

Monica Karuturi, Executive Vice President and General Counsel, and Lynne Harkel-Rumford, Executive
 Vice President and Chief Human Resources Officer, distribute backpacks during the CenterPoint Energy
 Community and Family Day at the National Urban League Conference in Houston.

5	Through our ongoing commitment to diversity, the Foundation supports our
6	core giving areas of education and community vitality, develops relationships with
7	new and existing partners, and works to ensure our involvement has a long-term
8	positive impact. The Foundation proudly supported the National and Houston Area
9	Urban Leagues during the National Urban League Conference held in Houston in
10	June 2023, which hosted more than 8,500 attendees. CenterPoint Energy supported
11	the Community and Family Day Expo, welcoming thousands of families from
12	throughout the city to take advantage of key community services, including
13	backpacks and school supplies.
14	The Foundation also responds to communities during times of disaster and
15	plays an essential role in providing disaster relief grants to support recovery efforts.
16	The Foundation responded to devastating tornadoes and severe storms that

1		hit Baytown, Deer Park, and Pasadena in January 2023. Shortly after the tornadoes
2		struck, we began reaching out to operations leadership, elected officials,
3		community leaders, and nonprofit organizations to assess needs and determine how
4		we could help.
5		The Foundation contributed \$50,000 to the following organizations:
6		• Salvation Army (\$10,000): Hot meal distribution and shelter placement
7		assistance in Pasadena and Deer Park;
8		• Baker Ripley Pasadena Campus (\$10,000): Food, shelter and tarp
9		distribution in Pasadena and Deer Park;
10		• Clothed by Faith (\$10,000): Served clothing needs for students in Deer
11		Park, Pasadena, and Goose Creek Independent School Districts;
12		• United Way of Greater Baytown and Chambers County (\$10,000):
13		Supported the local community with restoration and resident support
14		services; and
15		• Pasadena Animal Shelter (\$10,000): Shelter was destroyed by the tornado;
16		they worked to re-home animals while they rebuild the facility.
17	Q.	DESCRIBE THE COMMUNITY OUTREACH PROGRAMS AND
18		ACTIVITIES CONDUCTED BY THE COMMUNITY RELATIONS
19		DEPARTMENT.
20	A.	Community Relations conducts a variety of community outreach programs and
21		activities as follows:
22		Blood Drive Program. Community Relations staff members manage
23		employee blood drives throughout the year, recruiting volunteer donors from

1 CenterPoint Houston and its affiliates and coordinating efforts with local blood 2 centers to ensure an adequate community blood supply. This is largely an internal 3 although Community Relations also partners with community effort. 4 representatives and organizations during the year to carry out community blood 5 drives. During the test year, CNP's facilities across Greater Houston hosted 103 blood drives and employees donated 2,535 units of whole blood, plasma, and 6 7 platelets. Because the Blood Center estimates that one unit of blood can save three 8 lives, our employees' contributions may have impacted more 7,000 lives. 9 CenterPoint Houston's workforce participation in this program and noteworthy 10outside recognition are the result of a concerted internal coordination effort 11 provided by Community Relations staff.

12Right Tree, Right Place Program. Community Relations supports the 13 Right Tree, Right Place program through which CenterPoint Houston and its 14 business units, including CenterPoint Houston, partner with a host of nonprofit 15 organizations and local governments to educate customers about where to plant the 16 most appropriate trees. Through Right Tree, Right Place, CNP is not only investing 17 in community beautification projects, but also balancing environmental 18responsibility, delivering reliable electric service, and reducing safety hazards. 19 This program helps to reduce vegetation and power line interaction along public 20 rights-of-way, parks, and schools. During the test year, CNP volunteers planted 21 and/or donated nearly 4,000 trees, distributed 2,000 tree seedlings, and gave away 22 1,400 trees through the Energy Saving Trees promotion. Through Energy Saving 23 Trees, CNP partners with the Arbor Day Foundation and Trees for Houston to

inform customers about where to plant trees on their property to maximize energy
savings, with the goals of reducing energy usage, reducing storm water runoff,
improving air quality, and increasing neighborhood beautification. In addition,
CNP provides real estate space at one of its centrally located service centers and
allows Trees for Houston to maintain an active tree nursery on the property. The
tree nursery houses more than 3,000 trees that are used for community projects and
events year-round.

8 Corporate Volunteerism Program. Community Relations facilitates 9 CNP's employee volunteer opportunities across the Greater Houston area 10 throughout the year. In addition to providing needed assistance for community 11 projects, the program serves as a team-building tool for leaders, encouraging 12 employees to give their personal time and expertise to the community. During the test year, CNP employees reported 34,633 volunteer hours contributed across the 13 14 Greater Houston area. Based upon the hourly rate estimated by the Independent 15 Sector, a national, non-partisan coalition that conducts an annual assessment of the 16 dollar value of volunteer time, CNP employees contributed the equivalent of more 17 than \$1.1 million of their time to the community.

Volunteer activities include fundraisers for nonprofit organizations such as
the March of Dimes March for Babies; UNCF Walk for Education; food and
clothing drives; Junior Achievement ("JA") classroom, and education programs.
In addition, CNP and its employees support United Way and its affiliated agencies.
Forty-five percent of CNP's employees made United Way pledges in 2023, and a
total of \$552,698 was pledged by employees across the Greater Houston area. CNP

is ranked as one of the top 10 corporate campaigns by the United Way of Greater
 Houston. Employees also volunteer their time with United Way in various
 leadership roles on boards and committees.

Communities expect and depend upon local businesses to support civic improvement efforts through volunteer programs and other resources. That expectation certainly extends to CenterPoint Houston, and CNP meets those expectations proudly. None of the employee contributions described above are part of the Company's requested cost of service.

9 Community Outreach Programs. We invest employee intellectual capital in the nonprofit sector by having our employees serving on boards of organizations 10 and helping them to identify new processes that often result in an immediate 11 12 payback to the community. During the test year, 35 CNP senior leaders served on nonprofit Boards of Directors in the Greater Houston area, including the following: 13 14 Jason Wells, President and CEO, serves on the boards of M.D. Anderson • 15 Cancer Center and the Greater Houston Partnership, as well as the Advisory 16 Board of the Kinder Institute for Urban Research.

- Monica Karuturi, EVP and General Counsel, serves as chair of the board of
 directors for the Houston Bar Foundation and is a member of the Houston
 Pro Bono Joint Initiative Planning Committee.
- Jason Ryan, EVP, Regulatory Services and Government Affairs, was
 appointed by Texas Governor Perry to the Texas Diabetes Council
 (2013-2109) and was re-appointed by Texas Governor Abbott (2019-2025).

- Lynnae Wilson, SVP, Electric Business, currently serves on the board for
 the United Way of Greater Houston.
- Al Payton, VP of Safety and Technical Training, serves on the board of the
 Houston Community College Foundation.
- I previously served on the board of the Make-A-Wish Foundation of the
 Texas Gulf Coast and currently serve on the board of Compudopt, a national
 nonprofit based in Houston that provides refurbished computers and access
 to connectivity to under-resourced youth and families.

9 Q. DESCRIBE THE EDUCATION RELATIONS PROGRAMS AND 10 ACTIVITIES CONDUCTED BY THE COMMUNITY RELATIONS 11 DEPARTMENT.

- 12 Recognizing the strong link between regional economic health, workforce Α. 13 development and education, CNP has long been engaged in community education 14 improvement initiatives. Community Relations works in partnership with leading 15 business-education organizations to promote high academic standards, reduce 16 student dropout rates, enhance student preparation for life after high school, and 17 increase school accountability. Through CNP's participation on several 18 Partnership committees, we collaborate with other companies to support schools 19 and nonprofit organization activities that develop applicants to meet the future 20hiring needs in the Houston area.
- 21 Community Relations educational programs include the following:

1 Safety education programs for children and adults. Through nonprofit 2 partner activities, provision of resource materials, and the Electric Universe Web application, CenterPoint Houston makes available a wide range of safety 3 information to students, teachers, and parents. Community Relations offers a 4 5 variety of electricity- and industry-related publications for teachers and students to 6 all public, private, parochial, and home schools within the Company's Houston 7 service territory. Through the Electric Universe website, we also reached thousands 8 more students and teachers with information on basic electricity, safety, energy 9 conservation, and career development.

10CNP also partners with Houston Audubon, a regional nonprofit 11 conservation, education, and advocacy group that focuses on protecting the natural 12 environment for birds and people through their youth education programs. CNP 13 employees volunteer to collect bird census data through the National Audubon 14 Society's Christmas Bird Count Program. This data is important in evaluating bird 15 species distribution across CenterPoint Houston's electric service territory and 16 guiding avian protection efforts. Houston Audubon is a strategic partner for sharing 17 powerline safety information with each school group that visits the center.

Junior Achievement. CNP has a longstanding partnership with JA of Southeast Texas, especially in teaching at-risk youth about business, personal financial literacy, and careers. CNP recruits employee volunteers to visit Houston area classrooms to share JA lessons, especially about the skills and education needed to secure future careers. These "Your Career, Your Future" presentations are designed to motivate middle and high school students to pursue a rigorous high

1 school curriculum. Volunteers also facilitate student visits to JA's Biztown, 2 promoting greater awareness of our community's economy, as well as personal 3 financial literacy. CNP volunteers reached more than 25,000 students in the greater 4 Houston area with JA in the 2022- 2023 school year. JA surveys show that students 5 who participate in a JA program are 67% more likely to attain an advanced degree б compared to students who have not participated in a JA program. The Foundation 7 supported JA's education program in 2023, and employees mentored ninth-grade 8 students and program participants from Houston Independent School District's 9 Waltrip High School. CNP hosted more than 50 Waltrip High School students in 10 downtown Houston and allowed the students to present their final projects before a 11 panel of judges, which consisted of CNP executives.

Career Awareness and Workforce Development. CNP partners with 12 13 school districts across the Greater Houston area to help schools prepare students for 14 college and careers by offering additional support and enrichment by our employee 15 advisors through Career Technical Education ("CTE") Partnerships. CNP 16 supported the following school districts in 2023: Alief; Aldine; Brazosport; Crosby; 17 Fort Bend; Galena Park; Goose Creek; Houston; Katy; Pasadena; Santa Fe; Spring; 18 and Spring Branch Independent School Districts. Support took the form of CNP 19 representatives serving on advisory committees for these school districts to coach 20 technical training teachers on skills needed in our workforce. These CTE 21 partnerships offer CenterPoint Houston an opportunity to share workplace 22 expectations with students, including those pertaining to employee and workplace 23 safety.

1 In May 2023, the Texas Education Association (TEA) invited CNP to 2 appoint a representative to the Texas CTE Advisory Committee. Theresa Sauls, Community Relations Lead, was invited and currently serves on the TEA CTE 3 4 Advisory Committee. In support of our future workforce, CNP hosted more than 5 80 Career and Technical Education (CTE) Instructors, Coordinators, and Directors from 14 Houston-area school districts at our newly designed HOC training facility 6 7 in Houston to share the latest utility career opportunities. The event also allowed us 8 to share current job opportunities with CenterPoint Energy available for students 9 following their high school graduation. Our CTE guests met and fielded questions 10 with our Human Resources team, senior leadership from Electric Operations, 11 Technical Training managers, and Safety.



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- 13 CenterPoint Energy hosts and provides hands-on demonstrations for Houston school district CTE
- 14 Coordinators and Instructors at the new HOC training facility in Houston.

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CNP supports numerous career awareness and readiness activities for minority youth each year, including long-term high school internships through Genesys Works' internship programs.

4 CNP strives to educate and promote female interest in STEM (science, 5 technology, engineering, and math) careers. CNP supports annual events for 6 middle and high school girls, including the Greater Houston Women's Chamber of 7 Commerce and the Girls Empowerment Network Festival. CNP's professional network of female engineers has a partnership with the students in the WISE 8 9 (Women in Science and Engineering) club at HISD's Carnegie Vanguard High 10 School. These two groups interact through meetings, projects, and field trips. 11 Schools and students in the communities where the CNP operates and provides 12 service, including the communities CenterPoint Houston serves, benefit from 13 support from many sources (businesses, nonprofits, parents, and community 14 volunteers). Communities expect local businesses to be involved in school 15 improvement efforts, and CNP welcomes the opportunity to meet those needs and 16 Community educational support programs provide significant expectations. 17 benefits to society and support the utility's own workforce development needs.

HOW DOES COMMUNITY RELATIONS DEVELOP AND EVALUATE 18 Q.

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ITS PROGRAMS?

20Α. Community Relations reviews reports and information annually from social service 21 experts and noted demographers for societal trends and gaps, ranging from the 22 United Way of Greater Houston to the Kinder Institute's annual demographic report 23 and the Houston Area Survey. In addition, Community Relations benchmarks CNP

1 against peer utilities and other major companies by participating in the Chief 2 Executives for Corporate Purpose ("CECP") Giving in Numbers survey. CECP is a CEO-led coalition of more than 200 of the world's largest companies that 3 conducts an annual in-depth analysis of corporate giving and employee engagement 4 5 data with The Conference Board. The Conference Board is a global, independent 6 business membership and research non-profit association working in the public interest. Because of our engagement with these surveys, CNP is then able to review 7 8 best practice reports, benchmarking, and trends within corporate citizenship. These 9 reports, coupled with recommendations from Company leadership and input from community leaders, help shape the focus of our programs and efforts. On the latter, 10 11 we proactively engage with community, civic, and nonprofit leaders across our Greater Houston service territory to better understand key issues and needs, and 12 13 how the CNP Foundation may be able to assist through charitable contributions.

Community Relations tracks employee volunteer involvement, seeking to encourage employee participation across CNP's business units and to compare CNP's employee participation rate to figures reported by respected companies throughout the nation. Participants in CNP-sponsored activities and Community Relations programs are regularly surveyed to gauge satisfaction and obtain recommendations for improvements.

20 Q. DESCRIBE CENTERPOINT HOUSTON'S APPROACH TO HANDLE 21 CHARITABLE CONTRIBUTIONS AND MEMBERSHIPS.

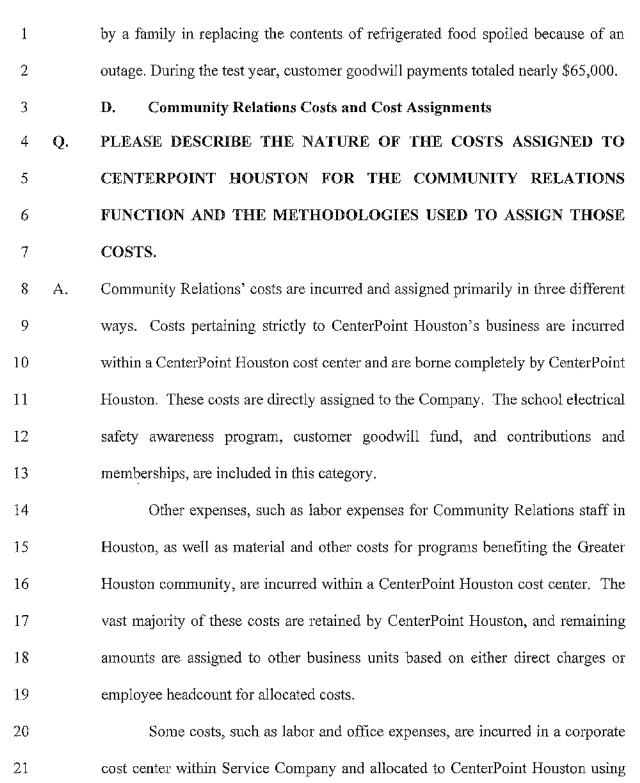
A. In addition to the Foundation contributions, CenterPoint Houston makes charitable
 contributions to various organizations within the communities the Company serves

1 and maintains memberships in business and civic organizations. Community 2 Relations coordinates the budgeting process for all contributions and memberships. The Community Relations team also manages the process for CenterPoint Houston 3 and coordinates the approval for contribution and membership budgets for all other 4 5 operating units of CNP. By having a single point of coordination for contributions 6 and memberships, CNP ensures: (1) there is no inadvertent duplication of efforts; (2) all contributions and membership decisions receive an appropriate level of 7 review and approval by senior management; and (3) CNP maximizes its ability to 8 9 leverage its community outreach and volunteer efforts with these dollars.

Contributions include all cash gifts, educational scholarships and grants, and contributions of equipment, property, and services.

10 Q. WHAT IS THE CUSTOMER GOODWILL PROGRAM?

As a good corporate citizen and neighbor, CenterPoint Houston has established a 11 A. 12 goodwill fund to assist residential customers who have suffered losses due to electrical fluctuations or interruptions that are otherwise excluded from payment by 13 CenterPoint Houston's Tariff for Retail Delivery Service. To qualify, these losses 14 15 must have resulted from electrical fluctuations or interruptions not caused by the individual or a third party. The Claims Department investigates each claim, and if 16 17it is determined that the resident or third party meets the criteria and the claim 18 amount is reasonable, then the claim and estimate(s) are forwarded to the Director 19 of Community Relations for payment. As an example, this mechanism would allow 20 CenterPoint Houston to make a modest donation to cover some of the costs incurred



the composite ratio methodology Mr. Storey discusses in his testimony. As Mr.
 Storey explains, the cost allocation methodologies used to assign Community
 Relations costs to the Company ensure that CenterPoint Houston is charged for Direct Testimony of John Sousa
 CenterPoint Energy Houston Electric, LLC

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services at rates that are no higher than those charged to other CNP business units
 for the same services. In addition, those services are provided to CenterPoint
 Houston at cost.

4 Q. HOW DOES COMMUNITY RELATIONS MONITOR EXPENSES TO 5 ENSURE COSTS INCURRED ARE REASONABLE AND NECESSARY 6 AND THAT COSTS ARE PROPERLY ASSIGNED?

- Community Relations' budget is established annually as part of CNP's budget 7 Α. 8 process. Each year, in consultation with the various business units that Community Relations supports, the department identifies projects that support a business unit's 9 10 strategic objectives. Community Relations uses an annual-based budgeting process 11 in developing its plan for the following year. Expenditures are tracked on a monthly 12 basis, including recording and reviewing the basis for any variances and adjusting accordingly. Up until February 2024, all Community Relations expenses were 13 14 monitored by me and my leadership team, and the Service Company's Finance organization. 15
- 16 E. Utility Marketing Services Provided to CenterPoint Houston
- 17 Q. PLEASE DESCRIBE THE ROLE AND FUNCTION OF THE UTILITY
 18 MARKETING DEPARTMENT.
- A. The Utility Marketing group is responsible for communicating important
 operational, service, and safety information to residential, commercial and
 industrial end-use customers, the general public, and other stakeholders. This
 group designs and produces, alone or in collaboration with agency partners, a
 variety of materials in print, digital, and multi-media formats to raise awareness
 and understanding of electric safety and service through multiple channels,
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 CenterPoint Energy Houston Electric, LLC

including advertising (television, radio, outdoor, print, internet, social media,
streaming audio), the Company's website, social media (Facebook, Twitter,
LinkedIn, YouTube), email, IVR and on-hold scripts, newsletters, videos, speeches,
and presentations. This group manages the Company's brand and corporate
sponsorships and collaborates closely with related functions such as customer
service, community relations, media relations, and research.

7 The Utility Marketing group is also responsible for the development and 8 execution of marketing strategies that support operational expense reduction and 9 customer experience initiatives. Functions within the team include product and 10 program marketing, customer education and awareness, and market research and 11 consumer insights.

12 Q. DOES MARKETING PROVIDE SERVICES TO ANY NON-AFFILIATED 13 ENTITIES?

A. No. Utility Marketing only provides services to CenterPoint Energy and its
subsidiaries, including CenterPoint Houston.

16 Q. WHAT SPECIFIC SERVICES DOES UTILITY MARKETING PROVIDE 17 TO CENTERPOINT HOUSTON AND ITS END-USE RETAIL ELECTRIC 18 CUSTOMERS?

19 A. Utility Marketing provides a variety of services, including the following:

Safety Messaging. During the test year, the Company executed a mass
 market electric safety awareness campaign in English and Spanish that delivered
 more than 69.2 million impressions to Houston Electric service area stakeholders,
 including general market (adults 18 to 64 years), construction workers, and children

(K2 to 12th grade) via an optimized channel mix of traditional broadcast and streaming TV platforms, radio, print, billboards, and digital (static display/static Facebook social/Facebook streaming video/social) ads. For more targeted reach to the contractor community, convenience store ice boxes (as shown below) and food truck wraps were also produced in Spanish.

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8 Infrastructure Enhancement Messaging. During the last six months, the 9 Company executed a campaign to inform customers of the electric infrastructure 10 enhancements being made focused on grid reliability and resiliency, highlighting 11 the benefits for customers. Campaign elements included an email to 940,000 12 customers and information posts on the Company's social media channels.

Power Alert Service. The Utility Marketing group supports the growth and continued success of the Company's Power Alert Service program, which delivers in-the-moment notifications about outage and restoration events at or near the customer's home. As Company witness Shonda Royston-Johnson testifies, these alerts have achieved a Customer Satisfaction score of 87.92%. The Power

Alert Service also reduces registered user calls made to the Company Contact
 Center during outage events.

In 2023, the Company reached more than 1 million customers through 3 social media during dozens of weather events in addition to delivering more than 4 16 million email, text and phone messages through Power Alert Service. 5 CenterPoint Houston's electric utility web pages, which promote electric safety, 6 efficiency, and technology, as well as Power Alert Service, received 5.4 million 7 page views. In 2023, the Company implemented a machine learning process that 8 predicts a customer's estimated time of restoration based upon several factors from 9 10 field personnel to location of the outage.

11 Market Research and Analytics. Through Market Research and Analytics, transactional surveys are designed and monitored for service delivery, 12 13 quality, and customer satisfaction. The monitoring and analysis of syndicated 14 quarterly surveys is also a key focus area, and collectively these two different 15 survey types are used to help build revised strategies and initiatives. Additionally, the team executes research studies to help drive innovation and gauge customer 16 preferences for programs and services. 17

18Awards & Recognition. Lastly, as noted in the testimony of Company19witness Shonda Royston-Johnson, according to the American Customer20Satisfaction Index ("ACSI"), ¹ in 2023 the Company ranked second among21investor-owned utilities in customer satisfaction. This success demonstrates that

¹ ACSI measures the satisfaction of U.S. consumers with the quality of products and services offered by firms. ACSI company website: <u>https://theacsi.org/industries/energy-utilities/</u>.

customer satisfaction is very high even as the Company works to reduce its customers' outage time and service interruptions, as further discussed by Company

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customers' outage time and service interruptions, as further discussed by Company witnesses Eric Easton, Mandie Shook, and Deryl Tumlinson. In addition to managing syndicated research platforms, the team also

5 conducts, analyzes, and reports on customer and stakeholder opinion research. This 6 research facilitates the development of products and services, such as our ServiceConnect commercial construction micro website. In addition to the 7 extensive informational resources already hosted on the site, two new portals were 8 9 added during the test year. Both the Joint Trench and Major Underground portals provide customers an enhanced user experience with easy access for the uploading 10 11 of critical job-related documents and tracking of construction status. Post-transaction survey research and customer satisfaction results are also used to 12 13 identify improvement opportunities throughout the organization.

14 F. Utility Marketing Costs and Cost Assignments

Q. PLEASE DESCRIBE THE NATURE OF THE COSTS ASSIGNED TO
 CENTERPOINT HOUSTON FOR THE MARKETING FUNCTION AND
 THE METHODOLOGIES USED TO ASSIGN THOSE COSTS.

A. Utility Marketing budgets each year in collaboration with CenterPoint Houston
 Utility Operations, Safety, and Business partners. Costs are incurred and assigned
 primarily in different ways. Costs pertaining strictly to CenterPoint Houston's
 business are incurred within a CenterPoint Houston cost center and are borne
 completely by CenterPoint Houston. These costs are directly assigned to the

Company and include electric safety, energy efficiency, and Power Alert Service
 education efforts.

Other expenses, such as labor expenses for Utility Marketing staff in Houston, as well as material and other costs for programs benefiting the Greater Houston community, are incurred within a CenterPoint Houston cost center. The vast majority of these costs are retained by CenterPoint Houston and remaining amounts are assigned to other business units based on either direct charges or employee headcount for allocated costs.

9 Some costs, such as labor and office expenses are incurred in a corporate 10 cost center within Service Company and allocated to CenterPoint. Mr. Storey 11 discusses this in his testimony. As Mr. Storey explains, the cost allocation 12 methodologies used to assign Utility Marketing costs to the Company ensure that 13 CenterPoint Houston is charged for services at rates that are no higher than those 14 charged to other CNP business units for the same services. In addition, those 15 services are provided to CenterPoint Houston at cost.

16 G. Corporate Security Services Provided to CenterPoint Houston

17 Q. PLEASE DESCRIBE THE ROLE AND FUNCTION OF THE CORPORATE

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SECURITY DEPARTMENT.

A. Corporate Security provides corporate support services from Service Company
 with oversight of the Security Operations Center that is part of electric utility
 operations. It operates the Security Operations Center in Houston and provides the
 investigative services, guard services, and electronic security systems necessary to
 protect CNP personnel and assets. Corporate Security collaborates with local, state,
 and federal law enforcement agencies to create working groups and
 Direct Testimony of John Sousa
 CenterPoint Energy Houston Electric, LLC

intelligence-sharing platforms that focus on risk analysis and identifying mitigation
 controls to enhance the integrity of the Texas energy grid's critical infrastructure.

3 Q. DOES CORPORATE SECURITY PROVIDE SERVICES TO ANY 4 NON-AFFILIATED ENTITIES?

- 5 A. No. Corporate Security only provides services to CNP and its subsidiaries,
 6 including CenterPoint Houston.
- Q. WHAT SPECIFIC SERVICES DOES CORPORATE SECURITY PROVIDE
 TO CENTERPOINT HOUSTON AND ITS END-USE RETAIL ELECTRIC
 CUSTOMERS?
- 10 A. Corporate Security develops and manages programs, technology, and security 11 guard services that protect the Company and its electric customers through the 12 identification and analysis of risks to CNP personnel, assets, knowledge, and 13 organizational reputation. Corporate Security subsequently develops risk 14 mitigation strategies in support of business objectives and enterprise success. 15 Specific Corporate Security Programs include:
- 16The Security Operations Center ("SOC"). The SOC's staff monitors all17digital facility access controls, as well as monitors all security camera and alarm18systems throughout the enterprise 24-hours-per-day, 7-days-per-week. The SOC19responded to 375 incident reports for CenterPoint Energy Houston in 2023.

20 Security Guard Services. Corporate Security manages the uniformed 21 security guard services at all CNP facilities throughout the enterprise and dispatch 22 mobile security guard crews to infrastructure, construction, and project sites or 23 additional offsite work being performed where a risk to personnel or Company

property is present. Corporate Security directly managed and deployed more than
 500 uniformed contract service guards to support security operations at more than
 490 CenterPoint Energy Houston-owned sites in 2023.

Engagement of Law Enforcement. Corporate Security manages all 4 5 off-duty law enforcement engagement and contracts when an enterprise risk or 6 vulnerability requires a law enforcement protection component. For example, if 7 field-based working crews receive direct threats of physical harm, then uniformed 8 police officers are contracted for security operations. Corporate Security dispatched 9 1,035 off-duty police officers to more than 430 sites in CenterPoint Houston in 10 2023. We utilize contracted off-duty partnerships with local police officers to 11 protect people and uniformed contract Security Guards to protect property. Another example of our partnership with local law enforcement agencies is Corporate 12 13 Security Specialists working directly with metal theft task forces to reduce the 14 frequency and impact of material theft such as copper.

15 **Physical Security Controls**. Corporate Security designs and implements 16 all physical security controls for all critical infrastructure facilities to meet the 17 required standards of regulatory agencies and maintain compliance of all 18 security-related systems and programs.

Internal Investigations. Corporate Security performs all internal
 investigations for crimes against the Company, as well as for unlawful or unethical
 activities or behavior of employees or contractor employees representing the
 Company or performing work on a CNP or CNP end-user customer property.

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H. Corporate Security Costs and Cost Assignments
 Q. PLEASE DESCRIBE THE NATURE OF THE COSTS ASSIGNED TO
 CENTERPOINT HOUSTON FOR THE CORPORATE SECURITY
 FUNCTION AND THE METHODOLOGIES USED TO ASSIGN THOSE
 COSTS.
 A. The costs assigned to CenterPoint Houston for the Corporate Security function

A. The costs assigned to center our Houston for the corporate becally function
 include periodic upgrades to the Security Operations Center, design and installation
 of security controls for new facility construction and existing facility security
 control enhancements. Each of these investments is necessary to operate
 CenterPoint Houston as safely as possible.

11 Q. DOES CORPORATE SECURITY INCUR COSTS THAT ORIGINATE 12 WITHIN CENTERPOINT HOUSTON?

A. Yes, certain costs incurred for a specific business unit such as CenterPoint Houston
are not further distributed within CNP; an example is costs identified to the Security
Operations Center.

16 Q. DOES CORPORATE SECURITY ROUTINELY UTILIZE THIRD-PARTY

17 SERVICES TO SUPPORT CENTERPOINT HOUSTON?

- A. Yes, third-party services are routinely used by Corporate Security. For example,
 third-party costs are routinely incurred by Corporate Security to provide physical
 and technological services, including guard service and electronic security systems.
 These third-party costs are paid directly by CenterPoint Houston where applicable.
 There are some third-party costs that support centralized services, and those costs
 are incurred within its incurred cost structure and handled like routine affiliate
- 24 costs.

- III. <u>CONCLUSION</u>
- 2 Q. DOES THIS CONCLUDE YOUR TESTIMONY?
- 3 A. Yes.

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STATE OF ALCA \$ COUNTY OF Hannes \$

AFFIDAVIT OF JOHN SOUSA

BEFORE ME, the undersigned authority, on this day personally appeared John Sousa who having been placed under oath by me did depose as follows:

- 1. "My name is John Sousa. I am of sound mind and capable of making this affidavit. The facts stated herein are true and correct based upon my personal knowledge.
- 2. I have prepared the foregoing Direct Testimony and the information contained in this document is true and correct to the best of my knowledge."

Further affiant sayeth not.

1991 1018

SUBSCRIBED AND SWORN TO BEFORE ME on this <u>15</u>th day of February, 2024.

Notary Public in and for the State of ARAM

My commission expires: January 26, 2027 BIANCA BIANCA NOTARY ID #13416793-4 My Commission Expires January 26, 2027 NOTARY ID #13416793-4

THERE ARE NO WORKPAPERS TO THE DIRECT TESTIMONY OF JOHN SOUSA

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PUC DOCKET NO. 56211

\$ \$ \$

APPLICATION OF CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC FOR AUTHORITY TO CHANGE RATES PUBLIC UTILITY COMMISSION

OF TEXAS

DIRECT TESTIMONY

 \mathbf{OF}

BERTHA R. VILLATORO

ON BEHALF OF

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

MARCH 2024

TABLE OF CONTENTS

EXE	CUT	IVE SUMMARYES-1	
I.	INT	RODUCTION1	
II.	PUR	POSE AND SCOPE OF TESTIMONY2	
III.	SERVICE COMPANY HR ORGANIZATION, SERVICES, AND COSTS		
IV.	RECOVERY OF COMPENSATION AND BENEFITS COSTS11		
V.	BASE PAY AND INCENTIVE COMPENSATION		
	А.	Base Pay	
	Incentive Compensation		
		1. Short-Term Incentive Plan	
		2. Long-Term Incentive Plan	
C. One-Time Payment to Account for Inflation			
	D.	Base Pay and Incentive Compensation Summary	
VI.	BEN	JEFITS40	
	А.	Health and Welfare Plans 42	
	В.	Retirement Plan and Benefit Restoration Plan 44	
	C.	Savings Plan and Savings Restoration Plan 46	
	D.	Postretirement Benefits	
	E.	Postemployment Benefits	
	F.	Deferred Compensation Plan	

LIST OF EXHIBITS

EXHIBIT BRV-1	PURA § 36.067
EXHIBIT BRV-2	Willis Towers Watson 2023 General Rate Case Total
	Compensation Study (Confidential)
EXHIBIT BRV-3	2023 Compensation Surveys (Confidential)
EXHIBIT BRV-4	2022-2023 WorldatWork Salary Budget Survey
	(Confidential)
EXHIBIT BRV-5	Fredric W. Cook & Co. 2023 Top 250 Report
EXHIBIT BRV-6	2023 Short-Term Incentive Plan Goals
EXHIBIT BRV-7	Meridian Compensation Partners Incentive Plan Analysis
	(Confidential)
EXHIBIT BRV-8	2020-2023 Long-Term Incentive Plan Goals (Confidential)
EXHIBIT BRV-9	Willis Towers Watson Benefits Data Source (Confidential)
EXHIBIT BRV-10	AON Utility Industry Benchmarking Report (Confidential)

GLOSSARY OF ACRONYMS	AND DEFINED TERMS
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Acronym	Definition
BRP	Benefit Restoration Plan
CenterPoint Houston	CenterPoint Energy Houston Electric, LLC
CNP	CenterPoint Energy, Inc.
Commission	Public Utility Commission of Texas
Company	CenterPoint Energy Houston Electric, LLC
Cook	Frederic W. Cook & Co., Inc.
CPA	Competitive Pay Adjustment
HR	Human Resources
LTI	Long-Term Incentive
MRP	Market Reference Point
PSUs	Performance-Based Restricted Stock Units
PURA	Public Utility Regulatory Act
RSUs	Time-Based Restricted Stock Units
Service Company	CenterPoint Energy Service Company, LLC
SRP	Savings Restoration Plan
STI	Short-Term Incentive
WTW	Willis Towers Watson

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EXECUTIVE SUMMARY – HUMAN RESOURCES (BERTHA R. VILLATORO)

3 CenterPoint Energy, Inc.'s ("CNP") commitment to putting the customer at the 4 center of everything we do results in an organization that prides itself on its ability to 5 consistently provide reliable, value-added service to customers. Through the employment 6 of state-of-the-art centralized sourcing and staffing practices through CNP's subsidiary, 7 CenterPoint Energy Service Company, LLC ("Service Company"), CNP operates in a cost-8 effective and cost-efficient manner in recruiting, developing, and retaining high quality 9 employees. CNP's total compensation and benefits package is reasonable, necessary, and 10 allows CNP to remain competitive when compared to peer utilities and when compared to 11 other companies that CNP must compete with to recruit and retain high quality employees. 12 In developing its total compensation and benefits package CNP relies on market studies 13 that analyze the employment marketplace to maintain and confirm that CNP's 14 compensation plans and levels from a "total compensation" perspective are comparable to 15 the market. To recruit and retain a talented and experienced labor force, CNP must also 16 provide a comprehensive set of benefits to meet its employees' health, welfare and 17 financial security needs. CNP does this in an affordable and efficient manner, with the 18 overall value of the total compensation and benefits package targeted at the midpoint or 19 median of the marketplace. Through the implementation of this compensation and benefits 20 philosophy, CNP provides cost effective compensation and benefits and attracts and retains 21 high-quality employees. As a result, end-use customers of CenterPoint Energy Houston 22 Electric, LLC ("CenterPoint Houston" or the "Company") benefit and receive superior service from experienced and committed professionals. 23

1 My testimony:

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- describes Service Company's centralized Human Resources ("HR") organization, the services that it provides to the Company, the benefits customers receive, and the reasonableness of costs that have been allocated to the Company;
- sets forth CNP's compensation and benefits philosophy and efforts to
 ensure that compensation and benefit plans and levels are sufficient to
 recruit, retain and engage the workforce needed to serve the Company's
 customers;
- describes CNP's benefits philosophy, which leverages CNP's size and the
 expertise of its HR staff to secure the best value for CNP's benefits
 expenditures;
- demonstrates that the compensation and benefits for which costs are
 included in the rate request are consistent with recent market studies and are
 therefore presumed to be reasonable and necessary in accordance with a
 new statute, Public Utility Regulatory Act ("PURA") § 36.067;
- describes the types of health and welfare benefits that CNP provides to its
 employees, retirees, and individuals on long-term disability;
- addresses CNP's efforts to control benefits costs, how benefit costs are charged to CenterPoint Houston, and the reasonableness of healthcare costs;
- explains CNP's retirement plan, benefits restoration plan, savings plan,
 savings restoration plan, deferred compensation plan, and the
 reasonableness of these plans and their associated costs; and
 - supports the Company's expense requests related to postretirement, and postemployment benefits.
- 26 Together with the exhibits attached to my testimony, this evidence demonstrates
- 27 that Service Company's HR services are appropriate, and the compensation and benefits
- 28 costs included in the Company's rate request are reasonable and necessary. In addition,
- 29 CNP's total compensation and benefits package is reasonable, necessary and competitive
- 30 when compared to other utility companies as well as companies it competes with for talent.
- 31 For this reason, the Public Utility Commission of Texas ("Commission") should find that
- 32 the portions of Service Company's costs and CNP's compensation and benefits included

- 1 in the Company's cost of service are reasonable and necessary expenses that should be
- 2 recovered to provide safe and reliable service to customers of CenterPoint Houston.

1		DIRECT TESTIMONY OF BERTHA R. VILLATORO		
2		I. <u>INTRODUCTION</u>		
3	Q.	PLEASE STATE YOUR NAME, EMPLOYER, POSITION, AND BUSINESS		
4		ADDRESS.		
5	A.	My name is Bertha R Villatoro. I am the Senior Vice President, Human Resources		
6		for Service Company. Service Company is a wholly owned subsidiary of CNP,		
7		which provides centralized support services to CNP's operating units, including		
8		CenterPoint Houston. My business address is 1111 Louisiana St., Houston, Texas		
9		77002.		
10	Q.	WHAT ARE YOUR RESPONSIBILITIES AS SENIOR VICE PRESIDENT,		
11		HUMAN RESOURCES?		
12	А.	In my current role, I oversee employees responsible for the strategy, design,		
13		implementation and administration of compensation and benefits, including		
14		incentive plans, for CNP executives and employees. I oversee talent management		
15		strategies enterprise-wide, including employee and labor relations, talent		
16		acquisition, and diversity and inclusion. I also oversee the technologies that support		
17		Human Resources.		
18	Q.	PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND,		
19		PROFESSIONAL QUALIFICATIONS, AND PREVIOUS WORK		
20		EXPERIENCE.		
21	A.	In 2005, I graduated from Texas A&M University with a Bachelor of Science		
22		degree in Business Administration. I received an MBA from Rice University in		
23		2013. I have been employed by Service Company as an HR professional since		

	2015. In my current role, I provide leadership in the design and administration of
	compensation and incentive plans and benefit plans for all CNP executives and
	employees, including those who serve CenterPoint Houston.
Q.	DO YOU HOLD ANY PROFESSIONAL LICENSES OR CERTIFICATES?
А.	I currently hold the following certifications: Certified Compensation Professional
	(CCP), Professional in Human Resources (PHR) and Society for Human Resource
	Management Certified Professional (SHRM-CP).
Q.	HAVE YOU PREVIOUSLY SPONSORED TESTIMONY BEFORE ANY
	COMMISSIONS OR OTHER REGULATORY AUTHORITIES?
A.	Yes. I have filed testimony with the Railroad Commission of Texas in GUD No.
	10920, with the Minnesota Public Utilities Commission in Docket Nos.
	G-008/GR-19-524 and G-008/GR-21-435, and with the Indiana Utility Regulatory
	Commission in Cause Nos. 45447 and 45468.
Q.	ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?
A.	I am testifying on behalf of CenterPoint Houston.
	II. <u>PURPOSE AND SCOPE OF TESTIMONY</u>
Q.	WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS
	PROCEEDING?
A.	My testimony describes Service Company's HR organization and CNP's employee
	compensation and benefits programs, provides information on CNP's
	compensation philosophy when making compensation and benefits decisions, and
	supports the amounts of compensation and benefits costs included in the test year
	for direct and affiliate employees. As I will detail below, our compensation and
	A. Q. A. Q.

1 benefits are targeted to the median of the market and are necessary to recruit and 2 retain a qualified workforce. Maintenance of a qualified workforce furthers the 3 Company's goal of providing safe, reliable, and cost-effective service to 4 CenterPoint Houston customers. I also address how the Company's compensation 5 and benefits costs, including incentive compensation costs, are consistent with 6 market studies and should be presumed to be reasonable and necessary under 7 PURA § 36.067. The testimony, schedules and workpapers of Company witness 8 Ms. Kristie Colvin set out the specific incentive and benefit expense amounts 9 included in the test year. Company witness Mr. L. Darren Storey supports the 10 methodologies used to assign Service Company costs to the Company, including 11 HR, compensation, and benefits costs.

12 Q. WHAT AMOUNTS IN THE COMPANY'S PROPOSED COST OF 13 SERVICE DOES YOUR TESTIMONY SUPPORT?

A. I am supporting compensation and benefit-related amounts included in the
 schedules listed below. I am also supporting affiliate costs for HR services charged
 to the Company.

17 Q. HAVE YOU PREPARED ANY EXHIBITS IN CONNECTION WITH YOUR

18 **TESTIMONY?**

19 A. Yes. I have prepared or supervised the preparation of the exhibits listed in the table
20 of contents.

21 Q. DO YOU SPONSOR OR CO-SPONSOR ANY SCHEDULES IN THIS

22 PROCEEDING?

23 A. I am sponsoring the following Company schedules:

1	II-D-3.5 Nur	nber of Employees
2	II-D-3.5.1 Nur	nber of Employees – Question 1
3	II-D-3.5.2 Nur	nber of Employees – Question 2
4	I am co-sponsoring the	following Company schedules with Company witness
5	Kristie Colvin:	
6	II-D-3.6.1 Cor	npensation Other Than Standard Compensation by
7	Fun	ction – Question 1
8	II-D-3.6.1a Sho	rt Term Incentive by Goals
9	II-D-3.6.2 Cor	npensation Other Than Standard Compensation by
10	Fun	ction – Question 2
11	II-D-3.6.3 Cor	npensation Other Than Standard Compensation by
12	Fun	ction – Question 3
13	II-D-3.7.1 Ger	eral Employee Benefit Information – Question 1
14	II-D-3.7.2 Ger	eral Employee Benefit Information – Question 2
15	II-D-3.7.3 Ger	eral Employee Benefit Information – Question 3
16	II-D-3.7.3.1 Ger	eral Employee Benefit Information
17	II-D-3.7.4 Ger	eral Employee Benefit Information – Question 4
18	II-D-3.7.5 Ger	eral Employee Benefit Information – Question 5
19	II-D-3.7.6 Ger	eral Employee Benefit Information – Question 6
20	II-D-3.7.7 Ger	eral Employee Benefit Information – Question 7
21	II-D-3.8.1 Pen	sion Expense – Question 1
22	II-D-3.8.2 Pen	sion Expense – Question 2
23	II-D-3.8.3 Pen	sion Expense – Question 3

1		II-D-3.8.4	Pension Expense – Question 4
2		II-D-3.9.1	Postretirement Benefits Other Than Pension – Question 1
3		II-D-3.9.2	Postretirement Benefits Other Than Pension – Question 2
4		II-D-3.9.3	Postretirement Benefits Other Than Pension – Question 3
5		II-D-3.9.4	Postretirement Benefits Other Than Pension – Question 4
6		II-D-3.10.1	Administration Fees – Question 1
7		II-D-3.10.2	Administration Fees – Question 2
8		II-D-3.10.3	Administration Fees – Question 3
9		In addition, I co-spo	nsor with Mr. Storey and Ms. Colvin Schedules V-K-7 and
10		V-K-12, as they relat	e to Service Company HR costs.
11	Q.	HOW DOES YOU	R TESTIMONY RELATE TO THE TESTIMONY OF
12		OTHER WITNESS	ES IN THIS PROCEEDING?
1 24		OTHER WITTEDD	ES IN THIS I NOCEEDING:
12	A.		ed to the direct testimony of Mr. Storey through his discussion
	А.	My testimony is relat	
13	А.	My testimony is relat of affiliate costs. T	ed to the direct testimony of Mr. Storey through his discussion
13 14	А.	My testimony is relat of affiliate costs. T business units that w	ed to the direct testimony of Mr. Storey through his discussion The Corporate HR organization costs are distributed to the
13 14 15	А.	My testimony is relat of affiliate costs. T business units that w Storey's testimony	ed to the direct testimony of Mr. Storey through his discussion The Corporate HR organization costs are distributed to the we serve using allocation methodologics as described in Mr.
13 14 15 16	A. Q.	My testimony is relat of affiliate costs. T business units that w Storey's testimony testimony of Ms. Col	ed to the direct testimony of Mr. Storey through his discussion The Corporate HR organization costs are distributed to the ve serve using allocation methodologics as described in Mr. and exhibits. My testimony is also related to the direct
13 14 15 16 17		My testimony is related of affiliate costs. The business units that we Storey's testimony of testimony of Ms. Color WAS YOUR TEST	ed to the direct testimony of Mr. Storey through his discussion The Corporate HR organization costs are distributed to the we serve using allocation methodologics as described in Mr. and exhibits. My testimony is also related to the direct dvin, who discusses direct compensation and benefit costs.
13 14 15 16 17 18		My testimony is relat of affiliate costs. T business units that w Storey's testimony a testimony of Ms. Col WAS YOUR TEST WORKPAPERS, A	ed to the direct testimony of Mr. Storey through his discussion The Corporate HR organization costs are distributed to the we serve using allocation methodologics as described in Mr. and exhibits. My testimony is also related to the direct dvin, who discusses direct compensation and benefit costs. TIMONY, INCLUDING ASSOCIATED SCHEDULES,
13 14 15 16 17 18 19		My testimony is related of affiliate costs. The business units that we Storey's testimony of testimony of Ms. Color WAS YOUR TEST WORKPAPERS, A YOUR CONTROL	ed to the direct testimony of Mr. Storey through his discussion The Corporate HR organization costs are distributed to the we serve using allocation methodologics as described in Mr. and exhibits. My testimony is also related to the direct dvin _x who discusses direct compensation and benefit costs. TIMONY, INCLUDING ASSOCIATED SCHEDULES, AND EXHIBITS, PREPARED BY YOU OR UNDER

III. <u>SERVICE COMPANY HR ORGANIZATION, SERVICES, AND</u> <u>COSTS</u>

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Q. PLEASE DESCRIBE THE SERVICE COMPANY HR ORGANIZATION.

4 A. The HR organization provides services necessary to developing policy, total 5 compensation plans, workforce planning and development, employee relations 6 policies and programs, and in training personnel in a coordinated manner 7 throughout CNP. HR also provides services necessary for the design and 8 administration of corporate welfare and benefit plans, including pension plans and 9 savings plans, and support for the negotiation of labor contracts for bargaining unit 10 employees. Additionally, HR provides services necessary to ensure employee 11 programs and practices comply with government regulations. The HR organization 12 is one of several support organizations that are part of the Corporate Services group 13 within the Service Company. For further discussion of Corporate Services and its 14 role within the Service Company, please refer to Mr. Storey's direct testimony.

15 Q. IS IT REASONABLE TO CENTRALIZE HR SERVICES?

A. Yes. HR is an essential function for all CNP operating units. HR's centralized design maximizes efficiency and effectiveness. Centralization allows CNP to provide services that are highly specialized while capturing economies of scale.
 Those lower cost services can be shared for the benefit of all business units. For example, by using a centralized approach and consistent plan designs, the HR organization can negotiate more favorable rates with vendors while delivering quality services.

Centralized HR operations allow for consistency in policy administration
 for HR regulatory compliance, avoid the need to duplicate staff and administrative

1		processes within individual business units, promote greater resource sharing, and
2		provide the Service Company the opportunity to leverage CNP's size to negotiate
3		lower fees from outside vendors because common services and plans are delivered
4		across several business units.
5	Q.	WHAT SERVICES DOES THE HR ORGANIZATION PROVIDE TO THE
6		COMPANY?
7	A.	HR provides the following categories of services through a centralized delivery
8		model to all operating units of CNP, including the Company:
9		1. Compensation and Benefits
10		2. Human Resources Information Technology (HRIT)
11		3. Talent Acquisition
12		4. Employee Relations and Labor Relations
13		5. Employee Learning and Organizational Development
14	Q.	PLEASE DESCRIBE THE CATEGORIES OF SERVICES REFERENCED
15		ABOVE IN MORE DETAIL.
16	A.	The Compensation and Benefits department designs and administers the base salary
17		program, short-term incentive ("STI") plan, long-term incentive ("LTI") plan,
18		health and welfare plans, retirement, savings, postretirement and postemployment
19		benefits, as well as personal and workplace injury and disability management and
20		Family and Medical Leave Act administration.
21		In partnership with CNP Information Technology, HRIT maintains the
22		computer system applications and programs for collection, storage, management,
23		and analysis of employee-related data.

1 The Talent Acquisition department provides employee recruiting, 2 on-boarding, and orientation services for all positions including skill/craft, 3 technical, professional, and management positions. This organization also handles 4 human resource regulatory compliance for the United States Department of Labor 5 and Equal Employment Opportunity Commission, and United States Department 6 of Transportation Drug and Alcohol programs. In addition, Talent Acquisition 7 supports enterprise-wide diversity, equity and inclusion efforts.

8 Employee Relations and Labor Relations professionals provide a broad 9 range of services to support and maintain a healthy and productive work 10 environment. They support positive relationships and interactions between 11 management, employees, and unions. These services include coaching for 12 performance effectiveness and improvement, policy communication and 13 application, organization design, salary program administration, employee promotion and hiring decision support, and compliance support with various 14 15 employment laws and regulations.

16 The Employee Learning and Organizational Development department helps 17 support employees in learning new skills, developing their capabilities and 18 identifying their untapped potential. The department consists of four teams: 19 Employee Learning, Customer Service Learning, Learning Technology, and 20 Learning Content.

2

Q. HOW WERE THE COSTS FOR THE SERVICES PROVIDED BY THE HR ORGANIZATION CHARGED TO THE COMPANY?

A. Costs are either directly charged to the business unit for which the HR organization
is providing services or they are generally allocated proportionately on an employee
headcount basis. Mr. Storey addresses the allocation methods for affiliate costs in
more detail in his direct testimony, including that these allocation methodologies
are consistently used to charge HR costs to other CNP business units and that all
affiliate costs are not charged at a higher price than those charged to other business
units, and that such costs are billed at cost.

10 Q. HOW ARE COSTS FOR HR PLANNED, MONITORED AND 11 CONTROLLED?

- A. HR costs are planned for each service function based upon staffing and other
 expenditures required to support the business units for the upcoming year. HR
 budgets are reviewed and approved by senior management. Amounts planned
 above the previous year's budget are reviewed for appropriateness. The total HR
 budget for the next fiscal year is submitted to the CNP Executive Committee for
 review and approval.
- 18 Senior management also reviews and analyzes monthly reports that 19 compare the variance between actual expenses compared to budgeted expenses. 20 Each HR service delivery manager is required to report explanations on specified 21 variances. Summary results are presented to CNP and business unit senior 22 management. Please also refer to the direct testimony of Mr. Storey regarding 23 CNP's financial planning activities.

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Q. WHAT BENEFITS DO CUSTOMERS EXPERIENCE RELATED TO THE CENTRALIZED HR ORGANIZATION?

3 The benefits to the Company's customers can be summarized into two categories: Α. 4 quality and cost. To deliver safe, reliable and efficient service to customers, the 5 Company must hire and retain quality employees. In today's business environment, 6 to successfully accomplish this objective an HR organization must provide 7 comprehensive HR services at a competitive cost. Employees expect and can 8 obtain competitive pay and benefits at many companies, and CNP must continue to 9 employ state-of-the-art sourcing and staffing best practices and provide market-10based compensation and benefit programs to attract and retain high-quality, 11 experienced employees. The centralized HR organization is focused on designing 12 and obtaining quality services and benefit plans that are competitively priced. This 13 allows the HR organization to provide necessary services at a reasonable cost to the 14 Company, which benefits customers who are served by experienced, high-quality 15 employees.

Q. ARE THE HR COSTS INCLUDED IN THIS FILING REASONABLE AND NECESSARY?

A. Yes. The services the HR organization provides to the Company are necessary and
 must be provided for the Company to provide electric service, and those services
 are provided at a reasonable cost. Mr. Storey provides the total HR organization
 costs charged to the Company during the test year in his direct testimony.

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Q. SHOULD THE COMMISSION APPROVE THE COMPANY'S REQUEST TO RECOVER HR ORGANIZATION COSTS?

A. Yes. The centralized HR organizational structure is designed to provide necessary
services in an efficient, cost-effective manner and to deliver necessary services
through experienced and qualified personnel, which is essential to maintaining a
productive workforce focused on meeting customers' needs while providing safe
and reliable service.

8 IV. <u>RECOVERY OF COMPENSATION AND BENEFITS COSTS</u> 9 O. WHAT COMPENSATION AND BENEFITS COSTS HAS THE COMPANY

10 REQUESTED TO RECOVER IN PRIOR CENTERPOINT TEXAS RATE 11 CASES?

12 A. The Company has consistently requested recovery of base pay, including amounts 13 for the annual Competitive Pay Adjustment ("CPA"); incentive compensation costs 14 based on prior Commission decisions for CenterPoint Houston; and benefits costs 15 for health and welfare benefits, retirement benefits, postretirement benefits, 16 postemployment benefits, and other traditional benefits costs. In addition, the 17 Company has supported its request to recover costs for these compensation 18 elements by providing market compensation studies that support CNP's and the 19 Company's base pay levels, annual CPA, incentive compensation and certain 20 benefits costs.

Q. ARE THERE ANY RECENT DEVELOPMENTS RELATED TO AN ELECTRIC UTILITY'S RECOVERY OF COMPENSATION AND BENEFITS COSTS THAT AFFECT COSTS CENTERPOINT HOUSTON IS REQUESTING IN THIS CASE?

5 Yes. The Texas Legislature passed and the Governor signed Senate Bill 1016 in А. 6 spring 2023, which created a new statute, PURA § 36.067, that contains a presumption of reasonableness and necessity for base salaries, wages, incentive 7 8 compensation, and benefits for electric utilities as long as those costs are consistent 9 with market compensation studies that have been issued in the last three years. 10 Some compensation categories, such as pension or other postemployment benefits 11 and financial-metric-based incentive compensation for officers of an electric utility 12 are not included in the presumption, and so recovery of these costs are evaluated as 13 any other expense might be. The statute does not preclude the recovery of such 14 costs. A copy of the statute is included as Exhibit BRV-1 to my testimony.

15

5 Q. WHAT IS THE SIGNIFICANCE OF PURA § 36.067?

16 Α. In my opinion, the Legislature amended PURA in recognition of CenterPoint 17 Houston and other utilites' reasonable and appropriate longstanding reliance on 18 market studies to determine base pay, incentive compensation opportunities and 19 benefits. The presumption streamlines the Commission's evaluation of the 20reasonableness and necessity of an electric utility's base salaries, wages, and 21 incentive compensation. Both the overall amount of incentive compensation 22 awarded to employees in the test year and CNP's use of a balanced mix of incentive 23 goals, including safety, operational, and customer satisfaction goals that I will

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address further below, are reasonable and appropriate because they are consistent with market compensation studies.

3 Q. DID CNP COMMISSION A COMPANY-SPECIFIC STUDY?

- 4 Α. Yes. CNP engaged Willis Towers Watson ("WTW") to independently evaluate the 5 competitiveness of CNP's compensation philosophy, compensation levels and plan 6 designs and to determine whether CNP's compensation aligns with the 7 compensation offered to employees of other utility companies and other industries 8 in general. WTW is a consulting firm that provides, among other things, services 9 related to human resources, including market compensation studies. The WTW 10 study is provided as Confidential Exhibit BRV-2. The Company-specific study 11 focuses on the following:
- 12 Total compensation philosophy;
- 13 Competitive position to market (Compa-ratio analysis);
- Design of CNP's Short-Term Incentive Plan; and
- 15 Design of CNP's Long-Term Incentive Plan.
- WTW confirmed the Company's compensation program is consistent with the market and determined that CNP's target total direct compensation program and compensation levels are within the competitive range (+/-10%), when compared to other utility companies. The specific findings of WTW's analysis will be discussed later in my testimony.

21 Q. PLEASE DESCRIBE CNP'S COMPENSATION PHILOSOPHY.

A. CNP's compensation philosophy is focused on maintaining the competitiveness of
its compensation plans and levels as measured from a "total compensation"

1 perspective. That is, CNP measures the value of all components that make up 2 employees' total compensation (meaning base pay, incentive compensation, and 3 benefits) and compares that value against peer and competitor companies to ensure that its compensation plans and levels are sufficient to recruit, retain and motivate 4 5 the quality workforce and leadership needed to serve our customers. The objective 6 of this approach is to approximate the median (50th percentile) of the market for 7 total compensation represented by the companies included in the market 8 compensation surveys or studies CNP uses to assess the competitiveness of its 9 compensation and benefits. This philosophy is applied consistently across CNP's 10business units, including the Company.

11 Q. PLEASE DESCRIBE THE COMPONENTS IN CENTERPOINT 12 HOUSTON'S TOTAL COMPENSATION.

13 The components of total compensation are base pay, STI, LTI, and benefits. For A. 14 purposes of this discussion, I will refer to all of these components other than 15 benefits collectively as "pay." Compensating employees solely through base pay 16 with no opportunity for variable incentive pay reflects an outdated and less than 17 competitive approach to current compensation practices. By managing some 18 portion of pay as incentive pay, CNP is able to include tangible goals to motivate 19 positive and productive employee behavior that benefits stakeholders including 20 customers, employees, and shareholders, in its compensation plans. Incentive pay 21 motivates employees to provide quality customer service, perform their jobs more 22 effectively, achieve operating efficiencies, and maintain a safe and reliable delivery 23 system. It also allows the Company to reward and retain high performers as

demonstrated by relevant peer-based surveys. If CNP relied solely on base pay, it
would constrain CNP's ability to use compensation as a tool to motivate employees
to work towards CNP-wide and business unit goals and achieve high levels of
individual performance as well. Doing so would also be inconsistent with market
compensation studies that support the use of STI and LTI as part of a competitive
total compensation package.

Q. WHAT EMPLOYEE RETENTION AND RECRUITMENT CHALLENGES 8 DOES THE COMPANY FACE?

9 A. Turnover in our industry is increasing as workers are aging and become eligible to 10retire. As of December 2022, approximately 19% of CNP employees were eligible 11 to retire and 31% will be eligible to retire within the next five years. Regarding the 12Company specifically, 17% of employees were eligible to retire as of December 13 2022, and 28% will be eligible to retire within the next five years. See Workpaper 14 BRV-1, CNP Retirement Projections. CNP is focused on retaining these employees 15 because the specialized knowledge and expertise of experienced utility employees 16 is not easily developed or replaced. The looming retirements also mean the 17 Company must be proactive in attracting new employees.

18 Q. WHAT IS THE CURRENT EMPLOYMENT ENVIRONMENT FOR THE 19 HOUSTON AREA?

20 A. As the Texas economy grows and continues to have low unemployment levels¹,

21 the Company's risk of losing employees is increasing because the Company is

¹ See U.S. Bureau of Labor Statistics, Economy at a Glance, Texas (bls.gov) available at: https://www.bls.gov/eag/eag.tx.htm, (accessed January 8, 2024).

experiencing higher competition for qualified candidates to fill skilled positions, compounding the effects of increasing retirements. Therefore, ensuring competitive base pay, incentive compensation, and benefit plans that are both strategic and cost effective are key to retaining current employees, while also recruiting new employees. Compensation is a primary tool, among others, that CenterPoint Houston uses to recruit and retain employees.

Q. IS CNP'S COMPENSATION PHILOSOPHY CONSISTENT WITH PEER
COMPANIES, INCLUDING PUBLICLY TRADED COMPANIES AND
OTHER UTILTIES?

A. Yes. CNP's compensation philosophy, which CenterPoint Houston applies, is
 consistent with peer companies, including publicly traded companies and other
 utilities. As stated in the WTW study, Confidential Exhibit BRV-2, "almost all" of
 CNP's proxy peers target all or a portion of their compensation to the median of
 the market which is consistent with CNP's compensation philosophy.

Q. HOW DOES CENTERPOINT HOUSTON ENSURE THAT TOTAL COMPENSATION IS MARKET-BASED?

A. CNP uses a process referred to as market pricing to determine the external value of
a position compared to the total compensation for its non-union employees. Market
pricing is a process of determining the compensation amounts provided by other
employers for jobs performing essentially the same duties and requiring similar
qualifications as employee positions at CNP.

22 More specifically, pay data is reported to participating companies via 23 surveys based on a process of matching jobs having similar core duties and

qualifications. Depending on the position being analyzed, the CNP HR staff uses
 a variety of national, regional and local survey data that is refreshed annually to
 monitor and determine market pay values. Most jobs are matched to multiple
 surveys. CNP HR staff members analyze these multiple survey sources to
 determine various statistical pay values represented by the survey data, including
 median, average, and percentile amounts. These are the types of surveys addressed
 in PURA § 36.067 that support the reasonableness of the Company's pay.

8 The market-based values derived for base pay, STI, and LTI are then 9 annually compared by the compensation staff to actual pay levels of CNP 10 employees to determine whether adjustments are needed to maintain a competitive 11 position relative to pay levels of other survey participants. For any individual 12 employee, pay or the individual components of pay, may be below, at or above the 13 market median depending on many factors such as hiring rates, time in the job, 14 experience, and individual performance.

15 Q. DOES THE USE OF MARKET SURVEYS HELP ENSURE THAT TOTAL

- 16 COMPENSATION IS REASONABLE?
- 17 A. Yes, according to PURA § 36.067, market surveys are tools used to help companies
 18 make informed compensation decisions based on reliable benchmarks to establish
 19 and maintain competitive compensation levels needed to attract and retain
 20 employees.

1	Q.	DO PEER COMPANIES, INCLUDING PUBLICLY TRADED COMPANIES
2		AND OTHER UTILITIES USE MARKET SURVEYS?
3	А.	Peer utilities and other publicly-traded companies including those in the Houston
4		area participate in various market surveys available and pertinent to their business
5		and industry.
6	Q.	WHAT ARE SOME EXAMPLES OF MARKET COMPENSATION
7		STUDIES CNP USES TO ASSESS EMPLOYEE COMPENSATION
8		ISSUES?
9	А.	CNP uses different types of surveys that are used to monitor market-based pay
10		related to employees, including:
11 12		(1) Industry specific surveys covering the electric transmission and distribution utility segment, such as:
13 14		 Willis Towers Watson Energy Services Middle Management, Professional and Support Compensation Survey; and
15 16		 Willis Towers Watson Energy Services Executive Compensation Survey.
1 7		(2) General industry surveys, such as:
18 19		 Willis Towers Watson General Industry Middle Management, Professional and Support Compensation Survey;
20 21		 Willis Towers Watson General Industry Executive Compensation Survey;
22		Empsight The Works Compensation Survey Suite;
23		 Radford Global Compensation Database; and
24		MBD Mercer Benchmark Database.
25		(3) Salary trend and plan design surveys, such as:
26		• 2022-2023 WorldatWork Salary Budget Survey; and

1		• Frederic W. Cook & Co. 2023 Top 250 Report.
2		The surveys named above are attached to my testimony as Exhibits BRV-3
3		(Confidential), BRV-4 (Confidential), and BRV-5. These surveys are refreshed
4		annually with current market data. CNP relies on these types of surveys to establish
5		pay references that CNP can be confident represent pay levels of the Company's
6		competitors for the positions CNP and the Company require, and to ensure that
7		CNP is receiving objective data reflective of a broad representation of the market.
8		Because market compensation studies such as these are reliable and widely used in
9		the industry to set compensation levels, it makes sense that the legislature used them
10		as the benchmark in PURA § 36.067 to assess the reasonableness of utility
11		compensation.
12	Q.	IS THIS SAME MARKET-BASED COMPENSATION PHILOSOPHY
12 13	Q.	IS THIS SAME MARKET-BASED COMPENSATION PHILOSOPHY APPLIED TO EXECUTIVE COMPENSATION?
	Q. A.	
13		APPLIED TO EXECUTIVE COMPENSATION?
13 14		APPLIED TO EXECUTIVE COMPENSATION? Yes. The same market forces exist with respect to recruiting and retaining
13 14 15		APPLIED TO EXECUTIVE COMPENSATION? Yes. The same market forces exist with respect to recruiting and retaining executive-level employees, including Vice Presidents and above. As such, CNP
13 14 15 16		APPLIED TO EXECUTIVE COMPENSATION? Yes. The same market forces exist with respect to recruiting and retaining executive-level employees, including Vice Presidents and above. As such, CNP uses the same market-based pay philosophy for all executives that is used for
13 14 15 16 17		APPLIED TO EXECUTIVE COMPENSATION? Yes. The same market forces exist with respect to recruiting and retaining executive-level employees, including Vice Presidents and above. As such, CNP uses the same market-based pay philosophy for all executives that is used for non-executives. All components of pay for executive positions are measured
 13 14 15 16 17 18 		APPLIED TO EXECUTIVE COMPENSATION? Yes. The same market forces exist with respect to recruiting and retaining executive-level employees, including Vice Presidents and above. As such, CNP uses the same market-based pay philosophy for all executives that is used for non-executives. All components of pay for executive positions are measured against the same or similar positions at comparable companies based on market
 13 14 15 16 17 18 19 		APPLIED TO EXECUTIVE COMPENSATION? Yes. The same market forces exist with respect to recruiting and retaining executive-level employees, including Vice Presidents and above. As such, CNP uses the same market-based pay philosophy for all executives that is used for non-executives. All components of pay for executive positions are measured against the same or similar positions at comparable companies based on market compensation studies. This analysis ensures that compensation is fully competitive

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1	§ 36.067.	An example	of tha	t type (of study	is	attached	to :	my	testimony	as
2	Confidentia	l Exhibit BR	V-3.								

 3
 V. BASE PAY AND INCENTIVE COMPENSATION

 4
 Q. WHAT PAY COSTS ARE INCLUDED IN THE COMPANY'S RATE

 5
 REQUEST IN THIS CASE?

- A. As addressed in Ms. Colvin's and Mr. Storey's testimonies, the Company is
 requesting recovery of base pay amounts and a related CPA, test year STI expenses,
 and test year LTI expenses.
- 9 A. Base Pay

17

10 Q. HOW DOES THE COMPANY'S BASE PAY COMPARE TO THE BASE

- 11 PAY OF COMPETITOR COMPANIES?
- A. Annually, the Company compares the median base pay levels reported in the market surveys, which are included in Confidential Exhibit BRV-3, to the base pay of its non-union employees with similar job responsibilities and requiring comparable skills and experience. As of December 31, 2022, this comparison indicated that the overall average Company non-union base pay was below the market median base

18 Q. DOES CNP PROVIDE ANNUAL BASE PAY INCREASES?

pay of the surveyed companies by approximately 3%.

- A. Yes. CNP reviews the need and the overall budget for annual base pay increases
 every year and determines the appropriate base pay increase for non-union
 employees. This annual base pay increase is called a CPA. The overall budgeted
 CPA applicable to base pay in this case is 3.5%.
- 23 Q. HOW IS THE ANNUAL CPA DETERMINED?

1 Α. Each year, HR staff reviews third-party surveys of competitive trends, turnover 2 statistics, negotiated labor agreements and market economic data. This information 3 is used to determine how much of an increase is needed to maintain the 4 competitiveness of non-union base pay. The senior management of CNP also 5 considers other factors when finalizing the CPA, such as CNP's financial ability to 6 pay, employee turnover, and overall CNP plans and related expenses. Additionally, 7 HR reviews salary surveys to monitor trends in the general industry and utility 8 segments of the market. As reported in one such survey, WorldatWork's Salary 9 Budget Survey for 2022-2023, indicated future salary increase projections for 2023 10 of 4.0%, which is higher than prior years, mostly attributed to increasing labor 11 market pressure.

12 In addition, market data obtained from surveys is used to determine the 13 "Market Reference Point ("MRP")" for each type of non-union position. This data 14 on market practices is used to administer CPA decisions. In arriving at the CPA, 15 HR develops compensation compa-ratios from the market surveys as an indication 16 of the competitiveness of CNP's base pay versus the survey median pay reported. 17 A compa-ratio is an expression of employee base pay in relation to survey data. The compa-ratio is calculated by dividing the CNP base pay by the survey-derived 18 19 MRP, expressed as a percentage. The compa-ratios for job groups are used in the 20 administration and allocation of pay increase budgets to achieve or maintain CNP's 21 market-based pay philosophy. The compa-ratio of non-union Company employees 22 at the end of 2022 was approximately 97%. This indicates that, even with CNP's

Ì		CPA, overall base pay for Company employees was below the MRP. See
2		Workpaper BRV-2, Market Compensation Survey Data Compared to Company.
3	Q.	WHEN DOES THE CPA TAKE EFFECT FOR NON-UNION
4		EMPLOYEES?
5	А.	The CPA is effective on or around April 1 each year for non-union employees.
6	Q.	HOW ARE BASE PAY INCREASES DETERMINED FOR UNION
7		EMPLOYEES?
8	A.	The Company's employees represented by IBEW Local 66 include positions such
9		as linemen, electricians, meter installers, and meter testers. The recently ratified
10		labor contract includes a six percent general increase in wages effective October
11		18, 2023 and four percent effective May 26, 2024. Affiliate employees charging
12		time to the Company, represented by the Office & Professional Employees
13		International Union Local No. 12 AFL-CIO received a three percent increase in
14		wages effective January 1, 2023 per the terms of the current labor contract.

19 Q. IS THE 3.5% CPA REASONABLE?

effective January 1, 2024.

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A. Yes. Base pay is the foundation of CNP's market-based total compensation philosophy. Base pay recognizes the job being performed and how it is valued in the competitive job market. As noted previously, CNP uses a market-based approach to set pay levels and the annual CPA. The annual CPA is part of CNP's

Employees represented include positions such as customer information phone

representatives, customer billing representatives, and other clerical workers. The

current labor contract also includes a three percent general increase in wages to be

- total compensation approach that ensures that pay is sufficient to attract, retain and
 engage the talent necessary to provide safe, reliable and efficient service and
 operations throughout the Company's service territory.
- 4

Q. WHAT DOES THE COMPANY-SPECIFIC WTW STUDY CONCLUDE REGARDING BASE PAY?

A. WTW found that base salary amounts for CNP are 1.6% below the market median
and for CenterPoint Houston, base salary is 1.5% below the market median.
WTW's analysis relied on salary amounts as of April 1, 2023 and used
employee-weighted data.

10

B. Incentive Compensation

11 Q. PLEASE GENERALLY DESCRIBE THE COMPANY'S INCENTIVE 12 COMPENSATION REQUEST IN THIS CASE.

13 The company seeks recovery of incentive pay for those employees involved in the Α. day-to-day operations and support of the Company. These employees include 14 15 personnel employed directly by the Company itself as well as support personnel who provide necessary services from centralized locations such as Houston. 16 Employees who work for or support the Company's operations are eligible to 1718 receive incentive pay, including Houston-based positions such as customer service call center agents, billing processing agents, employees who provide HR services, 19 and safety and other operations-related training programs. To meet CNP's 20 incentive plan goals, all employees must do their jobs safely and do them well, 21 22 including the provision of efficient and responsive customer service.

1		1. Short-Term Incentive Plan
2	Q.	PLEASE EXPLAIN THE STI COMPONENT IN TOTAL
3		COMPENSATION.
4	А.	After base pay, STI is the second component of CNP's market-based total
5		compensation pay philosophy. The STI Plan provides the opportunity for
6		non-union employees and certain union employees to earn incentive pay based on
7		the attainment of specific annual goals. Consistent with the market compensation
8		studies, these goals include a balance of operational, safety and financial goals,
9		which function in an integrated manner to communicate to stakeholders, including
10		customers, the measures that are important for the Company to continue to be
11		successful. These goals include efficient work execution, capital delivery,
12		operational performance, customer satisfaction, and safety. In addition, to be
13		eligible for STI awards, employees must meet individual job performance
14		expectations and goals. In 2023, to create better alignment of CNP and Company
15		results, STI payouts and the performance of each of CNP's business unit and
16		corporate functions, the STI Plan was further segmented into the following business
17		unit groups: Houston Electric, Indiana Electric; Natural Gas Operations; Operations
18		Support; Customer Operations; Information Technology; and Corporate Services.
19		For goals specific to each business unit group, see Exhibit BRV-6 2023 Short-Term
20		Incentive Plan Goals.
21		By providing incentive pay opportunities that are consistent with
22		opportunities in the market and comparable to those an employee could find in other

23 companies, as reflected in the market studies attached to my testimony, CNP is able

2

to assure its customers that experienced and capable employees will be on the job to provide safe and reliable service.

Q. WHAT IS THE PURPOSE OR FUNCTION OF HAVING A CERTAIN AMOUNT OF COMPENSATION BEING CONTINGENT ON COMPANY PERFORMANCE?

6 Α. Together, the plan goals are designed to motivate employees to do their best to 7 contribute to the effective operation of CNP and its business units. The STI goals 8 are designed to encourage employees to execute their job functions safely and to 9 strive for high levels of customer satisfaction. The plan goals also focus employee 10 efforts in ways that help CNP and the Company to maintain their financial health, 11 which benefits customers by ensuring the Company is able to continue to provide 12 service and have the capacity to respond to continued growth as well as 13 emergencies. Company witness Jacqueline Richert discusses in greater detail the 14 importance of maintaining the financial integrity of the Company to have strong 15 credit metrics. Compensation tied to Company performance seeks to encourage 16 employees to run a cost-efficient business, which ultimately benefits customers.

17 Q. DO PEER COMPANIES, INCLUDING PUBLICLY TRADED COMPANIES

18 AND UTILTIES, SIMILARLY USE STI AS A COMPONENT IN TOTAL 19 COMPENSATION?

A. Yes. The majority of CNP's peer companies use a combination of base pay and
 incentive pay as part of their total compensation package, as demonstrated by
 relevant peer-based surveys listed on Confidential Exhibit BRV-3. More
 specifically, according to a 2022-2023 survey conducted by WorldatWork, 85% of

1.953 U.S. survey respondents, including 106 utilities, indicated that they use 1 2 variable pay programs, which is another term for incentive plans. Further, 69% of 3 companies using variable pay use an incentive plan design like CNP's plan, which is based on achieving both the organization's goals and individual performance. 4 See Confidential Exhibit BRV-4 for the 2022-2023 WorldatWork Salary Budget 5 6 Survey, Therefore, the Company's provision of STI is consistent with its peers in 7 the market and is necessary to compete with other utilities and other employers. If 8 the Company was to rely solely on base pay with no opportunity for incentive 9 compensation, it would be perceived as an outlier and out of step with currently accepted compensation practices. This would negatively impact the Company's 10 ability to attract and retain appropriate talent, as well as deprive CNP of a valuable 11 tool to motivate and incentivize its workforce. 12

Q. HOW DOES THE COMPANY'S AVERAGE TOTAL CASH COMPENSATION COMPARE TO THE TOTAL CASH COMPENSATION OF PEER COMPANIES?

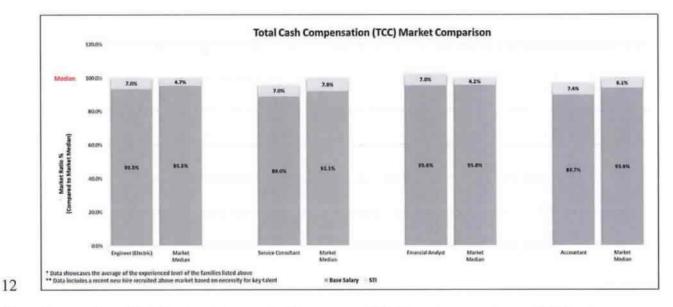
16 A. Total cash compensation consists of base pay and STI. As with base pay, the 17 Company compares the median total cash compensation levels reported in market 18 surveys to the average total cash compensation of its employees. In 2022, this 19 comparison, which is included in Workpaper BRV-2, indicated that the overall 20 average Company non-union total cash compensation was comparable to the 21 market median total cash compensation of the surveyed companies.

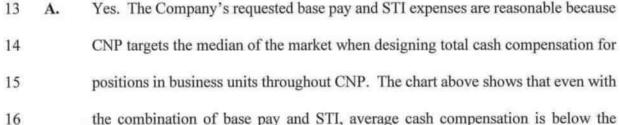
1 Q. WHAT DOES THIS MEAN FROM A TOTAL PAY PERSPECTIVE?

A. This means that if STI was not offered, the Company's total pay would be under
the market median, especially given that the Company is generally slightly under
the market median even including STI. If the Company stopped paying STI, it
would negatively impact the Company's ability to attract and retain the employees
it needs. It also means that if STI costs are not included in rates, the Company is
unable to recover costs it must incur in order to provide employees with a
competitive cash compensation opportunity.

9 Q. CAN YOU PROVIDE EXAMPLES THAT ILLUSTRATE THE 10 REASONABLENESS OF THE CASH COMPENSATION CNP OFFERS

11 COMPARED TO THE MARKET MEDIAN?





median of the market. In the examples above, if the Company's requested STI
 expenses are disallowed, the recovery of total cash compensation would fall to
 approximately 89-96% of the market. See Workpaper BRV-3 Market Compa-ratio
 Analysis.

5 Q. IS THE COMPANY'S STI COMPENSATION REASONABLE?

6 A. Yes. Under CNP's total compensation philosophy, CNP measures the value of total 7 compensation against peer companies to ensure that CNP's compensation, as a 8 whole, is sufficient to recruit, retain, and motivate each level of the workforce 9 needed to serve customers. As long as a utility's total compensation is comparable 10 to its peers and the actual awards under such programs are not excessive, then these 11 costs are reasonable and necessary in today's labor market as base pay. Even if 12 viewed as a free-standing component of pay however, STI target levels for CNP 13 and Company employees are market-based and are consistent with similarly 14 situated employees in peer and competitor companies based on market studies.

15 Q. WHAT WERE CNP'S GOALS FOR CENTERPOINT HOUSTON STI FOR

16 **THE 2023 PLAN YEAR**?

17 A. The 2023 STI goals for CenterPoint Houston are as follows:

GOAL	WEIGHTING
Efficient Work Execution (O&M)	30%
Capital Delivery	20%
Safety and Cyber	20%
Other Performance	30%

18

For more details regarding CNP's 2023 STI goals, see Exhibit BRV-6.

2 Q. HOW ARE THE STI PLAN GOALS DESIGNED TO FUNCTION?

The STI Plan goals are designed to focus employee attention and effort on goals 3 Α. that benefit the Company's stakeholders, which include customers, employees 4 5 themselves, and shareholders. Customers directly and materially benefit from the 6 provision of STI awards to employees that are based on the attainment of the 7 operational, safety and financial goals in the STI plan, which serve to align the 8 interests of customers, employees, and shareholders. Together, each of the goals 9 identified above serve to encourage expense management and operational 10 efficiencies that provide customers benefits through lower or stable rates, safe and 11 reliable operations, and enhanced customer service. The goals associated with STI, 12 specifically Efficient Work Execution, also motivate employees to effectively 13 manage operations expenses. Thus, not only are the requested STI costs reasonable 14 because they are tied to an STI Plan that is comparable to those in the market and 15 necessary because the costs are part of an overall compensation package that must 16 be competitive, the STI Plan also includes goals that lead to benefits for customers. 17In this way, STI is no different than the Company's ongoing capital investment in 18 new infrastructure. In fact, Capital Delivery, or ensuring that necessary capital 19 investments are made in the system, is one of the STI goals. That capital investment 20allows the Company to continue to provide safe and reliable service to customers. 21 Overall, if the Company does not provide safe, reliable service at a reasonable cost, 22 its customers will not be satisfied. This highlights precisely why a properly

designed incentive compensation plan must include a mixture of goals that lead to
 success for all interested stakeholders.

3 Q. ARE THE STI COSTS CENTERPOINT HOUSTON SEEKS TO RECOVER 4 IN THIS CASE ALL RELATED TO HOUSTON ELECTRIC 5 OPERATIONS?

A. Yes. All of the STI costs that CenterPoint Houston is seeking to recover relate to
 Houston Electric Operations. Some of the STI costs apply to groups other than
 Houston Electric Operations, whose work supports Houston Electric Operations.

HOW DO THE CNP STI GOALS COMPARE TO THE STI GOALS OF

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0.

PEER UTILITY COMPANIES?

A. Market studies show CNP's STI goals are consistent with goals used by most of
CNP's peer utilities. Like CNP, those peers use variable pay goals that are designed
to benefit all of a company's stakeholders including customers, communities,
employees and shareholders. Refer to Confidential Exhibit BRV-7 for additional
information related to CNP's peer utilities and STI goals.

16 Q. WHAT DOES THE COMPANY-SPECIFIC WTW STUDY CONCLUDE 17 REGARDING STI?

A. The study confirms CNP's STI program is consistent and competitive with plan
 designs compared to the market. Every company in the group of peer utilities that
 WTW identified as most like CenterPoint Houston has an STI plan. According to
 WTW, the use of multiple performance measures in the STI plan is aligned with
 market practices, as 78% of the peer utilities evaluated by WTW use three or more
 performance measures. Further, utilities in the peer group report using some form

of safety metrics to focus employees on avoiding injuries/accidents, customer
 satisfaction and system reliability metrics. WTW concluded that CNP's STI payout
 ranges are consistent with industry peers.

4 Q. ARE THE COMPANY'S STI COSTS REASONABLE AND NECESSARY?

- 5 A. Yes. The provision of STI, the goals CNP uses, and the amount of award payouts 6 are consistent with recent market compensation studies, so the Company's 7 requested STI costs are presumed reasonable and necessary based on PURA 8 Even absent the presumption, STI is a reasonable and necessary § 36.067. 9 component of an employee's total compensation because incentive compensation 10 opportunities are prevalent in all industry segments where CNP competes for, or 11 attempts to recruit, employees. Based on the data provided in market studies, 12 CNP's STI design and plan goals are consistent with peer utilities and other 13 companies with which the Company competes for talent, and individual employee 14 rewards are based on performance expectations. The level of STI compensation 15 paid to employees is based on the achievement of their individual goals and the 16 achievement of CNP plan goals, which are linked to creating benefits for key 17 stakeholders, most notably customers.
- 18

2. Long-Term Incentive Plan

19 Q. WHAT IS THE PURPOSE OF THE LTI PLAN?

A. The LTI Plan is the third component of CNP's market-based total compensation
 pay philosophy. Like STI, LTI opportunities and goals are based on market
 compensation studies. LTI pay, along with base pay and STI pay comprise the
 non-benefits portion of the total compensation package that CNP offers employees,

1	which is designed to compensate employees at the median (or 50th percentile) of
2	the market. As with STI, LTI is essential for attracting, retaining and motivating
3	plan participants, typically CNP executives and key employees who can influence
4	the long-term performance of CNP. The LTI Plan is also designed to focus the
5	efforts of participants on sustained improvements in CNP's and the Company's
6	performance over longer periods of time, typically three years. It is also designed
7	to retain participants over time to provide continuity of a qualified management
8	team. In this way, the LTI Plan is one tool the Company uses to retain experienced
9	employees who are necessary to ensure the safe, reliable and successful operations
10	of the Company.

11 Q. WHO IS ELIGIBLE TO PARTICIPATE IN THE LTI PLAN?

A. Employees who are Directors and Executives are eligible to participate in the LTI
 plan. Key employees below the Director level may be nominated to receive an LTI
 grant in any year.

15 Q. HOW DOES THE TOTAL PAY LEVEL (THE COMBINATION OF BASE

16 PAY, STI, AND LTI) OF THE COMPANY'S LTI-ELIGIBLE EMPLOYEES

17 COMPARE TO THE TOTAL PAY LEVELS FOUND IN THE MARKET?

A. As described previously, annually the Company compares its total pay, including.
STI and LTI, to the pay found in the market surveys for LTI-eligible employees.
As with STI, the 2022 comparison, which is included in Workpaper BRV-2,
indicates that the Company's average total pay levels when LTI is included are at
approximately 99% of the median of the market for LTI-eligible employees. In
other words, the total pay is just under the median of the market.

2

Q. IS IT NECESSARY AND APPROPRIATE FOR LTI TO BE OFFERED AS PART OF THE TOTAL COMPENSATION PACKAGE?

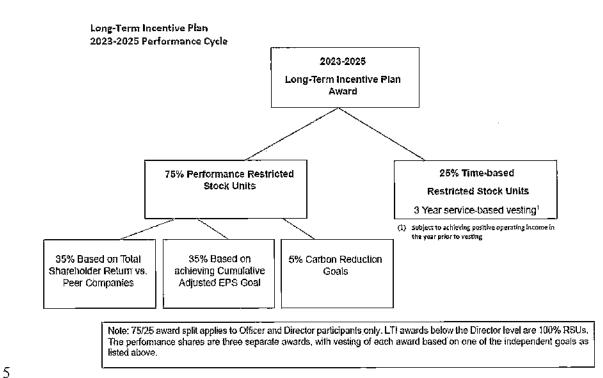
3 А. Yes. LTI pay is a nearly universal component of compensation for employees in 4 executive and key positions among investor-owned utilities in today's workplace. In fact, Frederic W. Cook & Co., Inc.'s ("Cook") September 2023 study titled "The 5 6 2023 Top 250 Report" demonstrates that LTI is a necessary and expected component of executive and management compensation plans. This study includes 7 14 utility sector companies. In addition, because recent market compensation 8 9 studies support CNP's decision to offer LTI and, as mentioned above, the 10Company's average total pay levels including LTI are at approximately 99% of the 11 median of the market for LTI-eligible employees, the Company's requested LTI 12 costs are presumed reasonable and necessary based on PURA § 36.067. A copy of 13 the Cook study is attached as Exhibit BRV-5.

14

Q. PLEASE EXPLAIN THE COMPONENTS OF THE LTI PLAN.

15 A. LTI pay is a variable compensation component that rewards participants using two 16 different types of awards: (1) performance-based restricted stock units ("PSUs") 17 and (2) time-based restricted stock units ("RSUs"). The PSUs are based on the 18achievement of predetermined goals such as total shareholder return, earnings per 19 share, and carbon emissions reduction goals measured over a three-year 20 performance period, which must be achieved before performance shares are 21 awarded. The RSUs depend upon an employee staying with CNP for three years 22 and are subject to the company achieving positive operating income in the year 23 prior to vesting. This type of LTI award is critical for CNP's and the Company's

ability to retain experienced Directors and Executives whose knowledge and
 expertise are critical to the Company. LTI awards for employees below the
 Director level are 100% time-based. The chart below illustrates the structure of the
 LTI award for Directors and Executives.



Costs for LTI during the test year are represented by the PSUs and RSUs during the three-year periods that overlap with the 2023 test year ending in December 2023: 2020 through 2022, 2021 through 2023, 2022 through 2024, and 2023 through 2025. The LTI goals for the PSUs for these periods are based on total shareholder return and cumulative net income for 2020; total shareholder return and cumulative utility earnings per share for 2021; and total shareholder return, cumulative utility earnings per share, carbon reduction – scope 1 and 2, and carbon

6

reduction - scope 3 for 2022 and 2023. These goals are achieved based on the 1 efforts of the plan participants to improve productivity, service, expense 2 management, and other factors that are a necessary part of providing safe and 3 reliable service. This type of variable incentive plan opportunity motivates and 4 rewards employee performance, which is essential to meeting customer needs and 5 6 recruiting and retaining a qualified management team. A more detailed explanation of the goals associated with the PSU and the RSU awards included in test year costs 7 is provided in Confidential Exhibit BRV-8. 8

9

10

Q. IS IT COMMON FOR PERFORMANCE-BASED LTI TO BE LINKED TO SHAREHOLDER RETURN AND INCOME GOALS?

11 A. Yes. CNP's LTI plan is consistent with market studies. Specifically, the majority 12 of LTI plans in the market consist of goals that are designed to align management activities with the interests of all stakeholders. CNP's LTI Plan design is very 13 14 similar to the LTI plan design of other comparable regulated investor-owned utilities that fall within a reasonable range of CNP's annual revenue and current 15 16 market capitalization. Using a group of peer companies helps align CNP's 17 compensation programs with other companies in the utility industry sector. LTI 18 goals are meant to ensure that participants are focused on the health of the entire company, including CenterPoint Houston. 19

The Cook study referenced previously reported that 94% of the 250 companies used performance-based LTI and many companies use more than one performance measure or goal. The following are the performance goals and frequency of use of each as reported by the Cook study:

1	Performance Measure/Goal	Frequency of Use
2	Total Shareholder Return	72%
3	Profit (Operating/Net Income)	53%
4	Capital Efficiency	37%
5	Revenue	25%
6	Cash Flow	19%
7	Other (Safety, Quality, New Business	s) 20%

8 Additionally, according to a proxy statement analysis of 18 CNP peer companies 9 conducted by Meridian in 2023, 17 of the 18 companies used total shareholder return as a metric for their LTI plans. 10 of the 18 peer companies used two goals, 10 11 one used a single goal, and seven companies used three or more goals. The most common goal reported was total shareholder return, which is a component of CNP's 12 13 LTI plan. The Meridian analysis is included as Confidential Exhibit BRV-7. The 14 independent Cook and Meridian studies show that LTI is a common component of 15 utility total compensation plans and CNP's selection of specific LTI goals is very similar to those of other utilities within its peer group, which indicates that CNP's 16 LTI Plan is reasonable and consistent with market studies. In addition, for the 17 carbon reduction goal, nearly half of CNP's peer utilities include environmental 18 metrics as shown in Confidential Exhibit BRV-7, and WTW's Company specific 19 20study notes that carbon reduction is increasing in prevalence with 22% of CNPs 21 utility peers using it as a performance measure.

22 Q. HOW ARE THE LTI GOALS INTENDED TO OPERATE?

A. Like STI, the LTI goals are designed to focus employee efforts on metrics that
 benefit the Company's stakeholders. For example, achievement of strong financial
 performance is a direct benefit to customers as it ensures that the Company remains
 capable of providing safe and reliable service. Positive operating income is a direct

1 result of the prudent management of operating expenses. Similarly, positive total 2 shareholder return reflects strong performance from all CNP operating divisions, which attracts capital for maintaining and investing in the Company's infrastructure 3 to deliver safe and reliable service. Higher employee productivity, careful control 4 5 of operations and maintenance costs, attention to customer service levels and 6 customer retention, adherence to employee and customer safety procedures, and 7 other customer-based actions assist in minimizing expenses and achieving stable earnings. Company witness Jacqueline Richert discusses in greater detail the 8 9 importance of maintaining the financial integrity of the Company to have strong 10 credit metrics.

Beginning in 2022, CNP introduced a carbon reduction goal as a weighted component of the LTI PSU awards. This new component measures the progress of CNP's net zero emission and carbon emissions reduction goals and holds leaders accountable for the achievement of these goals. These are factors that are within the direct influence of employees, including LTI Plan participants.

16 Customers also benefit from CNP's LTI Plan because it enables CNP to 17 attract and retain a quality management team that is focused on improving CNP's 18 performance, including that of CenterPoint Houston. Without LTI, CNP would be 19 lacking an important component of an effective total compensation package to 20 compete for the right talent in today's job market. Given the competitive job 21 environment, including low unemployment and the competition CNP faces in 22 Texas from other energy companies, retaining employees is critical. It is costly to

lose experienced and knowledgeable employees who are familiar with CNP and the
 Company.

3 Q. WHAT CONCLUSIONS DOES THE COMPANY-SPECIFIC WILLIS 4 TOWERS WATSON STUDY REACH REGARDING LTI?

5 The study confirms CNP's LTI program is consistent and competitive with the plan A. design of similarly sized utilities. Every company in the CNP utility peer group has 6 an LTI plan. CNP is aligned with the peer groups, where all companies that offer 7 LTI awards use some type of performance plan vehicle, similar to CNP's PSUs and 8 9 all small utility peers use a combination of PSUs and RSUs. CNP's use of a cliff 10vesting schedule is prevalent in the market, with 78% of the peer group using cliff vesting for RSUs. WTW also concluded that CNP's payout range is a common 11 12 design found in all of the small utility peers WTW surveyed.

Q. ARE THE COSTS THE COMPANY IS SEEKING TO RECOVER ASSOCIATED WITH THE LTI PLAN A REASONABLE AND NECESSARY COST OF PROVIDING SERVICE?

A. Yes. The LTI plan awards stock to participants when CNP achieves the plan goals, which are aligned with customer and shareholder interests, or when employees remain with CNP for at least three years. LTI pay opportunities are prevalent in the utility industry segment, and the LTI Plan design and goals are consistent with peer utilities as demonstrated by market studies, including the Cook report and the Meridian analysis. In addition, because the LTI expenses the Company seeks to recover are related to LTI plans that are consistent with market compensation

studies, the costs are presumed reasonable and necessary according to PURA §
 36.067.

3

C. One-Time Payment to Account for Inflation

4 Q. WHAT IS THE ONE-TIME PAYMENT?

A. Recognizing the financial strain of continued high inflation in the economy along
with employees' hard work and outstanding efforts in 2023, CNP awarded eligible
employees a one-time, lump-sum payment to offset the impact of inflation. The
one-time amount was paid to eligible employees in the amount of 1%, minimum
\$1,500, of their annualized base salaries as of December 31, 2023.

10

D. Base Pay and Incentive Compensation Summary

11 Q. ARE ALL OF THE COMPANY'S BASE PAY AND INCENTIVE
12 COMPENSATION COMPONENTS REASONABLE AND NECESSARY?

13 Yes. The total pay offered to CNP and Company employees is reasonable, A. 14 necessary and prudent. As noted above, CNP evaluates its pay from a total 15 compensation perspective, as total compensation is the key factor in determining 16 whether the Company is offering sufficient pay to attract and maintain the qualified 17 work force it needs to conduct its business. Incentive pay is an essential part of the 18 overall compensation picture, and CNP factors in incentive pay when comparing 19 the pay it offers to its employees to that offered by peer companies. The STI and 20 LTI compensation costs requested in this case provide total pay opportunities that 21are well aligned with the market median total pay levels. An employee's total pay 22 opportunity is determined by targeting the median total pay, including incentive 23 compensation, of similar positions in the industry. If an employee does not have

1		the opportunity to receive incentive pay, then the employee will receive less than
2		the median pay of similar positions within the industry, putting the Company at a
3		competitive disadvantage. PURA § 36.067 creates a presumption that certain
4		incentive compensation costs the Company seeks to recover are reasonable and
5		necessary. But my testimony demonstrates that even those portions of
6		compensation that are not given the presumption are reasonable and necessary. For
7		these reasons, compensation costs, including all requested incentive plan costs,
8		should be recovered through rates. Ms. Colvin addresses the total amount the
9		Company seeks to recover for total compensation and adjustments to the test year
10		expense amounts to reflect the Company's requested level of total compensation
11		costs.
12		VI. <u>BENEFITS</u>
12 13	Q.	VI. <u>BENEFTIS</u> WHAT IS CNP'S PHILOSOPHY REGARDING BENEFITS?
	Q, A.	
13	-	WHAT IS CNP'S PHILOSOPHY REGARDING BENEFITS?
13 14	-	WHAT IS CNP'S PHILOSOPHY REGARDING BENEFITS? CNP's benefits philosophy is to provide a comprehensive set of benefits to meet
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1		(2) Pension Plans:						
2		(a) Retirement Plan and Benefit Restoration Plan;						
3		(b) Savings Plan and Savings Restoration Plan;						
4		(3) Postretirement benefits;						
5		(4) Postemployment benefits; and						
6		(5) Deferred Compensation Plan.						
7	I address each of these benefits below in greater detail. Ms. Colvin addresses the							
8								
9		the test year expense amounts to reflect the Company's requested level of benefit						
10		costs. Mr. Storey addresses corporate allocations, including the benefit costs of						
11		affiliate employees who perform necessary services and functions for the						
12		Company.						
13	Q.	WHAT TOOLS DOES CNP USE TO DETERMINE THAT THE OVERALL						
13 14	Q.	WHAT TOOLS DOES CNP USE TO DETERMINE THAT THE OVERALL VALUE OF THE BENEFITS OFFERED TO EMPLOYEES IS						
	Q.							
1.4	Q. A.	VALUE OF THE BENEFITS OFFERED TO EMPLOYEES IS						
14 15	-	VALUE OF THE BENEFITS OFFERED TO EMPLOYEES IS CONSISTENT WITH MARKET MEDIAN VALUES?						
14 15 16	-	VALUEOFTHEBENEFITSOFFEREDTOEMPLOYEESISCONSISTENT WITH MARKET MEDIAN VALUES?CNP relies on market studies. Specifically, CNP participates in the WTW Data						
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1	Q.	HAVE THERE BEEN ANY CHANGES IN BENEFIT PLANS OR BENEFIT							
2		PLAN DESIGN SINCE CENTERPOINT HOUSTON'S LAST RATE CASE							
3		IN 2019 IN WHICH THESE COSTS WERE APPROVED FOR							
4		RECOVERY?							
5	А.	Yes. CenterPoint implemented various administrative and plan design changes							
6		since its last filing as part of its annual review of the competitiveness of benefits							
7		offered to attract and retain employees necessary to serve its customers. These							
8		changes are described below under each specific benefit plan.							
9		A. Health and Welfare Plans							
10	Q.	WHAT HEALTH AND WELFARE PLANS DOES CNP PROVIDE?							
11	A.	CNP provides medical (including prescription drug), dental, vision, life insurance,							
12		accidental death and dismemberment insurance, and long-term disability benefits.							
13	Q.	WHAT IS CNP'S PHILOSOPHY WITH RESPECT TO BENEFITS COST							
14		SHARING?							
15	А.	CNP shares the cost of benefits with employees who participate in the plans. For							
16		example, for coverage in the medical plan, CNP, in general, targets a 76/24%							
17		employer/employee cost share. Employees have contributions deducted from their							
18		pay at a rate designed to achieve the referenced cost sharing ratio. In addition to the							
19		costs incurred directly through employee contributions, plan participants incur out-							
20		of-pocket expenses such as deductibles, co-insurance, and co-pays when they							
21		utilize the medical plan. These out-of-pocket expenses vary based on the design of							
22		the particular medical plan offered to employees. CNP makes periodic adjustments							

in plan design to remain competitive both with other utility companies and large
 employers in general.

3 Q. HOW DOES HR HELP CNP ENSURE THAT THE INSURANCE 4 CARRIERS AND ADMINISTRATORS CNP USES ARE CHARGING A 5 COMPETITIVE RATE FOR THEIR SERVICES?

6 Α. For all insured plans, CNP uses brokers to ensure that administrative services are competitively priced. The CNP HR staff also meets from time to time with 7 8 consultants, benefit providers and insurance carriers to discuss competitive trends 9 and plan design. Additionally, HR periodically solicits third-party bids on all of its 10 insured plans. Typically, CNP utilizes multi-year agreements of at least three years' duration to lock in competitive pricing. We also work jointly with our 11 12 carriers to design benefit plans to help manage costs and maintain competitiveness. This objective is also achieved by aggregating all CNP employees into insurance 13 14 pools to leverage CNP's size to obtain the best rates possible.

Q. IS THE PROVISION OF HEALTH AND WELFARE BENEFITS TO EMPLOYEES REASONABLE AND NECESSARY?

A. Yes. The provision of health and welfare benefits to employees is an industry standard. In fact, of the 850 organizations in the 2023 WTW Benefits Data Source – U.S. Broad-Based Database, which is included in Confidential Exhibit BRV-9, 93% provide active medical plans and 77% provide active dental plans. In order to attract and retain a qualified and effective workforce, CNP seeks to provide a comprehensive and competitively based package of health and welfare benefits. Health and welfare benefits help shield employees and their families from financial

loss and protect the health and well-being of employees and their dependents during
 their careers. In addition, the health and welfare benefits costs the Company seeks
 to recover are presumed reasonable under PURA § 36.067 because they are
 consistent with market compensation studies.

5 Q. DOES CNP TAKE STEPS TO CONTROL THE RISING COSTS OF 6 HEALTHCARE?

- A. Yes. Each year, CNP reviews its medical claims experience and compares it with
 industry trends to estimate future medical plan costs. Based on these cost increase
 projections, administrative changes and plan design changes are recommended to
 management to help control or reduce rising costs while maintaining a competitive
 benefits package.
- 12

B. Retirement Plan and Benefit Restoration Plan

13 Q. WHAT IS THE RETIREMENT PLAN?

14 CNP's Retirement Plan is a qualified defined benefit pension plan that is intended Α. 15 to provide employees with income in retirement. Certain employees are eligible for participation under the Retirement Plan, which sets up a cash balance account 16 17 for each employee. Generally, eligibility is limited to employees hired prior to 18 January 1, 2020 and certain union employees. Annually, each eligible employee 19 account is credited with a contribution credit equal to 5% of the employee's eligible 20 compensation. The employee accounts earn interest credits equal to the average 21 return on 30-year Treasury securities for November of the prior year. Eligible 22 employees are fully vested in their account balances after completing three years of

service. CNP pays the full cost of the Retirement Plan. Company witness Ms.
 Colvin addresses the retirement plan expense in her direct testimony.

3 Q. WHAT IS THE BENEFIT RESTORATION PLAN ("BRP")?

A. The BRP is an unfunded, non-qualified² retirement plan that restores retirement
benefits for employees that would have been paid under the Retirement Plan, had
they not been subject to limitation under the Internal Revenue Code. The BRP is
simply a way for CNP to offer employees at all levels comparable retirement
benefits.

9 Q. IS THE CONTINUED PROVISION OF A RETIREMENT PLAN AND BRP 10 TO EMPLOYEES REASONABLE AND NECESSARY?

Yes. In the past, most utility and energy companies provided defined benefit 11 Α. 12 retirement plans, and per the WTW Benefits Data Source, some utility and energy companies still do. Retirement plans have been a necessary and reasonable part of 13 14 providing a competitive package of benefit programs that have allowed companies to attract and retain qualified employees, and it is necessary and prudent to continue 15 to provide this benefit to those employees that were eligible for the plan when they 16 17 were hired and have come to rely on the Retirement Plan as they plan for their financial security. The CNP BRP is simply an extension of the Retirement Plan 18 19 that is designed to restore benefit limitations imposed under the Internal Revenue 20 Code.

² "Non-qualified" is a reference to the fact that the design of this benefit plan does not meet Internal Revenue Code criteria to qualify for certain tax advantages that qualified plans (such as CNP's pensions) provide.

1

C. Savings Plan and Savings Restoration Plan

2 Q. WHAT ARE THE BASIC FEATURES OF CNP'S SAVINGS PLAN?

3 A. The Savings Plan is a qualified defined contribution pension plan. All CNP 4 employees are eligible for the Savings Plan. Employees may contribute on a 5 pre-tax, Roth, and an after-tax basis. Generally, CNP matches the employee 6 contribution dollar for dollar up to an amount equal to 6% of the employee's 7 eligible compensation each pay period. Effective January 1, 2020, certain 8 employees participate only in the defined contribution Savings Plan instead of the 9 defined benefit Retirement Plan, For those employees, CNP matches dollar for dollar up to 6% of eligible compensation plus a 3% non-matching contribution. 10 11 These employees include employees hired or rehired beginning January 1, 2020, 12 except for certain union employees who are still eligible to participate in the 13 Retirement Plan. Participants direct their contributions, including the employer 14 match and non-matching contributions, into various investment options offered by 15 the Savings Plan. During the test year, employees were immediately fully vested 16 in their contributions and the Company's matching and non-matching contributions. 17

18 Q. IS THE COMPANY'S SAVINGS PLAN EMPLOYER CONTRIBUTION 19 APPROACH CONSISTENT WITH RECENT MARKET STUDIES?

A. Yes. CNP's decision, effective in January 2020 to match contributions up to 6%
of eligible compensation and provide a 3% non-matching contribution was
supported at the time by market data showing employer contributions among
CNP's peers averaged 9% in 2019. More recently, Aon's Utility Industry

- Benchmarking Report from August 2022 showed the current employer contribution
 average was 10% at that time. A copy of the Aon Utility Industry Benchmarking
 Reports is provided as Confidential Exhibit BRV-10 to my testimony.
- 4

Q. WHAT IS THE SAVINGS RESTORATION PLAN ("SRP")?

5 A. The SRP is an unfunded, non-qualified savings plan. The SRP restores amounts 6 the employer would have matched absent the Internal Revenue Code limits. The 7 rate of return earned in the plan is based on each participant's actual rate of return 8 earned under the Savings Plan.

9 Q. ARE THE EXPENSES ASSOCIATED WITH THE SAVINGS PLAN AND 10 SRP REASONABLE AND NECESSARY?

Yes. Almost 100% of the organizations, including all 69 utility and energy 11 Α. companies in the WTW Benefits Data Source - U.S. Broad-Based Database, 12 provide defined contribution plans. And as stated above, CNP's employer 13 14 contributions percentage are comparable to the market. As such, the defined 15 contribution plan costs the Company seeks to recover are presumed reasonable 16 under PURA § 36.067 because they are consistent with market compensation studies. The SRP is merely an unfunded, non-qualified extension of the Savings 17 18 Plan to restore benefits due to limitations under the Internal Revenue Code. Therefore, in order to provide a competitive package of benefit programs that 19 allows CNP to attract and retain qualified employees and leadership, the provision 20 of the Savings Plan and SRP is reasonable and necessary. 21

Q. WHY DOES CNP PROVIDE BOTH RETIREMENT AND SAVINGS PLANS?

CNP provides market-based retirement benefits to enable employees to provide for 3 Α. their financial security in retirement and because doing so is consistent with 4 benefits offered by other companies in the market. CNP provides both a Retirement 5 6 Plan and a Savings Plan to eligible employees because both types of plans are important to help employees achieve their retirement income goals. CNP bears the 7 responsibility of providing the benefit as defined by the Retirement Plan. In 8 9 contrast, with respect to the Savings Plan, similar to other 401(k) plan designs, the employee makes the decision as to whether to participate in the plan, the degree of 10 11 participation and the actual investments held in the plan.

12 Q. DOES THE COMPANY TAKE STEPS TO MANAGE COSTS RELATED

13 TO ITS RETIREMENT PLAN?

- A. Yes. For example, in 2022, CNP amended the Retirement Plan to provide for the
 purchase of an annuity contract to fund small annuities under the Retirement Plan.
 This change was made to reduce risk in the Retirement Plan and to reduce
 administrative costs (vendor fees and Pension Benefit Guaranty Corporation
 premiums) in the Retirement Plan.
- 19

D. Postretirement Benefits

20 Q. WHAT ARE POSTRETIREMENT BENEFITS?

A. Postretirement benefits are medical, dental, and life insurance plans that are
 provided to retired employees, their beneficiaries and covered dependents. They
 include benefits paid to surviving spouses and dependents of retired employees.

1 Q. PLEASE EXPLAIN CNP'S POSTRETIREMENT BENEFIT PLAN.

- 2 A. CNP's postretirement benefit plan is a defined dollar health and welfare benefit 3 plan that provides retiree medical and dental benefits to eligible employees. 4 Employees become eligible for postretirement benefits at age 55 with at least five 5 years of active service after age 50. Benefit coverage is similar to benefits coverage 6 under the medical plans offered to active employees until they attain age 65. When 7 a retiree and/or eligible spouse attains age 65, benefits are provided under a fully insured Medicare Advantage program. The cost of postretirement benefits is 8 9 generally shared between CNP and its retirees.
- 10 Q. IS THE CONTINUED PROVISION OF THE POSTRETIREMENT
- BENEFIT PLAN TO THOSE EMPLOYEES WHO REMAIN ELIGIBLE
 FOR THE PLAN A REASONABLE AND NECESSARY EXPENSE?
- A. Yes. Forty-five percent of the utility and energy peer group in the WTW Benefits
 Data Source U.S. Broad-Based Database provides postretirement benefits.
 However, CNP has determined that postretirement benefits are not as prevalent for
 new hires and therefore, CNP discontinued offering postretirement benefits to
 employees hired from and after January 1, 2018. In the past, postretirement plans
 have been a necessary and reasonable part of providing a competitive package of
 benefit programs that allowed companies to attract and retain qualified employees.

In addition, it is necessary and fair to maintain the benefits for those employees that
 were eligible for the postretirement benefits when they were hired.

3 Q. DOES CNP TAKE STEPS TO MANAGE THE COSTS RELATED TO 4 POSTRETIREMENT BENEFITS?

5 A. Yes. Each year, CNP reviews its retiree medical claims experience and compares 6 it with industry trends to calculate future medical plan costs. In addition, plan 7 design changes are recommended to help reduce rising costs while maintaining 8 competitive benefit plans.

9 Q. HOW IS THE TEST YEAR AMOUNT OF POSTRETIREMENT PLAN

- 10 EXPENSE DETERMINED?
- 11 A. The amount of test year postretirement plan expense is based upon future 12 expectations of postretirement plan expense as estimated by Aon. The test year 13 projected expense reflects the best-known calculation of these costs at this time as 14 provided by Aon based on actuarial assumptions using the Company's employee 15 population. Ms. Colvin addresses the test year postretirement expense in more 16 detail in her direct testimony.
- 17

E. Postemployment Benefits

- 18 Q. WHAT ARE POSTEMPLOYMENT BENEFITS?
- A. Postemployment benefits are medical, dental, and life insurance plans that are
 provided to certain inactive employees, their beneficiaries and covered dependents
 after employment, but before retirement. This would include benefits to surviving
 spouses and dependents of active employees and employees approved for long-term
 disability benefits. Effective January 1, 2020, long-term disability participants,

- except employees represented by IBEW Local 66, have a deemed termination of
 employment 24 months following their date of disability and are no longer eligible
 for active benefit programs after the 24-month period.
- 4 Q. WHAT IS INCLUDED IN POSTEMPLOYMENT EXPENSE?

5 Postemployment benefit expense includes postemployment benefits costs А. 6 ASC determined required by . GAAP under Topic 712. as 7 Compensation - Nonretirement Postemployment Benefits (formerly SFAS No. 112 8 "Employers' Accounting for Postemployment Benefits), as calculated by Aon.

9 The annual expense consists of an accrual for the present value of future 10 health and welfare benefits for certain inactive employees, their beneficiaries and 11 covered dependents. The accrual is determined at the Company level based on the 12 underlying demographic data of Company employees. Ms. Colvin addresses the 13 calculation of the test year postemployment expense in more detail in her direct 14 testimony.

Q. IS IT REASONABLE AND NECESSARY TO PROVIDE EMPLOYEES WITH POSTEMPLOYMENT BENEFITS?

A. Yes. Providing postemployment benefits offers security to employees and their
families against unforeseen incidents and is common across multiple industry
segments. In the WTW Benefits Data Source – U.S. Broad-Based Database, 95%
of participants provide long term disability plans. Such benefits are part of the
competitive package of benefit programs offered by CNP to attract and retain
qualified employees and are consistent with market studies.

1	1 F. Deferred Compensation Plan							
2	Q,	Q. WHAT IS THE DEFERRED COMPENSATION PLAN?						
3	А.	The Deferred Compensation Plan is a non-qualified, unfunded savings vehicle for						
4		eligible employees. The plan allows eligible employees to defer receipt for income						
5		tax purposes of base pay and/or STI payments, until distribution. Annually, the						
6		deferred amount is credited with interest, also on a tax-free basis until distribution.						
7		Beginning January 1, 2023, the Deferred Compensation Plan was frozen, and no						
8		employee is newly eligible to participate.						
9	Q.	ARE THE DEFERRED COMPENSATION PLAN COSTS A REASONABLE						
10		AND NECESSARY COMPONENT OF CNP'S OVERALL						
11		COMPENSATION AND BENEFITS PACKAGE?						
12	А.	Yes. The deferred compensation plan costs are a reasonable and necessary part of						
13		the competitive package of benefit programs offered by CNP to attract and retain						
14		qualified leadership. As of January 1, 2023, this benefit plan is now closed to new						
15		entrants; however, CNP is still obligated to administer and make distributions under						
16		this plan as defined by Section 409A of the Internal Revenue Code regulations.						
1 7	Company witness Ms. Colvin addresses the test year costs associated with the							
18		Deferred Compensation Plan in her direct testimony.						
19	Q.	ARE THE COMPANY'S BENEFITS CONSISTENT WITH MARKET						
20		STUDIES PURSUANT TO PURA § 36.067?						
21	A.	Yes. The Company's benefits are consistent with market studies as illustrated in						
22		Towers Watson Benefits Data Source, Confidential Exhibit BRV-9. The Company						
23		continues to offer benefits that are competitive for its employees and market based.						

1 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

2 A. Yes.

STATE OF ALLAS \$ COUNTY OF Marine \$

AFFIDAVIT OF BERTHA R. VILLATORO

BEFORE ME, the undersigned authority, on this day personally appeared Bertha R. Villatoro who having been placed under oath by me did depose as follows:

- 1. "My name is Bertha R. Villatoro. I am of sound mind and capable of making this affidavit. The facts stated herein are true and correct based upon my personal knowledge.
- 2. I have prepared the foregoing Direct Testimony and the information contained in this document is true and correct to the best of my knowledge."

Further affiant sayeth not.

Bértha R. Villatoro

SUBSCRIBED AND SWORN TO BEFORE ME on this 16th day of february, 2024.

Notary Public in and for the State of May on

My commission expires: And De Dod T

THE MAN THE COMPANY OF THE PARTY OF THE PART BIANCA COSTER OTARY ID #13416793-4 TTOTOT STATE My Commission Expires January 26, 2027

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UTILITIES CODE

TITLE 2. PUBLIC UTILITY REGULATORY ACT

SUBTITLE B. ELECTRIC UTILITIES

CHAPTER 36. RATES

SUBCHAPTER A. GENERAL PROVISIONS

Sec. 36.067. CONSIDERATION OF COMPENSATION AND BENEFIT EXPENSES. (a) In this section, "employee compensation and benefits" includes base salaries, wages, incentive compensation, and benefits. The term does not include:

(1) pension or other postemployment benefits; or

(2) incentive compensation for an officer of an electric utility related to attaining:

(A) financial metrics; or

(B) metrics adverse to customers' interests as determined by the commission.

(b) When establishing an electric utility's rates, the regulatory authority shall presume that employee compensation and benefits expenses are reasonable and necessary if the expenses are consistent with market compensation studies issued not earlier than three years before the initiation of the proceeding to establish the rates.

Added by Acts 2023, 88th Leg., R.S., Ch. 3 (S.B. 1016), Sec. 1, eff. May 5, 2023.

EXHIBIT TO DIRECT TESTIMONY OF BERTHA R. VILLATORO

Exhibit BRV-2 Willis Towers Watson 2023 General Rate Case Study is confidential and will be provided in electronic format. A copy of this material will be provided only after execution of a certification to be bound by the draft protective order set forth in Section VII of this Rate Filing Package or a protective order issued in this docket.

EXHIBIT TO DIRECT TESTIMONY OF BERTHA R. VILLATORO

Exhibit BRV-3 2023 Compensation Surveys is confidential and voluminous, and will be provided in electronic format. A copy of this material will be provided only after execution of a certification to be bound by the draft protective order set forth in Section VII of this Rate Filing Package or a protective order issued in this docket.

EXHIBIT TO DIRECT TESTIMONY OF BERTHA R. VILLATORO

Exhibit BRV-4 2022-2023 WorldAtWork Salary Budget Survey is confidential and will be provided in electronic format. A copy of this material will be provided only after execution of a certification to be bound by the draft protective order set forth in Section VII of this Rate Filing Package or a protective order issued in this docket.

Exhibit BRV-5 Page 1 of 22 September 2023





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2

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6

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11

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13

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20

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2023 TOP 250 REPORT

Table of Contents
Executive Summary
Introduction
Long-Term Incentive Grant Types and Prevalence
Performance-Based Award Design
What Metrics Are Used to Measure Performance?
How Is Performance Measured?
How Wide Are Typical Performance Goal Ranges?
How Are Performance Periods Defined?
Appendix
Supplemental Detail
Companies Studied
Company Profile and Authors



EXECUTIVE SUMMARY

Persisting economic uncertainties are challenging companies' ability to establish long-term business forecasts and causing some to reassess long-term incentive plan designs. Stock prices remain volatile in certain industries despite the rebound in the U.S. stock market since the pandemic-related crash in 2020. New challenges have emerged including global supply chain disruptions, persistent inflation, Federal Reserve policy changes, evolving labor markets, and an increasing investor focus on efficiency.

This Top 250 Report details executive long-term incentive practices at the 250 largest companies by market capitalization, with special focus on design trends that have emerged since the COVID-19 pandemic (i.e., pre-2020 to current).

- The prevalence and grant value mix of award vehicles remain consistent with pre-pandemic practices, with
 performance-based awards continuing to be emphasized by most companies.
- Goal-setting uncertainty is influencing companies' performance-based award structures, as evidenced by emerging
 practices in performance metric selection, goal-setting, and performance periods.

Key findings include:

Prevalence of total shareholder return ("TSR") metrics has increased 7 percentage points since 2019, with most companies combining market-based metrics with at least one other financial performance metric...

 Increased use of TSR metrics is driven by pressure to better align long-term incentive payouts with shareholder outcomes, despite program participants' limited control over external factors that influence stock price movement.



 Most companies use TSR with at least one other performance metric (85% prevalence), and the prevalence of using it as a modifier of payouts based on other metrics has grown by 50% since the start of the pandemic (38% prevalence now, up from 25% in 2019).

Non-TSR financial goal ranges have widened to account for goal-setting difficulties, while relative TSR award designs have become more rigorous...



- Wider ranges between threshold and maximum goals for non-TSR financial metrics make it more likely to earn at least some portion of the award while making an above-target earnout more challenging.
- For relative TSR, more companies are setting above-median target goals (30% prevalence now, up from 24% in 2019) and implementing caps on payouts if absolute TSR is negative (34% prevalence now, up from 26% in 2019).

Performance measurement using multiple, discrete annual goals has increased in prevalence...

- 12% of companies measure long-term incentives in annual increments, double the rate in 2019, which is most common in the Communication Services (29% prevalence), Information Technology (24%), and Health Care (19%) sectors.
- However, proxy advisors and investors often express concern that annual goals do not incentivize long-term performance and continue to prefer multi-year end-to-end measurement periods, which remain much more prevalent.
- Setting annual performance goals year-by-year (vs. all-at-once at grant) further deleverages performance risk
 and has increased by 30% in prevalence (46% prevalence now, up from 36% in 2019), despite being subject to
 more external scrutiny than upfront goal-setting.



2

Overview and Background

Since 1973, FW Cook has published annual reports on long-term incentive grant practices for executives. This report, our 51st edition, presents information on long-term incentives granted to executives at the 250 largest U.S. companies in the S&P 500 Index. It is intended to inform boards of directors and compensation professionals in designing and implementing long-term incentive programs that promote company success by supporting strategic objectives and aligning pay delivery with performance.

Scope of Study

The report covers the following topics:

- · Long-term incentive grant type prevalence and mix, with a focus on CEO awards.
- **Key performance-based award characteristics**, including performance metrics, absolute vs. relative performance measurement; comparator groups for relative measurement, performance goal ranges, total performance and vesting period length, and cumulative vs. annual performance measurement.
- The Appendix includes information on time-based award vesting, additional performance-based award detail, and statistics by industry.

Historical comparisons primarily focus on a one- and four-year lookback, depending on the topic. The one-year lookback (vs. 2022) is provided to identify any emerging developments, and the four-year perspective (vs. 2019) is to highlight the evolution of design trends since the start of the pandemic.

Source of Data

All information was obtained from public documents filed with the Securities and Exchange Commission ("SEC"), including proxy statements and Form 10-K and 8-K filings.

Top 250 Company Selection

The Top 250 companies are selected annually based on market capitalization (share price multiplied by common shares outstanding). The sample consists of the 250 U.S.-listed companies in the S&P 500 with the largest market capitalizations as of April 30, 2023, limited to those granting long-term incentives. See the Appendix for the list of companies reviewed. Thirteen of the 250 companies (5%) are new to this 2023 report (i.e., not in the 2022 Top 250 sample), with the majority of changes due to fluctuations in market capitalization between April 30, 2022 and April 30, 2023 (the dates used to determine the 2022 and 2023 Top 250 company lists, respectively).

The following table displays the industry sectors represented in the Top 250 for 2023, defined by the Global Industry Classification System ("GICS").



INTRODUCTION

\$ values in billions		Median Market Data					
Industry Contex	Percent of 2023 Top 250	Net Sales	Net Income	Market Capitalization as of 6/30/23	TSR ¹		
Industry Sector (# of companies)					Year-to- Date	1-Year	5-Year CAGR ²
Health Care (39)	16%	\$26.32	\$3.32	\$79.58	+0%	+4%	+15%
Industrials (35)	14%	\$19.63	\$2.95	\$51.66	+11%	+22%	+15%
Financials (35)	14%	\$22.24	\$3.25	\$63.81	+1%	+12%	+10%
Information Technology (34)	14%	\$17.42	\$2.52	\$92.02	+32%	+34%	+19%
Consumer Staples (24)	10%	\$31.63	\$2.50	\$55.58	+1%	+3%	+12%
Consumer Discretionary (20)	8%	\$20.94	\$2.74	\$56.94	+14%	+34%	+14%
Energy (16)	6%	\$28.85	\$7.80	\$46.10	-6%	+13%	+6%
Utilities (14)	6%	\$17.20	\$1.77	\$37.50	-5%	-2%	+8%
Real Estate (12)	5%	\$4.98	\$0.99	\$40.23	+4%	+1%	+9%
Materials (11)	4%	\$17.65	\$2.26	\$40.73	+9%	+23%	+9%
Communication Services (10)	4%	\$81.15	\$3.82	\$159.74	+7%	-1%	+1%
Total Top 250 - Median	-	\$20.67	\$2.64	\$57.26	+5%	+15%	+11%

Source: S&P Capital IQ; note that net sales and net income figures represent 10-K results; all other data measured as of 6/30/23.

[†] TSR = Total Shareholder Return, a measure of stock price and dividend performance; calculated through 6/30/23.

² CAGR = Compounded Annual Growth Rate.

Definition of Long-Term Incentive

This report presents the most recently disclosed long-term incentive grant types in use at the Top 250 companies as of mid-2023. A grant type is considered in use at a company if grants were made in the current or prior year and there is no evidence the grant practice has been discontinued, or if the company indicates the grant type will be awarded in the future.

To be considered a long-term incentive for the purposes of this report, a grant must reward performance and/or continued service for a period of one year or more and cannot be limited by both scope and frequency.

- · A grant with limited scope is awarded to only one executive or select executives.
- A grant with limited frequency is not part of a company's regular grant practice. For example, a grant made as a hiring
 incentive, replacement of compensation forfeited at a prior employer, or a promotion award is not considered in this
 report.
- A grant with limited scope but without limited frequency (e.g., annual grants made only to the CEO) may be considered, and vice versa (e.g., one-time grants made to all executives).



INTRODUCTION

Definitions

Award vehicles: long-term incentive award vehicles include, but are not limited to, the following:

- Stock options and Stock Appreciation Rights ("SARs"), which are derivative securities with value dependent upon stock price appreciation; stock options are rights to purchase company stock at a specified exercise price during a stated term; SARs are rights to receive the increase between the grant price and the market price of a share of stock at exercise.
- Restricted stock, which includes actual shares or share units that are earned for continued employment and are often referred to as time-based awards.
- Performance-based awards, which consist of stock-denominated shares or share units ("performance shares") and grants of cash or dollar-denominated units ("performance units") earned based on performance against predetermined objectives over a period of more than one year, including long-term incentives with one-year performance periods that have additional time-vesting requirements.

Types of Metrics: Performance metric categories include, but are not limited to, the following:

- Total Shareholder Return (relative or absolute stock price appreciation plus dividends)
- Profit (EPS, Net Income, EBIT, EBITDA, Operating/Pretax Profit)
- Capital Efficiency (Return on Equity, Return on Assets, Return on Capital)
- Revenue (Sales, Net Revenue)
- Cash Flow (Free Cash Flow, Operating Cash Flow)
- Other (e.g., Safety, Quality Assurance, New Business, Individual Performance)

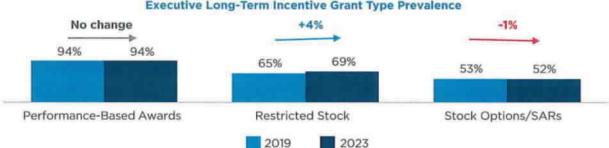


Which Long-Term Incentive Vehicles Remain in Favor?

Most companies continue to utilize a portfolio approach of multiple long-term incentive grant types, with performance-based awards emphasized in both prevalence and overall grant value mix.

In 2023, 86% of companies granted multiple long-term incentive vehicles, consistent with rates observed since 2019. The prevalence of each grant type in 2023 is generally similar to recent years:

- Performance-based awards used by nearly all companies (94%), flat vs. 2019;
- Restricted stock used by approximately two-thirds of companies (69%), up four percentage points; and
- Stock options/SARs used by approximately half of companies (52%), down one percentage point.



Executive Long-Term Incentive Grant Type Prevalence

Restricted stock and stock option/SAR awards most commonly vest over three years on a ratable schedule (vs. cliffvesting all at once at the end of the period). This has been the case for a while, and even more restricted stock awards now have a three-year vesting schedule than in 2019 (69% now, up from 61% in 2019). Prevalence of ratable vesting schedules rather than cliff-vesting for restricted stock has also continued to tick up (67% now, up from 63% in 2019). Using a three-year ratable vesting schedule instead of four-year or cliff vesting can enhance the perceived value of grants for recipients without increasing the actual grant value of the award. See page 13 for further detail on time-based award vesting.

Performance-based awards comprise the majority of the average CEO's grant value mix (60%), with the remaining value granted as time-based restricted stock for retention or stock options/SARs to incentivize absolute stock price growth.

- General industry use of stock options/SARs has declined over the last decade, partly due to the elevated emphasis on pay-for-performance combined with the proxy advisor view that stock options are not sufficiently performance-based absent a premium exercise price or performance-vesting condition.
- Companies of earlier business maturity (generally not reflected in the Top 250 sample) or in certain industries (e.g., healthcare) rely more heavily on stock options/SARs. However, most Top 250 companies de-emphasize stock options in favor of restricted stock and performance-based awards, which have greater retentive value in flat or negative stock price environments, more efficiently use stock plan reserves, and in the case of performance-based awards, can target specific performance goals other than absolute stock price appreciation.

2023:	Performance-Based Awards:	Restricted Stock:	Stock Options/
	60%	22%	SARs: 18%
2019:	Performance-Based Awards:	Restricted Stock:	Stock Options/
	58%	23%	SARs: 19%

Average Top 250 CEO Long-Term Incentive Mix

Exhibit BRV-5

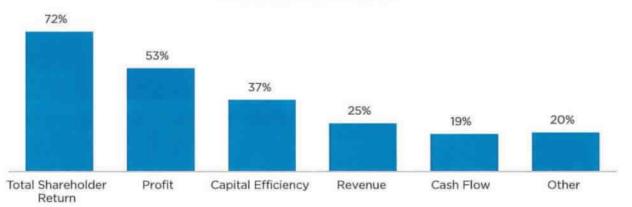
PERFORMANCE-BASED AWARD DESIGN

What Metrics Are Used to Measure Performance?

Most companies continue to utilize one or two performance metrics. Total shareholder return ("TSR"), a marketbased metric, combined with at least one other financial metric continues to be the most common approach, with an increasing number of companies using TSR as a modifier rather than a standalone, weighted metric.

In 2023, TSR continues to be the most prevalent metric, used by nearly three-quarters of companies granting performance-based awards (consistent with last year, and +7 percentage points since 2019).

 Profit and Capital Efficiency measures are the next most common performance metrics, used by 53% and 37% of companies, respectively.



Performance Metric Prevalence

While more companies have adopted TSR metrics, a decreasing proportion are using it as the sole performance metric.

- 85% of companies combine the metric with at least one other performance metric (+5 percentage points since 2022 and +7 percentage points since 2019).
- 38% of companies use TSR as a modifier of payouts determined by other metrics, as opposed to a separately
 weighted metric (e.g., TSR results can modify final payout by +/-20% vs. TSR is weighted 50% of final payout), +3 and
 +13 percentage points since 2022 and 2019, respectively.

It is not surprising that although TSR prevalence is increasing, companies may look to de-emphasize its weighting on overall payouts.

- Proxy advisors and investors typically favor TSR, creating pressure for companies to use TSR to better align
 participant payouts with shareholder outcomes.
- Relative TSR goals do not require multi-year goal-setting, which may be an attractive alternative to absolute financial goals in times of uncertain operating forecasts.
- However, award participants may have limited line-of-sight to stock price outcomes, particularly when measured on a
 relative basis.



How is Performance Measured?

Absolute vs. Relative Performance Measurement

The vast majority of awards with TSR goals continue to be measured relative to an index or other comparator group of companies. Relative measurement of other financial metrics has increased in prevalence, likely due to macroeconomic volatility, but remains a minority practice.

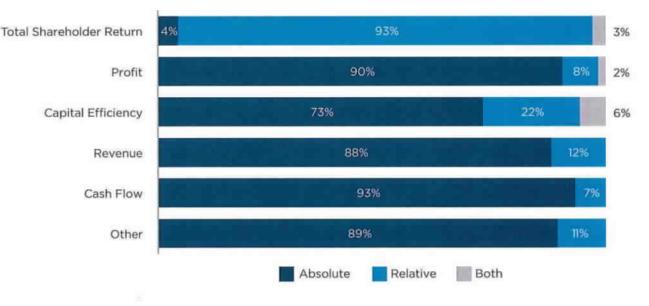
Relative performance measurement is an attractive approach when it is difficult to confidently forecast multi-year financial performance and set appropriate goals. As a result, TSR is typically measured on a relative basis due to stock prices' macroeconomic sensitivity and participants' limited control over external factors that influence stock price movement.

 96% of companies that use TSR measure it on a relative basis (including 3% that measure both absolute and relative TSR), consistent with recent years.

Most non-TSR financial goals continue to be measured on an absolute basis. While use of relative measurement for non-TSR financial goals has increased, it can be administratively challenging for companies to compare financial operating data due to M&A and other extraordinary activity, differing fiscal years and timing of financial disclosures, and varying adjustments for non-GAAP definitions. In contrast, stock price data driving TSR are directly comparable and reported in real-time.

Non-TSR goals are measured on a relative basis 7% to 22% of the time (range varies by measure type), which is up from 5% to 15% immediately prior to the pandemic.

- In particular, relative measurement of capital efficiency measures has increased by 50% (22% now, up from 14% in 2019).
- Relative measurement of non-TSR goals is highest in the Financials (34%) and Energy (31%) industries, where cyclical
 and macroeconomic factors can make long-term absolute goal-setting particularly difficult.



Performance Metric Measurement Approach



Relative Performance Comparator Group Types and Prevalence

Slightly over half of Top 250 companies with relative performance goals use indices (e.g., broad like the S&P 500 or industry-focused like the Dow Jones U.S. Health Care Index) as comparator groups, with remaining practice split between compensation or custom peer groups, or a combination approach.

Considerations in comparator group selection include the following:

- Smaller comparator groups may be subject to volatility in relative performance due to unplanned changes to constituents (e.g., M&A activity).
- Companies similar in industry and financial/growth profile are more likely to be subject to the same macro-economic factors.
- Proxy advisors and investors are often agnostic on comparator group selection, although there is potential for criticism for "cherry-picking" companies to improve payouts.
- Index use may be viewed favorably by investors in certain instances (e.g., in underperforming industries that compete for investor capital against broader, higher-performing companies).

Relative Performance Comparator Group Use

