimony of Stephen Morris
7 John Williams	Duggins Wren Mann and Romero	47141	\$395	Filing in Docket 47141
8 William Coe	Duggins Wren Mann and Romero	47141	\$395	Filing in Docket 47141

**Railroad Commission of Texas**

<u>Attorney</u>	<u>Firm</u>	<u>GUD</u>	<u>Rate (\$)</u> per hour	<u>Source:</u>
9 Ann M. Coffin	Coffin & Renner	10604	\$525	Backup Documents for Settlement Agreement in GUD
10 Kate Norman	Parsley Coffin & Renner	10604	\$380	Backup Documents for Settlement Agreement in GUD
11 Geoffrey Gay	Lloyd Gosselink	10604	\$400	Backup Documents for Settlement Agreement in GUD
12 Georgia Crump	Lloyd Gosselink	10604	\$250	Backup Documents for Settlement Agreement in GUD
13 Alfred Herrera	Parsley Coffin & Renner	10604	\$375	Backup Documents for Settlement Agreement in GUD
14 Brennan Foley	Herrera & Boyle	10604	\$295	Backup Documents for Settlement Agreement in GUD

**HOURLY RATES CHARGED IN RECENT RATE CASES**

PUC Docket 48439  
Schedule NJG-3  
Page 2 of 4  
January 25, 2019

› 10604  
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› 10604  
› 10604  
› 10604



HOURLY RATES CHARGED IN RECENT RATE CASES

PUC Docket 48439  
 Schedule NJG-3  
 Page 3 of 4  
 January 25, 2019

CONSULTANTS/WITNESSES

<u>Firm</u>	<u>Public Utility Commission of Texas</u> <u>Consultant</u>	<u>Area</u>	<u>Docket</u>	<u>Rate (\$)</u> per hour	<u>Source:</u>
Alliance	Watson	Depreciation	48371	260	Testimony of Stephen F. Morris-48439
Berkely Research Group	Boedeker	Rate of Return	48371	725	Testimony of Stephen F. Morris-48439
Expert Powerhouse	Joyce	CWC	48371	285	Testimony of Stephen F. Morris-48439
Lapson	Lapson	Rate of Return	48371	600	Testimony of Stephen F. Morris-48439
Lewis and Ellis	Wilson	Self Insurance Resen	48371	475	Testimony of Stephen F. Morris-48439
Miller & Chevalier	James Warren	TCJA	48371	930	Testimony of Stephen F. Morris-48439
Osprey	Totten	Regulatory Policy	48371	350	Testimony of Stephen F. Morris-48439
Sargent & Lundy	McHone	Dismantling	48371	260	Testimony of Stephen F. Morris-48439
Scott Madden	Hevert	Rate of Return	48371	460	Testimony of Stephen F. Morris-48439
Vident Partners	Becker	Weather	48371	325	Testimony of Stephen F. Morris-48439
<b>Railroad Commission of Texas</b>					
New Gen	Cannady	Accounting	10604	245	Backup Documents for Settlement Agreement in G
Kennedy Associates	Baudino	Return	10604	245	Backup Documents for Settlement Agreement in G
Woolridge	Woolridge	Return	10604	260	Backup Documents for Settlement Agreement in G

HOURLY RATES CHARGED IN RECENT RATE CASES

PUC Docket 48439  
Schedule NJG-3  
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January 25, 2019

UD 10604  
UD 10604  
UD 10604



Control Number: 48439



Item Number: 129

Addendum StartPage: 0

THE LAWTON LAW FIRM, P.C.

12600 Hill Country Blvd., Suite R-275 • Austin, Texas 78738 • 512/322-0019 • Fax: 512/329-2604

June 14, 2019

Ana Trevino  
Filing Clerk  
Public Utility Commission of Texas  
1701 N. Congress Avenue  
Austin, Texas 78701

Re: PUC Docket No. 48439; SOAH Docket No. 473-18-4100; Review of the Rate  
Case Expenses Incurred in Docket No. 48371; Revised Testimony of Norman J.  
Gordon on Behalf of Cities Served by Entergy Texas

Dear Ms. Trevino:

The attached pages reflect revisions to the Testimony of Norman J. Gordon on Behalf of Cities Served by Entergy Texas, originally filed on January 25, 2019. Specifically, the testimony was revised to include Mr. Gordon's updated firm and contact information on the cover page, page 1, page 2, and Attachment A. No revisions were made that would change the substance of Mr. Gordon's testimony. Redline and clean copies of the updated pages are attached. The noted revisions will be made to the record copies of Mr. Gordon's testimony.

If there are any questions or concerns, please do not hesitate to call.

Sincerely,



Molly Mayhall Vandervoort

cc: All parties of record

**SOAH DOCKET NO. 473-18-4100  
PUC DOCKET NO. 48439**

<b>REVIEW OF RATE CASE EXPENSES</b>	<b>§</b>	<b>STATE OFFICE</b>
<b>INCURRED IN DOCKET NO.</b>	<b>§</b>	<b>OF</b>
<b>48371</b>	<b>§</b>	<b>ADMINISTRATIVE HEARINGS</b>
	<b>§</b>	

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**Direct Testimony and Exhibits**

*Of*

**Norman J. Gordon**

*On Behalf Of*  
**CITIES SERVED BY ENTERGY TEXAS**

**Cities' Rate Case Expenses**

Revised

June 12~~January 25~~, 2019

REVISED

1   **I.     INTRODUCTION AND QUALIFICATIONS**

2   **Q.     PLEASE IDENTIFY YOURSELF.**

3   A.     I am Norman J. Gordon. My business address is ~~100 N. Stanton, Suite 1000 El Paso, Texas,~~  
4         ~~79901~~ PO Box 8, El Paso, Texas, 79940. I am a sole practitioner since February  
5         2019, ~~shareholder in the El Paso law firm Mounce, Green Myers, Safi Paxson & Galatzan,~~  
6         ~~A professional Corporation in El Paso, Texas~~

7   **Q.     PLEASE DESCRIBE YOUR EDUCATION AND EXPERIENCE.**

8   A.     I received both a Bachelor of Arts and a Juris Doctor degree from the University of Illinois  
9         at Urbana-Champaign. I was admitted to practice in Illinois in 1970 and in Texas in 1974.  
10        I have also been admitted to practice in the United States District Court for the Western  
11        District of Texas, United States District Court for the Eastern District of Texas, the United  
12        States Court of Appeals for the Fifth Circuit, the United States Court of Military Appeals<sup>1</sup>  
13        and the United States Supreme Court. I am Board Certified in Civil Trial Law by the  
14        Texas Board of Legal Specialization. I received my certificate of special competence in  
15        1983 and have been recertified in 1988, 1993, 1998, and 2003, 2008, 2013 and 2018.  
16        Shortly after graduation from law school, I entered the United States Army where I served  
17        in the Judge Advocate General's Corps, stationed at Fort Bliss, Texas. After my military  
18        service, I entered private practice in El Paso. As part of my practice in the area of civil  
19        litigation, I have also worked extensively in the area of public utility regulation. Over the  
20        past forty plus years, I have tried numerous major cases as lead counsel before City  
21        Councils, the Railroad Commission of Texas and before this Commission. The cases in

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<sup>1</sup> The name was later changed to the United States of Appeals for the Armed Forces.

**REVISED**

1       which I have participated and tried have included major rate cases, amendments to  
2       Certificates of Convenience and Necessity, nuclear prudence cases, merger and acquisition  
3       cases, fuel cases, as well as inquiries into the reasonableness of rate case expense. I have  
4       also represented clients in utility matters in appeals of orders of this and the Railroad  
5       Commission in the District Courts of Travis County, the Austin Court of Appeals and the  
6       Texas Supreme Court. In the course of my experience I have become familiar both with  
7       the nature and complexity of issues in cases before this Commission, the rates charged by  
8       counsel and expert witnesses in this area, and the amount of time necessary to provide  
9       services to clients in these types of cases. My biographical information is attached as  
10      Exhibit "A." (Revised)

11   **Q.   HAVE YOU PREVIOUSLY TESTIFIED AS AN EXPERT WITNESS?**

12   A.   Yes, I have previously testified on a number of occasions as an expert witness for the City  
13       of El Paso and on behalf of other cities in Texas on the question of the reasonableness of  
14       rate case expenses before this Commission. I have also filed testimony on the  
15       reasonableness of rate case expenses before the Railroad Commission of Texas.

16   **Q.   ON WHOSE BEHALF ARE YOU TESTIFYING?**

17   A.   I am testifying on behalf of the Cities serviced by Entergy Texas, Inc.<sup>2</sup>

18   **II.   PURPOSE AND SUMMARY OF TESTIMONY**

19   **Q.   WHAT IS THE PURPOSE AND SCOPE OF YOUR TESTIMONY?**

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<sup>2</sup> Cities of Anahuac, Beaumont, Bridge City, Cleveland, Conroe, Dayton, Groves, Houston, Huntsville, Liberty, Montgomery, Navasota, Nederland, Oak Ridge North, Orange, Pinehurst, Port Arthur, Port Neches, Roman Forest, Shenandoah, Splendora, Sour Lake, Vidor and West Orange.

**REVISED**

PUC Docket 48439  
Attachment A  
Page 1 of 1

Biographical Data Revised 6-13-2019

Norman J. Gordon

Mr. Gordon was born in Chicago. After completing military service in the Judge Advocate General's Corps of the Army he entered private practice in El Paso, Texas. Mr. Gordon practices primarily in civil litigation, municipal finance and public utility regulation law.

Education and Professional Background

University of Illinois, B.A. 1967  
University of Illinois, J.D., 1970  
Captain, U.S. Army (J.A.G.C.) 1970-1974  
1974-2003-- Attorney/Shareholder/Director/President, Diamond Rash Gordon & Jackson, P.C., El Paso, Texas  
2003-2019-- Present-- Attorney/Shareholder Mounce, Green Myers, Safi & Paxson Galatzan, a Professional Corporation,  
2019- Sole Practitioner

Certification:

Mr. Gordon has been board certified in Civil Trial Law by the Texas Board of Legal Specialization since 1983

Bar Admissions

Texas, Illinois, United States District Court for the Western District of Texas, United States District Court for the Eastern District of Texas, United States Court of Appeals for the Fifth Circuit, United States Court of Military Appeals, United States Supreme Court

Activities and Affiliations

Member: State Bar of Texas, American, Federal Bar and Illinois State Bar Associations. Member: National Association of Bond Lawyers. Texas Association of Defense Counsel

Listed: The Best Lawyers in America (1991-Present), Texas Super Lawyers 2003-2018

Seminars Topics Presented

Utility Regulation basics (El Paso Public Utility Regulation Board)  
Construction Lien Law  
Construction Law  
Residential and Commercial Evictions  
Civil Trial Law Issues (Discovery Rules (El Paso Bar Association))

Mr. Gordon has also conducted numerous training sessions for El Paso Advisory Boards on Utility Regulation

Personal Activities

Mr. Gordon has been involved with numerous charitable and civic organizations in El Paso. He has served on the Board of Directors of Hospice of El Paso, Congregation B'nai Zion and as president of the Jewish Community Center of El Paso and the Jewish Federation of El Paso. He was a member of the Board of Directors of the United Way of El Paso County from 2004-2014.



SOAH DOCKET NO. 473-18-4100  
PUC DOCKET NO. 48439

REVIEW OF RATE CASE EXPENSES	§	STATE OFFICE
INCURRED IN DOCKET NO.	§	OF
48371	§	ADMINISTRATIVE HEARINGS
	§	

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**Direct Testimony and Exhibits**

*Of*

**Norman J. Gordon**

*On Behalf Of*  
**CITIES SERVED BY ENTERGY TEXAS**

**Cities' Rate Case Expenses**

Revised

**June 12, 2019**

**REVISED**

1   **I.     INTRODUCTION AND QUALIFICATIONS**

2   **Q.     PLEASE IDENTIFY YOURSELF.**

3   A.     I am Norman J. Gordon. My business address is PO Box 8, El Paso, Texas, 79940. I am  
4           a sole practitioner since February 2019.

5   **Q.     PLEASE DESCRIBE YOUR EDUCATION AND EXPERIENCE.**

6   A.     I received both a Bachelor of Arts and a Juris Doctor degree from the University of Illinois  
7           at Urbana-Champaign. I was admitted to practice in Illinois in 1970 and in Texas in 1974.  
8           I have also been admitted to practice in the United States District Court for the Western  
9           District of Texas, United States District Court for the Eastern District of Texas, the United  
10          States Court of Appeals for the Fifth Circuit, the United States Court of Military Appeals<sup>1</sup>  
11          and the United States Supreme Court. I am Board Certified in Civil Trial Law by the  
12          Texas Board of Legal Specialization. I received my certificate of special competence in  
13          1983 and have been recertified in 1988, 1993, 1998, and 2003, 2008, 2013 and 2018.  
14          Shortly after graduation from law school, I entered the United States Army where I served  
15          in the Judge Advocate General's Corps, stationed at Fort Bliss, Texas. After my military  
16          service, I entered private practice in El Paso. As part of my practice in the area of civil  
17          litigation, I have also worked extensively in the area of public utility regulation. Over the  
18          past forty plus years, I have tried numerous major cases as lead counsel before City  
19          Councils, the Railroad Commission of Texas and before this Commission. The cases in  
20          which I have participated and tried have included major rate cases, amendments to  
21          Certificates of Convenience and Necessity, nuclear prudence cases, merger and acquisition

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<sup>1</sup> The name was later changed to the United States of Appeals for the Armed Forces.

**REVISED**

1 cases, fuel cases, as well as inquiries into the reasonableness of rate case expense. I have  
2 also represented clients in utility matters in appeals of orders of this and the Railroad  
3 Commission in the District Courts of Travis County, the Austin Court of Appeals and the  
4 Texas Supreme Court. In the course of my experience I have become familiar both with  
5 the nature and complexity of issues in cases before this Commission, the rates charged by  
6 counsel and expert witnesses in this area, and the amount of time necessary to provide  
7 services to clients in these types of cases. My biographical information is attached as  
8 Exhibit "A." (Revised)

9 **Q. HAVE YOU PREVIOUSLY TESTIFIED AS AN EXPERT WITNESS?**

10 A. Yes, I have previously testified on a number of occasions as an expert witness for the City  
11 of El Paso and on behalf of other cities in Texas on the question of the reasonableness of  
12 rate case expenses before this Commission. I have also filed testimony on the  
13 reasonableness of rate case expenses before the Railroad Commission of Texas.

14 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

15 A. I am testifying on behalf of the Cities serviced by Entergy Texas, Inc.<sup>2</sup>

16 **II. PURPOSE AND SUMMARY OF TESTIMONY**

17 **Q. WHAT IS THE PURPOSE AND SCOPE OF YOUR TESTIMONY?**

18 A. I have been requested to review and evaluate the total fees and expenses incurred in Docket  
19 No. 48371 as well as the expenses to complete this docket No. 48439.

20 **Q. PLEASE PROVIDE A BRIEF SUMMARY OF YOUR TESTIMONY.**

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<sup>2</sup> Cities of Anahuac, Beaumont, Bridge City, Cleveland, Conroe, Dayton, Groves, Houston, Huntsville, Liberty, Montgomery, Navasota, Nederland, Oak Ridge North, Orange, Pinehurst, Port Arthur, Port Neches, Roman Forest, Shenandoah, Splendor, Sour Lake, Vidor and West Orange.

**REVISED**

PUC Docket 48439  
Attachment A  
Page 1 of 1

**Biographical Data Revised 6-13-2019**

**Norman J. Gordon**

Mr. Gordon was born in Chicago. After completing military service in the Judge Advocate General's Corps of the Army he entered private practice in El Paso, Texas. Mr. Gordon practices primarily in civil litigation, municipal finance and public utility regulation law.

Education and Professional Background

University of Illinois, B.A. 1967  
University of Illinois, J.D., 1970  
Captain, U.S. Army (J.A.G.C.) 1970-1974  
1974-2003-- Attorney/Shareholder/Director/President, Diamond Rash Gordon & Jackson, P.C., El Paso, Texas  
2003-2019--Attorney/Shareholder Mounce, Green Myers, Safi & Paxson Galatzan, a Professional Corporation,  
2019- Sole Practitioner

Certification:

Mr. Gordon has been board certified in Civil Trial Law by the Texas Board of Legal Specialization since 1983

Bar Admissions

Texas, Illinois, United States District Court for the Western District of Texas, United States District Court for the Eastern District of Texas, United States Court of Appeals for the Fifth Circuit, United States Court of Military Appeals, United States Supreme Court

Activities and Affiliations

Member: State Bar of Texas, American, Federal Bar and Illinois State Bar Associations. Member: National Association of Bond Lawyers. Texas Association of Defense Counsel

Listed: The Best Lawyers in America (1991-Present), Texas Super Lawyers 2003-2018

Seminars Topics Presented

Utility Regulation basics (El Paso Public Utility Regulation Board)  
Construction Lien Law  
Construction Law  
Residential and Commercial Evictions  
Civil Trial Law Issues (Discovery Rules (El Paso Bar Association)

Mr. Gordon has also conducted numerous training sessions for El Paso Advisory Boards on Utility Regulation

Personal Activities

Mr. Gordon has been involved with numerous charitable and civic organizations in El Paso. He has served on the Board of Directors of Hospice of El Paso, Congregation B'nai Zion and as president of the Jewish Community Center of El Paso and the Jewish Federation of El Paso. He was a member of the Board of Directors of the United Way of El Paso County from 2004-2014.

Responding Party: Cities  
Requesting Party: ETI  
Prepared by: Mark Garrett  
Sponsoring Witness: Mark Garrett

Docket No.: 53719  
Question No.: ETI-CITIES 1-3

**REQUEST:**

ETI-CITIES 1-3 Please refer to the discussion of the Incentive Compensation Survey taken by the Garrett Group LLC (“Garrett Group Survey”) on pages 21-22, 27, and 45 of Mr. Mark Garrett’s testimony.

- a. Please describe the methodology for conducting and evaluating the results of the Garrett Group Survey.
- b. Please discuss the basis for selecting the 24 states included in the Garrett Group Survey.
- c. Please provide the results of the Garrett Group Survey taken in 2007, and updated in 2009, 2011, 2015, and 2018.
- d. Please provide all documents, tangible things, reports, models, or data compilations that have been provided to, reviewed by, or prepared by or for Mr. Garrett in anticipation of his testimony concerning the Garrett Group Survey.
- e. Please provide all materials used in the preparation of the Garrett Group Survey.
- f. Provide all orders, or if publicly available, all docket numbers or citations for such orders, relied on in completing the Garrett Group Survey.

**RESPONSE:**

- a. The Garrett Group Incentive Compensation Survey is a telephonic survey of commission staff personnel with knowledge of the treatment of incentive compensation issues in each jurisdiction surveyed. The responses of the participants are recorded, transcribed, summarized, and returned to the survey participant for approval.
- b. The 24 western states were selected because, at the time the survey was originally developed, Mr. Garrett primarily testified in states in close proximity to the western states included in the survey – the 24 states west of the Mississippi river. Selecting a sample size of 24 states, rather than 50, was also a way of reducing the time it took to conduct and update the survey.
- c. The results of the Garrett Group Incentive Compensation Survey taken in 2007, and updated in 2009, 2011, 2015, and 2018 are provided in Attachment MEG 1-3(c).

- d. See response to ETI-Cities-1-3(c).
- e. See response to ETI-Cities-1-3(c).
- f. These orders are publicly available. The docket numbers have been provided in the Direct Testimony of Mark E. Garrett and in Attachment MEG 1-3(c).

**Garrett Group Consulting, Inc.**  
**Incentive Compensation Survey**  
**of the 24 Western States**  
**2007-2018**

**Results by State**

Alaska 2011: (Regulatory Commission, Tyler Clark, Finance Manager, 907-276-6222) Incentive Compensation is not an issue in rate cases in Alaska. There is no relevant regulation or policy.

Alaska 2015: (Regulatory Commission, Tyler Clark, Chief Utility Financial Analyst, 907-276-6222) Incentive is not a contested issue yet in Alaska. There are no regulations, policies or cases addressing the issue.

Alaska 2018: (Regulatory Commission, Julie Vogler, Chief Utility Financial Analyst, 907-276-6222) The Commission in Alaska reviews requests to include incentive compensation in rates to determine if they are reasonable and if they benefit ratepayers. Short and long-term incentives receive the same treatment. The issue is handled on a case by case basis. In a recent Enstar Natural Gas case, U-16-066, the Commission allowed the Company's short and long-term incentive expense to be included in revenue requirement. The Final Order in U-16-066 (19), page 62, lines 6 through 14, states:

The record establishes that the overall cost of ENSTAR's incentive compensation is reasonable in a regulatory context. The scope and mechanics of the STIP and LTIP are clearly defined and described. And incentive compensation payments under the STIP and LTIP have been consistent and are expected to recur at levels comparable to the test year. ENSTAR's incentive compensation plans benefit ratepayers by setting and holding employees to goals that directly relate to customer service and cost controls, and by attracting and retaining highly qualified employees to provide safe and reliable service. We find that inclusion of the incentive compensation amounts as an expense in ENSTAR's revenue requirement is reasonable.

The Enstar case is the first adjudicated case since the last survey results were provided in 2015, so there are no other recent orders that set forth a treatment of the issue.

Arizona 2007: (Corporation Commission, Darron Carlson, 602-542-0834) Arizona deals with incentive compensation plans on a case by case basis. They generally do not allow the costs for these programs to be included in rate base. They have at times allowed 50% of the cost of a particularly good plan to be included in rates.

Arizona 2009: (Corporation Commission, Darron Carlson, 602-542-0834) Arizona deals with incentive compensation plans on a case by case basis. It first compares overall compensation to the state norm, then asks if the cost are prudent and reasonable. They lean toward disallowing programs which benefit only the shareholder even if total compensation is comparable to the state norm.

Arizona 2011: (Corporation Commission, Darron Carlson, 602-542-0834) Still examining case by case, the Arizona Staff's position is that if the company fails to demonstrate that an incentive compensation plan is tied to operational performance issues it is considered unnecessary for the provision of service. Staff feels shareholders should pay for plans tied to financial measures such as earning per share. Most cases settle here and there are no orders on point.

Arizona 2015: (Corporation Commission, Darron Carlson, Manager, Financial and Regulatory Analysis Section, Utility Division, 602-542-0834) Incentive programs are still considered case by case. Evaluation centers around 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. This treatment is set forth in the most recent Epcor Water rate case (Docket No. WS-01303A-14-0010). The current treatment represents a somewhat more liberalized approach compared to Arizona's former position of excluding all incentive compensation from rates.

Arizona 2017: A review of Commission decisions in cases since the 2001 Decision 64172 is provided in the testimony of staff witness Ralph C. Smith in Docket No. E-0134SA-16-0036 (pp.81-89). This review demonstrates that the Commission recognizes that financial goals primarily benefit the shareholder and operational goal can benefit the customer. The Commission accordingly shares the cost of short-term incentives equally between ratepayers and the shareholders. In Decision No. 71914 (September 30, 2010), in UNS Electric, Inc. rate case, Docket No. E-04204A-09-0206, the Commission stated at page 28:

We believe that the Staff and RUCO recommendations, to require a 50/50 sharing of incentive compensation costs, provide a reasonable balancing of the interests between ratepayers and shareholders. The equal sharing of such costs recognizes that the program is comprised of elements that relate to the parent company's financial performance and cost containment goals, matters that primarily benefit shareholders, while at the same time recognizing that a portion of the program's incentive compensation is based on meeting customer service goals. This offers the opportunity for the Company's customers to benefit from improved performance in that area.

#### Arizona Incentive Compensation Treatment by Case

##### Short-Term Incentives\*

Year	Company	Docket/Decision Number	Lit./Stlmt.	Outcome
2001	SWG	G-01551A-00-0309 / 64172 ( p. 13)	Litigated	50:50 Sharing
2007	APS	E-013451-05-0816 / 69663 (p. 37)	Litigated	Allowed**
2008	APS	E-01345A-08-0172	Settlement	50:50 Sharing
2011	APS	E-01345A-11-0224	Settlement	50:50 Sharing
2007	UNS	G-04204A-06-0463 / 70011 (p. 27)	Litigated	50:50 Sharing
2008	UNS	E-04204A-06-0783 / 70360 ( p. 21)	Litigated	50:50 Sharing
2006	SWG	G-01551A-04-0876 / 68487 (p. 18)	Litigated	50:50 Sharing



2008	SWG	G-01551A-07-0504 / 70665 (p. 16)	Litigated	50:50 Sharing
2010	UNS	G-04204A-08-0571 / 71623 (pp. 30-31)	Litigated	50:50 Sharing
2010	UNS	E-04204A-09-0206 / 71914 (pp. 28-29)	Litigated	50:50 Sharing

\* See Staff witness Smith in APS 2016 Rate Case E-0134SA-16-0036 pp. 81-89.

\*\* The Commission accepted Staff's position: "Staff did not oppose inclusion of the TY variable incentive expense in cost of service, noting that although corporate earnings serve as a threshold or precondition to the payout, the TY level of expense is tied primarily to performance measures that directly benefit APS customer." (page 37)

**Arizona 2018:** (Corporation Commission, Darron Carlson, Public Utilities Analyst Manager, Revenue Requirements and Audits, 602-542-0834) There have been no changes to the treatment of incentives in Arizona. The issue is still dealt with on a case by case basis centered on benefit to the customer. The treatment is the same for short and long-term plans as well as executive incentives. There are no new orders setting forth the treatment.

**Arkansas 2007:** (PSC, Alice Wright, 501-682-2051) In the current Entergy Arkansas Rate Case Docket No. 06-101-U, staff witness Jeff Hilton recommends excluding 50% of the portion of plans tied to financial performance, which means disallowing half of the executive's plan. See attached direct and surrebuttal testimony.

**Arkansas 2009:** (PSC, Jeff Hilton, Manager, Audit Section, General Staff, APSC 501-682-2051) The treatment of incentive compensation has changed recently in Arkansas. The traditional treatment had been to allow in rates those plans based on operational goals (which were seen as benefitting ratepayers), and sharing 50:50 between shareholders and ratepayers the costs of programs which included operational and financial goals (and thereby benefitting both ratepayers and shareholders). The current change is that now, executive plans which are based solely on increasing corporate stock value are seen as benefitting only the shareholders and are excluded from rates. A further refinement of Commission policy is to allow, for any given plan, 50% of the *portion* of that plan which has value for both ratepayers and shareholders. This new treatment is documented in the Entergy order 06-101-U, Order 10, and in the settlement adopted in the latest OG&E case 08-103-U. One reason for the change to exclude these executive plans was that while they were being subsidized by ratepayers they were growing astronomically.

**Arkansas 2011:** (PSC, Jeff Hilton, Manager, Audit Section, General Staff, APSC 501-682-2051) The Arkansas Commission has uniformly maintained its treatment based on the 2006 Entergy case (06-101-U) cited above. Long-term plans, typically based on stock price, are excluded from rates 100%. Short-term incentive plans are evaluated to determine if they are based on financial or operational measures. Operational-based plans are allowed. 50% of plans containing financial measures are disallowed. Any plans based solely on the discretion of the company are seen as having no direct benefit to ratepayers and are disallowed 100%. Settlements in recent cases have upheld this treatment.

**Arkansas 2015:** (PSC, Jeff Hilton, Director of Revenue Requirements, 501-682-2051) Commission rulings on Incentive Compensation have remained generally consistent, excluding 100% of long-term plans and 50% of the portion of short-term plans that are financially based. This treatment has been qualified in recent cases based on differing plan structures. In the most recent contested Entergy rate case (Docket No. 13-028-U), 50% of all short-term incentive compensation was excluded because the plans

included a financially-based multiplier. The criteria of distinguishing between financial and operational measures that results in different treatment for short and long-term plans is used to evaluate all plans including those for executives. Arkansas' treatment of this issue is considered case by case and is based on prior Commission orders, not legislation. While the Commissioners' position has remained consistent, Staff's recommendation in the last several cases, including 13-028-U and two currently under review, has shifted. Staff has recently considered that any incentive compensation plan which they find is prudent and is necessary for the provision of utility service to ratepayers should be included in rates. Based on these criteria, Staff has recommended no disallowance in these three cases, a position which the Commission did not adopt in the 13-028-U Entergy case.

**Arkansas 2018:** (PSC, Jeff Hilton, Director of Revenue Requirements, 501-682-5185) 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.<sup>1</sup>

**California 2007:** (PUC, Pamela Thompson, Div. of Ratepayer Advocacy, 415-703-5581, Mark Pocta, 415-703-2871) In CPUC Decision 00-02-046 the Commission established that utilities could recover 50% of the regular employee's incentive compensation costs from rates. Mark Pocta says they advocate for some type of sharing arrangement and points out that PGE has a 50/50 arrangement for both executive and employee plans, while Southern California Edison passes 50% of its executive plan and all of its employee plan to ratepayers.

**California 2009:** (PUC, Mark Pocta, Division of Ratepayer Advocacy, 415-703-5581) In California, incentive compensation funding is always an issue and is typically litigated. In California's latest litigated rate case, Southern California Edison (Application #: 07-11-011, Decision #: 09-03-025) the DRA argued for disallowing of incentive compensation in rates citing vague performance measure and the fact that all the plans were, at least in part, based on the Company's financial performance. The Commission, however, decided that the non-executive plans (at Edison there are plans for all employees) and 50% of the short-term executive plans will be funded in rates, while only the long-term executive stock option plans will be disallowed. In 2000, in the PGE case (CPUC Decision 00-02-046), the Commission allocated a 50:50 sharing of all the management incentive compensation programs between ratepayers and shareholders.

**California 2011:** (PUC, Matthew Tisdale (CPUC), Pamela Thompson, Mark Pocta, Division of Ratepayer Advocacy, 415-703-5581) No response from California in 2011.

**California 2015:** (PUC, Richard Rauschmeier, Financial Examiner, DRA - Division of Water and Audits, 415-703-2732) The Commission considers incentive compensation on a case by case basis. Plans are evaluated in the context of an overall reasonableness standard. The Commission has also established

<sup>1</sup> 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.

precedence for evaluating plans based on who benefits from the plans' goals, ratepayer or shareholders. This approach quite often results in different outcomes for short-term and long-term plans. In determining overall reasonableness, the Commission also considers many other criteria such as comparisons with similarly sized utilities, benchmarking to related industry, internal historical trends and overall compensation. In a recent case, A.10-07-007, staff recommended that, "customer funding should be limited to the portion of the incentive plan payments that are aligned with operational objective that provide customer benefits. This means that 70% of AIP be funded by shareholders, and 30% be funded by ratepayers." In the settlement, the Commission disallowed 50% of the plan's expense. One change that may impact consideration of incentives going forward is the Commission's renewed focus on safety since the San Bruno pipeline explosion. The Commission is establishing metrics for observing historical trends and industry comparisons, and is emphasizing neutral third-party benchmarking.

**California 2018:** (CPUC, Richard Rauschmeier, Financial Examiner, Public Advocate's Office, 415-703-2732) 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<sup>2</sup>. The Commission's consistent practice is to reject recovery of long-term incentives, "because, LTI does not align executives' interests with ratepayer interests."<sup>3</sup> 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 utility safety has intensified<sup>4</sup>. Consequently, the treatment of incentives is increasingly framed by asking whether the incentives are safety-focused or earnings-focused.

**Colorado 2007:** (PUC, Rob Trokey, 303-894-2121) Colorado has no regulatory or statutory rules governing incentive compensation and considers it on a case by case basis. In the 2006 PSC Colorado (electric utility) Rate Case 06-S-234-EG, the Office of Consumer Council argued for removing the costs of the portion of the plan not benefiting ratepayers. That case settled without the Commission ruling. In the current gas utility rate case staff is removing incentive compensation from rate base.

**Colorado 2009:** (PUC, Karl Kunzie, Financial Analyst: Economics Section, 303-894-2882, P.B. Scheckter, Office of Consumer Counsel (OCC), 303-894-2124) Colorado has no rules or statutes and, due to black-box settlements, no recent orders on point. Historically, the policy of the OCC has been to disallow plans tied to goals such as price per share, and allow in rates those plans tied to quality of service and goals that benefit ratepayers. The PUC has tended not to oppose the company's historic test year payouts. However, in the current Public Service Company of Colorado (Xcel Energy) rate case, Staff has argued to exclude all types of incentive compensation from rates. This treatment holds that incentive compensation, in general, benefits only the shareholder, that it is discretionary and sometimes is not be paid out, and that all of it should be paid for by the shareholders. The goals related to ratepayer benefit

<sup>2</sup> Examples of this treatment: Decision 15-11-021, Decision 12-11-051 and Decision 14-08-032.

<sup>3</sup> Decision 15-11-021 at 262

<sup>4</sup> 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.

should be considered part of the job and compensated for by regular wage and salary. In this treatment, if total compensation is then non-competitive the regular, non-optional component of compensation should be raised.

Colorado 2011: (PUC, Karl Kunzie, Financial Analyst: Economics Section, 303-894-2882) Colorado staff has made the decision not to seek to eliminate all incentive compensation (rolling compensation for goals benefitting ratepayers into regular salaries). All executive incentives are still excluded from rates and no longer sought in company filings. Regular employee programs are judged on their benefit to ratepayers verses stockholders. Plans with metrics for goals benefitting ratepayers but dependent on an earnings per share trigger are considered to benefit shareholders and opposed by staff. Staff's approach is set forth most recently, in 10AL-963G by staff witness Kahl. The settlement in that case removed the dollar amount opposed by Kahl without specifically stating the rationale.

Colorado 2015: (PUC, Karl Kunzie, Financial Analyst: Economics Section, 303-894-2882) Colorado still excludes long-term executive incentive compensation from rates. However, with respect to annual incentive pay (AIP), Colorado's treatment has changed significantly. In the most recent rate case for Public Service Company of Colorado, staff recommended the Commission, "limit reimbursement of incentive pay to no more than 15 percent of employee base salary." In this Proceeding No. 14AL-0660E / Order C15-0292, the Settling Parties agreed to reduced the revenue requirement by a dollar amount without agreeing to any specific adjustments. However, on the issue of AIP, the Settlement Agreement included the statement, "the Settling Parties agree AIP incentive payment recovery in the 2017 Rate Case will be capped at 15% of an employee's salary." This treatment does not evaluate incentive compensation plans based on some criteria such as their prudence, or which stakeholder group benefits from the goals of a plan. With respect to choosing a straight percentage of salary, Staff's witness, Fiona Sigalla, noted in her testimony of November 7, 2014: "Annual incentive plan payments to employees exceed 10 percent of salary for most workers and tops 100 percent of salary for some executives." "In 2014, the top 20 highest paid Xcel Energy executives received AIP payments that averaged over 100 percent of salary. Limiting reimbursement of incentive pay to 15 percent of base pay would mostly impact these higher paid employees." "Fifty-six percent of the impact for 2013 affects reimbursement of incentive pay for Company executives." This treatment is expected to continue at least through the term of the 2017 PSCo rate case.

Colorado 2018: (PUC, Karl Kunzie, Financial Analyst: Economics Section, 303-894-2882) There have been no changes to the treatment of incentive compensation in Colorado since the last update to the survey. Long-term incentives are not allowed recovery in rates. Recovery of short-term plans is limited to 15% of base salary without evaluating plan goals. This treatment was followed in the PSCo Gas rate case in 2018, Proceeding No. 17AL-0363G. No change to this treatment is anticipated.

Hawaii 2011: (PUC, Steven J. Iha, Chief Auditor, 808-586-2020) Hawaii does not allow incentive compensation to be included in rates. This policy was set forth in Docket No. 6531, in the October 17, 1991 Order No. 11317. Prior Dockets in which the Commission disallowed incentive compensation include No. 3216, No. 4215, No. 4588 and No. 5114. In 6531 the Commission agreed that bonus awards tied to company income and earnings benefit stockholders, not ratepayers. The Commission further states, "...we believe that a utility employee, especially at the executive level, should perform at an optimum level without additional compensation. Ratepayers should not be burdened with additional

costs for expected levels of service." In the 1991 case, the Commission also excluded the negative deferred income taxes associated with incentive plans which were disallowed from the deferred income taxes that are deducted from the rate base.

**Hawaii 2015:** (PUC, Steven J. Iha, Chief Auditor, 808-586-2020) Hawaii's general policy toward incentive compensation has not changed. Incentive compensation of all types is excluded from rates. The Commission upholds the position stated in Docket No. 6531 that incentives tied to company income and earnings benefit stockholders, not ratepayers. The Commission further stated, "...we believe that a utility employee, especially at the executive level, should perform at an optimum level without additional compensation. Ratepayers should not be burdened with additional costs for expected levels of service." Utilities in Hawaii no longer petition to have incentive compensation expense included in rates.

**Hawaii 2018:** (PUC, Jan K. Mulvey, Chief Auditor, 808-586-2020) Hawaii's longstanding policy to exclude all incentive compensation expense from rates remains firmly in place. The Commission upholds the position stated in Docket No. 6531 that incentives tied to company income and earnings benefit stockholders, not ratepayers. The Commission stated at page 59, "We recognize that incentives encourage cost reductions in some instances. However, we believe that a utility employee, especially at the executive level, should perform at an optimum level without additional compensation. Ratepayers should not be burdened with additional costs for expected levels of service." This treatment is not challenged by the utilities.

**Idaho 2007:** (PUC, Terri Carlock, Accounting Section Supervisor, 208-334-0356) As general policy, Idaho does not allow into rates the costs associated with profits and earnings performance, but does allow a portion of plans that benefit the ratepayer through improved customer service, etc. Executive's incentive compensation plans are evaluated using the same criteria and are not often allowed. 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.

**Idaho 2009:** (PUC, Terri Carlock, Accounting Section Supervisor, 208-334-0356) The Commission's basic policy for evaluating incentive compensation plans involves determining who benefits, the customer or the company. This treatment has been refined (in the recent Idaho Power Company general rate case) for plans which benefit the customer but require a financial trigger (e.g. must meet a certain dividend level) to be paid. For these plans the Commission reduced the percentage allowed in rates. The Commission also now does not include any executive compensation in rates. The Commission's focus on customer benefit is reflected in the direct testimony of Staff witness, Leckie, and in the final order for the recent IPC General Rate Case 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 (attached '07).

**Idaho 2011:** (PUC, Terri Carlock, Utility Division Deputy Administrator, Accounting Section Supervisor, 208-334-0356) Treatment of incentive compensation remains unchanged in Idaho. Ms. Carlock summarizes the Idaho Public Utility Commission treatment as follows, "For Idaho utility companies, the short answer is that incentives that are based on targets that provide customer benefits, i.e. customer service, reliability, O&M budgets, safety etc., are included in rates. Incentives that are based on targets that provide shareholder value are excluded." Executive plans typically fall into the second category and are excluded. More specifically: Idaho Power has an Executive Incentive Plan that is

separate from the Annual Employee Incentive Plan, and it is excluded from rates. Avista has one plan Incentive Plan that has different targets based on different criteria. Executives participate in this plan, but because executives have a different set of targets, only the targets associated with customer service and reliability are included in rates. PacifiCorp Incentive Plan, each individual employee has their own set of goals and targets in order to achieve an incentive payment, and those targets are different for executives. Executive incentives have not requested for rate recovery.

**Idaho 2015:** (PUC, Terri Carlock, Utility Division Deputy Administrator, Accounting Section Supervisor, 208-334-0356) Idaho's treatment of incentives has not changed - most is disallowed. To be included in rates a plan must benefit ratepayers. Plans based on measures which benefit shareholders, such as increased earnings, are excluded. This treatment is the same for all plans including those for executives. There are no recent orders on point, but the three rate case scheduled this year are expected to reflect this treatment.

**Idaho 2018:** (PUC, Terri Carlock, Utility Division Administrator, Accounting Section Supervisor, 208-334-0356) There has been no change to the treatment of incentives in Idaho. The Commission allows in rates those incentives that benefit customers and exclude those based on financial measures that benefit shareholders. This treatment is the same for incentives at all levels, but executive plans receive closer scrutiny as it is often harder to find customer benefit in these plans. There are no recent orders on point and no changes are anticipated in the near future.

**Iowa 2007:** (Utilities Board, Wes Birchman, 515-281-5979) Incentive compensation is not an issue here as they do not do many rate cases.

**Iowa 2009:** (Utilities Board, Wes Birchman, 515-281-5979, Dan Fritz, 515-281-5451) Mid-America has an incentive compensation plan but hasn't filed a rate case in many years. For the state's other utilities, it has been a long time since they have filed a rate case or had a rate increase. The standing treatment is to look at incentive compensation plans on a case by case basis and evaluate whether or not they are reasonable and prudently incurred.

**Iowa 2011:** (Utilities Board, Dan Fritz, 515-725-7316) Both of the investor owned utilities in Iowa are under rate freezes until 2013 and 2014. There has been no change in the treatment of utility incentive compensation.

**Iowa 2015:** (Utilities Board, Dan Fritz, 515-725-7316) Incentive Compensation has not been an issue in Iowa. There are no specific treatments in place and the Commission will review the merits and prudence of a proposed plan on a case by case basis. There are no recent orders on point, and no treatment changes are anticipated.

**Iowa 2018:** (Utilities Board, Dan Fritz, 515-725-7316) There have been no changes in the treatment of Incentive Compensation. There are no specific treatments in place and the issues is handled on a case by case basis. There are no recent orders on point.

Kansas 2007: (Corporation Commission, Utilities Div., Larry Holloway, Chief of Engineering Operations, 785-271-3222) On a case by case basis staff opposes plans without ratepayer benefit or are lacking objective measures.

Kansas 2009: (Corporation Commission, Utilities Division, Bob Glass, Chief of Economic Section, 785-271-3175) The Commission views incentive compensation plans that are based solely on financial performance as benefitting only the shareholders and not something that belongs in rates. In the last 5 to 10 years the Commission has not seen incentive compensation as a major issue and tends not to challenge plans that are reasonable by industry standards as long as they are based on a multidimensional set of criteria involving both reliability and financial goals. In Kansas, the Commission also funds the Citizens Utility Rate Board (CURB), an advocacy group for the residential and commercial ratepayers. CURB argues that any portion of a plan that relates to financial measures should be disallowed.

Kansas 2011: (Corporation Commission, Utilities Division, Jeff McClanahan, Chief of Accounting and Financial Analysis, 785-271-3212) The Kansas Commission recently has changed its stance on incentive compensation. In the litigated 2010 KCP&L rate case (10-KCPE-415-RTS) the Commission stated that relying on peer group statistics "can result in a continuing upward spiral [instead] the Commission must examine the elements of incentive packages, and the behavior they incent". For executive incentive programs, the Commission disallowed 100% of payments based on purely financial measures and 50% for plans using a balance of financial and operational measures. The Commission allowed in rates the non-executive annual incentive program after Staff found that KCP&L had modified the measures used in this plan and, "eliminated all focus on profitability or earning [which might incent employee behavior] detrimental to customers."

Kansas 2015: (Corporation Commission, Utilities Division, Justin Grady, Chief of Accounting and Financial Analysis, 785-271-3164) The Kansas Corporation Commission continues to rely on the treatment it established in the litigated 2010 KCPL rate case (10KCPE-415-RTS) and followed in the 2012 case, 12-KCPE-764-RTS. For officer level incentives, plans are evaluated to determine whether the objectives of the plan are geared to improve the company's financial results or to improve operational objectives. The financially-based portion is borne by the shareholders and the portion supporting operational goals is allowed in rates. The exception to this evaluation process are any time-based restricted stock plans which vest solely on the passage of time. Such plans are seen as being neutral and therefore split 50:50 between shareholders and ratepayers. Non-officer incentive compensation plans for workers are allowed in rates. This treatment is becoming established as the Commission's general policy<sup>5</sup> and has guided Staff's position on these issues in both of its current rate cases for KCPL (15-KCPE-116-RTS) and Westar (15-WSEE-115-RTS). However, the consumer advocacy branch, Citizens' Utility Ratepayer Board (CURB) has consistently recommended the more aggressive position of applying the same financial/operational criteria to non-officer plans as well. In the current KCPL rate case the company has voluntarily excluded 50% of the restricted stock plans, 100% of the performance-based plans, 50% of the short-term plans which are based on an earnings-per-share qualifier. The Company has also removed the earnings-per-share portion of their Value Rewards Plan which is open to all employees. This was seen as an attempt to find the middle ground between staff's position and that of CURB. In this case CURB did not make an adjustment challenging the company's proposed recovery.

<sup>5</sup> In the 2012 KCPL rate case (12-KCPE-764-RTS) this treatment resulted in a 50:50 split of the short-term plan. For the long-term incentives, the Commission excluded 50% of the time-based restricted stock portion of the plan, and 100% of the portion based on stockholder return.

**Kansas 2018:** (Corporation Commission, Utilities Division, Kristina Luke-Fry, Managing Auditor, 785-271-3171) Kansas still allows all employee-level incentives in rates. For management and executive incentives, the Commission only allows in rates those incentives related to safety and other operational objectives, and excludes incentives related to financial measures such as earnings per share. This treatment is based on prior orders, especially 10KCPE-415-RTS and 12-KCPE-764-RTS. This treatment has the result of excluding the majority of executive incentives due to the fact that they are usually tied to company earnings. There are no recent orders on point, and no changes in treatment are anticipated.

Louisiana 2009: (PSC, Brian McManus, Economist, Division of Economics and Rates Analysis, 225-342-2720; Bill Barta, Henderson Ridge consulting, 770-205-8828) Louisiana has traditionally held that the incentive compensation plan for upper level management and officers are excluded from rates, while those of lower level of managers and employees are included in rates. The criteria originally used to arrive at this treatment considered whether the goals of each plan more directly benefitted ratepayers or shareholders. Recently, an ALJ's report in the Entergy Louisiana Formula Rate Plan 2006 (Docket # U - 20925, 2006 Evaluation Period) has recommended excluding all stock option plans for all levels. The Commission has also recently chastised Entergy for excessive bonuses.

Louisiana 2011: (PSC, Brian McManus, Economist, Division of Economics and Rates Analysis, 225-342-2720) The Louisiana Commission does not allow Executive Bonuses to be recovered from ratepayers. This is especially true for the larger utilities. For incentive awards to employees that are not Executives, the Commission may allow recovery. For some of the smaller utilities the Commission may allow bonuses to management if the whole compensation package is reasonable. There has not been any docketed proceeding since 2006.

Louisiana 2015: (PSC, Brian McManus, Economist, Division of Economics and Rates Analysis, 225-342-2720) No response from Louisiana at this time.

**Louisiana 2018:** (PSC, Robin Pendergrass, Audit Director, (225-342-1457) The treatment of incentive compensation in Louisiana has not changed. The LPSC does not allow Executive incentive compensation plans to be recovered from ratepayers. Lower level management and employee incentive awards may be included, assuming they are reasonable. To determine reasonableness, the Commission looks at the amount of the incentive in relation to 1) the size of the company 2) the job duties of the employee and 3) the average hours worked during the test year. The Commission also looks at who benefits, ratepayers or shareholders. This is a general auditing policy utilized in all LPSC rate reviews. Recent dockets which followed this treatment, where disallowances were made using these criteria, include Dockets U-34667 and U-34669, which are the 2017 annual RSP filings for CenterPoint Arkla and CenterPoint Entex, respectively. Both dockets show disallowances for competitive and incentive pay and other executive compensation.

Minnesota 2007: (PUC, Louis Sickmann, Financial Analyst, 651-201-2243) Minnesota looks at incentive packages on a case by case basis. Since the 1991 decision to deny incentive compensation costs in the



ESP Electric Rate Case, the Commission has begun to allow inclusion of employee plans. It capped these plans (at 15% of base salary) out of a concern that larger percentages tied the employees too closely to shareholders' interests. Current caps are at 25% of base salaries. The portions of these plans that are allowed into rates are tracked and must be returned to ratepayers if they are not paid to employees (as has been the case when earnings per share targets were not met). Executive plans are largely not allowed. See General Rate Case E002/GR/05/1428, September 1, 2006.

**Minnesota 2009:** (PUC, Louis Sickmann, Financial Analyst, 651-201-2243) Minnesota's treatment of incentive compensation has changed recently. One influence that has allowed this change is that Minnesota's utilities have move away from asking the Commission to include in rates those plans that are tied strictly to company earnings. Currently plans which are based on earnings and don't include goals that benefit the ratepayer are limited to long-term management plans which are excluded from rates. The two new parts of Minnesota's treatment of plans that do benefit ratepayers are, first, to cap those plans at 25% of base salary and , second, to refund all portions of the plan which are not actually paid out to employees.

**Minnesota 2011:** (PUC, Jerry Dasinger, Financial Analyst, 651-201-2235) Minnesota continues to distinguish between incentive plans tied to financial triggers (such as a threshold ROE), and plans tied to criteria benefitting the ratepayer. Plans based on goals which benefit ratepayers are allowed in rates, but their costs are still capped at 25% of base salaries. This cap is being challenged by arguments to lower it to 15%. This general policy is demonstrated in recent orders in the Minnesota Power and Ottertail rate cases: E002/GR-09-1151 and E002/GR-10-239 respectively.

**Minnesota 2015:** (PUC, Sundra Bender, Financial Analyst, 651-201-2247) Minnesota continues to distinguish between incentive plans tied to financial triggers (such as a threshold ROE) and plans tied to criteria benefitting the ratepayer. Plans based on goals which benefit ratepayers are generally allowed in rates, but their costs are frequently capped at a percentage of base salaries such as 15% or 25% (the percentage can vary from case to case). Utilities are usually required to return to ratepayers any portion of incentive pay that was allowed into rates and is not subsequently paid out to employees. Executive and long-term IC measures are frequently more closely aligned with shareholder interests and thus are not usually allowed in rates. An example of the Commission's treatment is set forth in General Rate Case G-008/GR-13-316, June 9, 2014 Findings of Fact, Conclusions, and Order at pages 13-17 and page 58.

**Minnesota 2018:** (PUC, Sundra Bender, Financial Analyst, 651-201-2247) Minnesota continues to determine allowable incentive compensation on a case by case basis. Annual incentive plan compensation is usually allowed in rates, but the costs are frequently capped at a percentage of base salaries, for example: 15%, 20%, or 25% (the percentage can vary from case to case). Utilities are usually required to return to ratepayers any portion of incentive pay that was allowed into rates and is not subsequently paid out to employees. Long-term incentive compensation measures are not usually allowed in rates. A recent case example is the Minnesota Power General Rate Case E-015/GR-16-664, March 12, 2018 Findings of Fact, Conclusions, and Order at pages 31-34 and 110.

Missouri 2007: (PSC, Utility Services Div., Bob Schallenberg, 573-751-7162) On a case by case basis, Missouri includes plans that benefit consumers and otherwise disallows incentive compensation plans. The same criteria are used for executive plan – few are allowed. See recent Kansas City Power and Light and Empire Electric District orders on the Commission's website.

Missouri 2009: (PSC, Utility Services Div., Bob Schallenberg, Manager, 573-751-7162) In Missouri, value to the customer is the general policy that informs their treatment of incentive compensation plans. A plan's goals must be beneficial to the customer or the plan is not allowed in rates. Plans based on rate of return, for example, are not allowed. This treatment also applies to executive plans which generally have less chance of being allowed in rates. See Ameren ER 2009-0318.

Missouri 2011: (PSC, Utility Services Div., Bob Schallenberg, Manager, 573-751-7162) Missouri's treatment remains consistent in disallowing incentives tied to goals benefitting primarily the stockholders (e.g. tied to earnings per share) while allowing plans with customer-specific goals (e.g. safety). However, even these plans must be reasonable to be allowed. For example, in the last 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 most recent case processed, the Ameren UE rate case, the company didn't seek even short-term incentive compensation tied to earnings demonstrating that staff's practice is becoming accepted by the companies. In that case, the Commission did allow some payments related to service, but only the amounts actually paid, not those accrued. All incentive compensation adjustment were made not only to expense charges, but to construction charges as well.

Missouri 2015: (PSC, Utility Services Div., Bob Schallenberg, Manager, 573-751-7162) Incentives are addressed on a case by case basis. Plans are analyzed to determine who benefits. Plans that can show a direct benefit to customers (and that are found to be prudent) are allowed in rates. Plans that benefit shareholders are excluded. This treatment does not typically result in a different outcome (being allowed or disallowed in rates) for short-term verses long-term plans. Executive plans are less often allowed in rates due to ties to rate of return. There are no recent orders which demonstrate this treatment.

Missouri 2018: (PSC, Commission Staff Div., Mark Oligschlaeger, Manager, Auditing Department, 573-751-7443) Missouri's treatment for incentives, generally, is to allow rate recovery for those plans with goals that, if achieved, would lead to improved or more economical service to customers and with the goals known to employees in advance so as to be a real motivational tool. Incentives tied to financial goals such as earnings per share, net income or stock price growth are not allowed. These criteria are used to evaluate all incentive plans, short or long-term, as well as those for executives. This treatment is not proscribed by statute or rule, but has been the longstanding policy of the Commission, and was followed in the recent Spire Missouri rate cases, Case Nos. GR-2017-0215 and GR-2017-0216. There have been no recent changes to this treatment, and none are anticipated in the near future.

Montana 2007: (PSC, Eric Eck, Chief, Revenue Requirement Bureau, 406-444-6183) Montana has no rule or policy concerning incentive compensation and no recent cases on point. They deal with the issue on a case by case basis.

Montana 2009: (PSC, Eric Eck, Chief, Revenue Requirement Bureau, 406-444-6183) Montana has no rules or recent cases dealing with incentive compensation.

Montana 2011: (PSC, Eric Eck, Chief, Revenue Requirement Bureau, 406-444-6183) Montana has no changes in its treatment of incentive compensation. It has no specific treatment directive and considers the issue on a case by case basis. In a recent NorthWestern Energy rate case, as part of a stipulation agreement, the company took a portion of its incentive compensation out of rates, but reserved the right to propose that it be included in a later filing.

Montana 2015: (PSC, Eric Eck, Chief, Revenue Requirement Bureau, 406-444-6183) Due to the low volume of litigated cases in the past 10 to 15 years in Montana, incentive compensation has not been an important issue before the Commission. This Commission is focused more on significant investment in infrastructure, such as the ongoing distribution project by NorthWestern. Incentive compensation is considered the responsibility of the utility's Board of Directors and is generally not challenged. However, the Commission tends to become more concerned by incentive plans that are tilted toward financial performance instead of operational goals. Short and long-term plans are handled similarly, and the Commission prefers plans that are broadly available to employees.

Montana 2018: (PSC, Gary Duncan, Revenue Requirements and Audits, 406-444-6189) Incentive compensation has not been a contested issue in the three rate cases in Montana since the 2015 survey. All utility compensation, including incentives, is recovered through rates in Montana.

Nebraska 2007: (Public Service Commission, Laura Demman, Director and Legal Counsel, Natural Gas Department, NPSC, 402-471-3101) Nebraska is unique in that all of its electric demand is supplied by consumer-owned power districts, cooperatives, and municipalities. The Natural Gas Department of the NPSC regulates the rates and service quality of investor-owned natural gas public utilities pursuant to the state's Natural Gas Regulation Act passed in 2003. Nebraska does not have rules regarding incentive compensation and considers the issue on a case by case basis. In a 2007 rate case, NG-0041, with Aquila (later acquired by Black Hills), the Commission allowed in rates only the actual amounts paid, an adjustment to provide for a known and measurable expense. This order further adjusted the company's application by half, 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." In a subsequent Black Hills case, NG-0061, the Commission again ordered a "known and measurable" adjustment. In NG-0060 the Commission disallowed the entire amount requested by SourceGas for cash incentive bonuses citing insufficient information on the record to adequately describe the bonuses.

Nebraska 2015: (Public Service Commission, Angela Melton, Director and Legal Counsel, Natural Gas Department, NPSC, 402-471-3101) There has been no change in the treatment of incentive compensation as a ratemaking issue in Nebraska.

**Nebraska 2018:** (Public Service Commission, Nichole Mulcahy, Director and Legal Counsel, Natural Gas Department, 402-471-0234) There have been no changes in Nebraska's handling of incentives. The Commission still practices the policy that cost should follow benefit and allows in rates the actual amount paid on incentive plans that benefit ratepayers. This treatment is the same for all incentive plans. There are no recent orders on point and no changes are anticipated.<sup>6</sup>

**Nevada:** 100% of long-term incentives are disallowed. Short-term incentives are divided between financial and operational goals with 100% of financially based plans disallowed. In Nevada Power's 2008 rate case, the Commission excluded 100% of the long-term plan for executives and key employees of the company, based on the fact that these costs mainly benefit shareholders. In Nevada Power's 2011 rate case, Docket No. 11-06006, the Company voluntarily excluded the costs of its long-term plan.

**Nevada 2015:** No change in Nevada's treatment.

**Nevada 2018:** (Nevada response provided by Mark Garrett) No change in Nevada's treatment.

**New Mexico 2007:** (Public Regulation Commission, Charles Gunter, Accounting Bureau, 505-827-6940) The technical staff takes the general position that the portion of an incentive program that is based on increasing share value should be paid for by shareholders. Any that benefits ratepayers and makes up part of a reasonable base pay should be part of rates. Plans are evaluated on a case by case basis. Charles Gunter writes, "Staff took the position that 20 percent of Public Service Company of New Mexico's Results Based Pay costs were properly allocable to customers, because 20 percent of the maximum possible RBP award was tied to achieving goals pertaining to customer satisfaction, cost control, safety, reliability and operations efficiency. By comparison, 80 percent of the maximum possible award was tied to achieving corporate financial goals and EPS targets. See pages 11-13 of Andria Delling's (505-827-6962) testimony in 06-00210-UT."

**New Mexico 2009:** (Public Regulation Commission, Charles Gunter, Accounting Bureau Chief, Economist, 505-827-6975) The Commission does not favor incentive compensation plans that are tied to financial goals and tends to allow in rates those based on operational goals. This standard is applied to plans at all levels of utility employees and tends to knock out a greater proportion of executive plans. See Docket 07-00077-UT

**New Mexico 2011:** (Public Regulation Commission, Charles Gunter, Accounting Bureau Chief, Economist, 505-827-6977) There has been no change in NMPRC's treatment of incentive compensation except that due to the current economic conditions, Staff is even more opposed to incentive compensation and wage increases.

<sup>6</sup> 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."

**New Mexico 2015:** (Public Regulation Commission, Charles Gunter, Accounting Bureau Chief, Economist, 505-827-6977) Incentive programs tied to measures that benefit ratepayers (such as operation and safety) are allowed in rates. Programs tied to the financial performance of the utility (e.g. stock price or ROE) are not allowed in rates. Executive incentive plans receive more scrutiny as they are more likely to have financial measures. They can also be challenged if the overall percentage is out of line. One major utility in New Mexico no longer includes the compensation of its top 5 executives in rate applications. The treatment of incentive compensation as a ratemaking issue has become generally established by practice and plans are considered on a case by case basis. There are no recent orders setting out this treatment, and no changes are anticipated.

**New Mexico 2018:** (Public Regulation Commission, Charles Gunter, Accounting Bureau Chief, Economist, 505-827-6977) ) There has been no major change in the treatment of incentive compensation since the last update. The Commission considers this issue on a case by case basis and generally allows recovery through rates of those incentives that are reasonable in amount and tied to metrics that have benefit for customers, such as operational excellence and safety. Incentives that are financially based, for example those tied to stock price performance or earnings, are not allowed in rates. This treatment was followed in the Southwest Public Service Company's 2017 rate case, 17-00255-UT. The Commission described this treatment as its longstanding practice in the order in Public Service Company of New Mexico's rate case, 15-00261-UT. Some utilities in New Mexico no longer seek recovery of management incentives in rates.

**North Dakota 2007:** (PSC, Mike Diller, Director of Accounting, 701-328-4079) In North Dakota, the general policy is the portion that relates to earnings of the shareholders is disallowed and the rest is included.

**North Dakota 2009:** (PSC, Mike Diller, Director of Accounting, 701-328-4079) Historically, North Dakota has followed the general policy that the portion of incentive compensation that relates to shareholder earnings is disallowed and the rest is included. The issue has recently been reframed. In the last rate case (Xcel/Northern States Power Company) the Commission followed the "Minnesota Solution": they capped incentive compensation for employees at 15% of base pay (company had asked for 25%). Any incentive compensation over the 15% level was not included in rates. Executive incentive compensation was not allowed in rates, and was not sought by the company to be in rates in this case nor in the last Xcel case (see p. 2, of McDaniel, Direct – attached; and p. 46, C of A.E. Heuer).

**North Dakota 2011:** (PSC, Mike Diller, Director of Accounting, 701-328-4079) The Commission has not accepted the financial verses performance, or shareholder verses ratepayer perspective on incentive compensation as recently argued by witness George Mathai. The Commission chose to look at the overall compensation and judge whether or not it was reasonable compared to the market. Other than Xcel, the utilities in North Dakota (Otter Tail and MDU) are highly diversified now (with mostly unregulated operations, e.g. MDU 90%). This allows utility executives to draw on the unregulated components for their compensation.

**North Dakota 2015:** (PSC, Mike Diller, Director of Accounting, 701-328-4079) Incentive compensation is dealt with on a case by case basis and there is no standard policy for the issue. The Commission has in the past limited incentives to 15% of salary. The general approach is to determine if

incentive compensation is reasonable and fair based on market analysis. There have been no recent orders on point, and no changes in treatment are anticipated.

**North Dakota 2018:** (PSC, Patrick Fahn, Director of Public Utilities Division, 701-328-4079) Incentives are treated on a case by case basis, but the Commission's general policy is to allow in rates incentive compensation that is tied to customer benefit and to disallow incentives tied to company financials and corporate benefit. This treatment is the same for all types of incentive plans. Executive incentives are always requested by the utilities but are historically not allowed in rates unless shown that the incentive compensation is tied to customer benefits. The current 2017 Otter Tail rate case, PU-17-398, is expected to follow this treatment. No changes to this treatment are anticipated in the near future.

**Oklahoma 2007:** The Commission excludes incentive payments tied to financial performance. From a practical perspective this means that all executive stock plans are excluded and some portion of the annual cash plan for all employees. Since the Commission has not been able to determine in recent years the precise portion of the annual plans tied to financial measures, the Commission has excluded 50% of the expense. All of the executive stock plan costs are routinely excluded. (See Commission orders in AEP-PSO Cause No. PUD 06-285; OG&E Cause No. PUD 05-151; and ONG Cause No. PUD 04-610).

**Oklahoma 2009:** The Commission's policy toward incentive compensation is unchanged in 2009. In AEP-PSO's recently decided rate case (final order issued 1-14-09), the Commission exclude all of the long-term incentive compensation plans and 50% of the annual plans. (See Final Order No. 464437 in AEP-PSO Cause No. 08-144).

**Oklahoma 2011:** The Commission's policy toward incentive compensation is unchanged in 2011.

**Oklahoma 2015:** No change in Oklahoma's treatment.

**Oklahoma 2018:** (Oklahoma response provided by Mark Garrett) No change in Oklahoma's treatment.

**Oregon 2007:** (PUC, Judy Johnson, Mgr. Rates and Tariffs, 503-378-6636) Oregon PUC's general policy is that all officer bonuses are 100% deleted from rates. For employee incentives plans, the part that is based on customer service is allowed and the part that is based on increased return is disallowed, resulting in 50-50 to 70-30 splits between shareholders and ratepayers. Utilities have begun to adopt this structure in their IC plans.

**Oregon 2009:** (PUC, Judy Johnson, Mgr. Rates and Tariffs, 503-378-6636) No substantial change in treatment. The Commission's general policy is to evaluate plans based on whether they benefit the customers or the company. Customer-based plans (involving reliability, response speed, etc) are called "merit" plans. Company-based plans (which track increases to the bottom line, ROE, etc) are called "performance" plans. 50% of the cost of merit plans is disallowed from rates and 75% of performance plans are disallowed from rates. 100% of officer bonuses are disallowed. A recent order reflecting this policy is found in Docket UE 197, Order No. 09-020 (attached).

Oregon 2011: (PUC, Judy Johnson, Mgr. Rates and Tariffs, 503-378-6636) No change in treatment. Still categorize "merit" or "performance" plans and disallow from rates 50% and 75% respectively. 100% of officer bonuses are disallowed.

Oregon 2015: (PUC, Judy Johnson, Mgr. Rates and Tariffs, 503-378-6636) The Commission's general policy is based on the idea that customers should not have to pay for incentive compensation based on financial goals such as rate of return. This treatment typically results in 50% to 75% of short-term incentives being allowed in rates. However, in the case of a plan with 3 of its 4 goals based on financial measures, 75% of the cost of that plan would be excluded from rates. The only long-term plans are for officers, and 100% of officer incentives are excluded from rates. This treatment is not expected to change.

Oregon 2018: (PUC, John Crider, Administrator - Energy Rates, Finance and Audits Division, 503-373-1536) The treatment of incentives in Oregon has not changed. Short-term, non-officer incentive plans are seen as having benefit to ratepayers; 50% of merit-based plans are disallowed from rates and 75% of plans related to company performance are disallowed<sup>7</sup>. Long-term officer and executive plans are seen as benefitting shareholders and are 100% disallowed<sup>8</sup>. This is a long-standing policy based on previous orders.

South Dakota 2007: (PUC, Dave Jacobson, Analyst, 605-773-3201) The criteria used here is incentives that are triggered by shareholder returns are disallowed.

South Dakota 2009: (PUC, Dave Jacobson, Analyst, 605-773-3201) The Commission's general policy is to disallow the portion of incentive plans that are based strictly on returns. Current treatment also includes disallowing both executive and non-executive management incentive compensation. Also, there are no incentive compensation plans for union employees. Rate cases settle here so there are no orders on point.

South Dakota 2011: (PUC, Dave Jacobson, Analyst, 605-773-3201) South Dakota PUC is opposed to including in rates incentive compensation plans based on the company's financial performance. In Docket No. EL 08-030 the settlement excluded bonuses related to "stockholder-benefitting 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." Jacobson noted that several utilities have whole incentive programs that hinge on whether or not the company earns a certain return. These financial prerequisites cause the whole plans to be excluded from rates. The same treatment is used for management and employee plans.

<sup>7</sup> See Orders: 76-601 p.13, 77-125 p. 10, 87-406 pp. 42-43

<sup>8</sup> See Orders: 99-033 p. 62 and 97-171 pp.74-76

South Dakota 2015: (PUC, Eric Paulson, Utility Analyst, 605-773-6347) South Dakota considers incentive compensation on a case by case basis. Their general policy is to evaluate each plan and disallow the portion based on financial performance indicators. This treatment is set forth in the recent case EL14-026 in which the order specifically excluded the amount "tied to the Company's financial results." This policy is not anticipated to change.

**South Dakota 2018:** (PUC, Eric Paulson, Utility Analyst, 605-773-6347) There has been no change in South Dakota's treatment of incentives since 2015. Incentives with stockholder-benefiting financial goals are excluded from rates. This treatment is the same for incentive plans at all levels. Recent orders (issued 6/15/16) which follow this treatment are found in dockets EL 15-024 and NG 15-005. This treatment is not expected to change.

Texas: The Public Utility Commission regulates the electric utilities in Texas. The PUC's general rule is that incentive payments designed to increase the financial position of the utility are excluded. For example, in PUC Docket No. 28840, the Commission disallowed sixty-six percent (66%) of AEP-Texas Central's test year incentive payments in the amount of \$4.2 million. This was the portion of the utility's incentive payments that was based on financial performance measures. (See Application of AEP Texas Central Company for Authority to Change Rates, Docket No. 28840; SOAH Docket No. 473-04-1033, Final Order, August 15, 2005; ALJ's Proposal for Decision at page 113 in PUC Docket No. 28840, SOAH Docket No. 473-04-1033, issued July 1, 2004. The PFD with respect to the treatment of incentive compensation was adopted by the Commission in its Final Order.)

Gas utilities are regulated by the Railroad Commission. The treatment of the RRC is consistent; financial incentives are out of rates and customer-related incentives are allowed in. Examples of this treatment can be found in Atmos 9670 Order and Order on Rehearing, Texas Gas Service Company 9988 Final Order, Centerpoint 9902 Final Order and Centerpoint 10106 Final Order. In Docket 9670 both the executive and employee plans for Atmos Mid-Tex were found not to be just and reasonable because they, "advanced the interest of shareholders, and [are] driven by Company earnings." None of the costs of these programs were allowed in rates. In Docket 9988 the RRC found 100% of long-term and 90% of short-term incentives expense was "unreasonable" because it was related to the financial performance of ONEOK Inc. 10% of the short-term plan was allowed in rates because it was based on safety metrics.

Texas 2015: (PUC, Larry Reed, Senior Fuel Analyst, 512-936-7357) No response from Texas PUC at this time. A recent example of the Texas commission's well established policy of excluding financially based incentives is set forth in 2011 rate case of Entergy Texas Inc. (PUC Docket No. 39896). In PUC Docket No. 40295, Entergy's application for rate case expense in the 39896 case, the Commission also disallowed the amount of rate-case expenses related to financially-based incentive compensation. The 40295 Order reads at page 2:

The Commission affirms the proposal for decision regarding the need to reduce Entergy's recoverable expenses due to an unreasonable position pursued by Entergy in the rate case and also affirms the use of the "issue-specific reduction approach" to determine how to calculate an appropriate reduction in rate-case expenses when the utility takes positions that are in conflict with Commission precedent.

Specifically, the Commission agrees with the ALJ that reductions should be made to Entergy's recoverable rate-case expenses for Entergy



attempting to recover financially-based incentive compensation in base rates. The Commission has repeatedly ruled that a utility cannot recover the cost of financially-based incentive compensation because financial measures are of more immediate benefit to shareholders and financial measures are not necessary or reasonable to provide utility services.<sup>9</sup> The Commission concludes that it should follow its well-established policy here.

However, the ALJ did not include all of the impacts attendant to the disallowance for incentive compensation.<sup>10</sup> To calculate the amount of the reduction in rate-case expenses related to financially-based incentive compensation, the Commission starts with Entergy's initial rate-case expense request, reduced by \$208,494 in disallowances made by the ALJ and affirmed by the Commission. The Commission further reduces this amount by an additional \$522,244.66, which is the amount of rate-case expenses related to financially-based incentive compensation using the issue-specific reduction approach.

Texas 2015: (Railroad Commission, Mark Evarts, Director, Market Oversight and Safety Services Division, 512-427-9057) No response from Texas RRC at this time.

Texas 2018: (PUC, Anna Givens, Director, Financial Review, 512-936-7462) The longstanding policy of the Commission is to exclude from rates all financially-based incentives. Incentives based on operational goals may be included in rates. Long-term incentives are typically financially based and are excluded. Executive incentives receive the same treatment. This treatment is not proscribed by statute or rule, but has been the consistent policy of the Commission since 2005 when it issued the Final Order in Docket No. 28840. Recent orders in litigated cases that set forth this treatment include SWEPCO rate cases Docket Nos. 40443 and 46449, and the SPS rate case Docket No. 43695. One recent refinement to the treatment of this issue in Texas is that for plans that are otherwise based on acceptable operational metrics but are paid only if a financial goal is met, only 50% of the portion that is subject to the financially-based proviso is allowed in rates. This split occurs before consideration of the individual components of the compensation plan goals and 100% of incentive plan goals tied directly to financial goals are further excluded. In the SWEPCO proceeding, Docket No. 46449, the Company's EPS funding goal was weighted 75%, so the disallowance was 50% of the 75% weighting and resulted in an adjustment that was less than 50% of the total plan that was otherwise based upon acceptable operational metrics. This refinement reflects that a plan has a financially-based funding trigger and requires employees to meet metrics that include financial goals, in addition to performance-

<sup>9</sup> *Application of AEP Texas Central Company 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); *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).

<sup>10</sup> Docket No. 39896, Order on Rehearing at 5-6, 7-8 (Nov. 2, 2012).

related goals. There are no imminent changes in the PUC's treatment, however there are some efforts to have it codified as a Commission Rule.

**Texas 2018:** (Railroad Commission, Mark Brock, Utility Analyst, 512-463-7018) The Commission handles incentive compensation on a case by case basis.

(Texas Railroad Commission Update) A statute (H.B. 1767) passed in 2019 for gas utilities, but not electric utilities, establishes a rebuttable presumption that short-term incentives for utility employees are reasonable and necessary if the utility can show they are market-based. The statute does not include financial-based incentives for named executives. Also, it is not clear if the statute covers incentives allocated from corporate or from a service company.

**Utah 2007:** (PSC, Jim Logan, Commission Utility Economist (PSC), 801-530-6716) The general policy in Utah is the portion of the plan based on rate payer benefit, such as service quality, is allowed and the portion that relates to earning and rate of return are disallowed. See US West Communications Rate Case Docket 95-049-05; Missouri Corp. Rate Case Docket 97-035-01 Order signed 3/4/99, pp. 10-12.

**Utah 2009:** (PSC, Jim Logan PhD, Commission Utility Economist (PSC), 801-530-6707) The Commission's general policy (backed by orders) is to allow in rates the parts of a plan that are tied to ratepayer benefit and disallow the parts tied to financial goals. Executive incentive compensation is excluded from rates. The recent final order in 07-035-93 follows this general policy. See also US West Communications Rate Case Docket 95-049-05; Missouri Corp. Rate Case Docket 97-035-01 Order signed 3/4/99, pp. 10-12.

**Utah 2011:** (PSC, Carol Revelt, Energy and Electric Economist, 801-530-6711) There have been no changes in Utah's treatment of incentive compensation. The Commission's general policy is to allow in rates the parts of a plan that are tied to ratepayer benefit and disallow the parts tied to financial goals.

**Utah 2015:** (PSC, Carol Revelt, Energy and Electric Economist, 801-530-6711) The Commission's general policy is to allow in rates the parts of a plan that are tied to ratepayer benefit and disallow the parts tied to financial goals. This policy was followed in the PacifiCorp General Rate Case Docket No. 07-035-93, pp. 61-62; the US West Communications Rate Case Docket 95-049-05; and Missouri Corp. Rate Case Docket 97-035-01, pp. 10-12. There are no recent orders on point and no changes in policy are anticipated.

**Utah 2018:** (PSC, Carol Revelt, Energy and Electric Economist, 801-530-6711) The Commission considers incentive compensation on a case by case basis and whether the incentive compensation program is reasonable. Historically the general policy has been to allow in rates the parts of a plan that are tied to ratepayer benefit and disallow the parts tied to financial goals. There have been no recent commission decisions addressing this issue.

Washington 2007: (WUTC, Roland Martin, staff, 360-664-1304) Treated on a case by case basis. Typically allow the component tied to efficiency increases and disallow the part that results from increasing the bottom line. See Docket 061546, Pacific Power and Light, Order

Washington 2009: (WUTC, Roland Martin, staff, 360-664-1304) No change in treatment. Evaluated on a case by case basis, this treatment allows the parts of plans tied to measures such as reliability and customer satisfaction and disallows the parts tied to financial measures and the bottom line.

Washington 2011: (WUTC, Roland Martin, Regulatory Analyst, 360-664-1304) No change in treatment. Still addressed on case by case basis, allowing in rates those incentives that are tied to operational efficiency or other measures which benefit ratepayers, and disallowing incentives based on return on earnings or other measures that benefit the shareholders. Recommended website: [www.utc.wa.gov](http://www.utc.wa.gov).

Washington 2015: (WUTC, Roland Martin, Regulatory Analyst, 360-664-1304) No change in treatment. Still addressed on case by case basis, allowing in rates those incentives that are tied to operational efficiency or other measures which benefit ratepayers, and disallowing incentives based on return on earnings or other measures that benefit the shareholders.

Washington 2018: (WUTC, Amy Andrews, Senior Policy Advisor, 360-664-1304) Washington's treatment of incentive compensation is largely based on previous cases, but remains a case-by-case basis. Generally, Short-term incentives are allowed in rates with Long-term incentives being excluded. There are no recent orders that set forth this treatment.

Wyoming 2007: (PSC, Marci Norby, Senior Rate Analyst, 307-777-5720) Wyoming considers incentive compensation on a case by case basis. The general approach is to determine if the program is reasonable.

Wyoming 2009: (PSC, Marci Norby, Senior Rate Analyst, 307-777-5720) Executive incentive compensation plans are all excluded from rates. Employee incentive compensation plan are evaluated on a case by case basis. Criteria for evaluation include that optional portions of the plans are based on performance goals not financial measures, and the total compensation is compared to a market standard. Currently most employee plans meet these criteria and are allowed in rates.

Wyoming 2011: (PSC, Marci Norby, Senior Rate Analyst, 307-777-5720) Policy here remains the same, distinguishing between employee programs that benefit the ratepayer or the stockholders and requiring the benefitting party to pay. Executive plans are excluded.

Wyoming 2015: (PSC, Marci Norby, Senior Rate Analyst, 307-777-5720) Incentive compensation has not been an issue in some time here. There are no governing regulations, statutes or general policies and the issue would be decided on a case by case basis after considering the history and goals of a program in the context of a rate case. There are no recent orders on point, and no changes in treatment are anticipated.

Wyoming 2018: (PSC, Marci Norby, Senior Rate Analyst, 307-777-5720) There has been no change in the way that incentives are treated in Wyoming. Incentives are generally evaluated on a case by case basis to determine if they are just and reasonable, giving attention to plan goals

and historical context. There are no governing regulations, statutes or general policies in place, and there are no recent orders on point. No changes in treatment are anticipated.

Responding Party: Cities  
Requesting Party: ETI  
Prepared by: N/A  
Sponsoring Witness: N/A

Docket No.: 53719  
Question No.: ETI-CITIES 1-4

**REQUEST:**

ETI-CITIES 1-4      Referencing page 24, lines 10-12, provide all analyses conducted and materials reviewed by Mr. Garrett related to “the number of outages and mobilized response” for “other storms and other utilities.”

**RESPONSE:**

This request was withdrawn by ETI counsel.

Responding Party: Cities  
Requesting Party: ETI  
Prepared by: N/A  
Sponsoring Witness: N/A

Docket No.: 53719  
Question No.: ETI-CITIES 1-5

**REQUEST:**

ETI-CITIES 1-5      Referencing page 24, lines 13-14, provide all analyses conducted and materials reviewed by Mr. Garrett related to the “percent restoration” for “other Entergy operating companies or other utilities.”

**RESPONSE:**

This request was withdrawn by ETI counsel.

The following files are not convertible:

WP.xlsx	53719 Resp to ETI-Cities 1-1 ODonnell
WP.xlsx	53719 Resp to ETI-Cities 1-1 Sch_NJG-3
Schedule_NJG-1 WP.xlsx	53719 Resp to ETI-Cities 1-1

Please see the ZIP file for this Filing on the PUC Interchange in order to access these files.

Contact [centralrecords@puc.texas.gov](mailto:centralrecords@puc.texas.gov) if you have any questions.