

**EXH. TMH-6  
DOCKETS UE-22 \_\_\_/UG-22 \_\_\_  
2022 PSE GENERAL RATE CASE  
WITNESS: THOMAS M. HUNT**

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**PUGET SOUND ENERGY,**

**Respondent.**

**Docket UE-22 \_\_\_  
Docket UG-22 \_\_\_**

**FIFTH EXHIBIT (NONCONFIDENTIAL) TO THE  
PREFILED DIRECT TESTIMONY OF**

**THOMAS M. HUNT**

**ON BEHALF OF PUGET SOUND ENERGY**

**JANUARY 31, 2022**

## ITEM 11. EXECUTIVE COMPENSATION

### **Puget Energy Puget Sound Energy Executive Compensation**

#### **Compensation and Leadership Development Committee Interlocks and Insider Participation**

The members of the Compensation and Leadership Development Committee (referred to as the Committee) of the Boards of Directors (referred to as the Board) of Puget Energy and PSE (referred to as the Company) are named in the Compensation and Leadership Development Committee Report. No members of the Committee were officers or employees of the Company or any of its subsidiaries during 2020, nor were they formerly Company officers or had any relationship otherwise requiring disclosure. Each member meets the independence requirements of the SEC and the New York Stock Exchange (NYSE).

#### **Compensation Discussion and Analysis**

This section provides information about the compensation program for the Company's Named Executive Officers who are included in the Summary Compensation Table below. For 2020, the Company's Named Executive Officers and titles were:

- Mary E. Kipp, President, effective August 30, 2019, and President and Chief Executive Officer (CEO), effective January 3, 2020;
- Daniel A. Doyle, Senior Vice President and Chief Financial Officer (CFO);
- Kimberly J. Harris, former Chief Executive Officer (CEO) who retired effective January 2, 2020;
- Steve R. Secrist, Senior Vice President, General Counsel, Chief Ethics and Compliance Officer;
- Booga K. Gilbertson, Senior Vice President and Chief Operations Officer;
- Margaret F. Hopkins, Senior Vice President Shared Services and Chief Information Officer; and
- David E. Mills, former Senior Vice President and Chief Strategy Officer who retired effective November 9, 2020

This section also includes a discussion and analysis of the overall objectives of our compensation program and each element of compensation the Company provides to its Named Executive Officers.

#### **Compensation Program Objectives**

The Company's executive compensation program has two main objectives:

- Support sustained Company performance by attracting, retaining and motivating talented people to run the business.
- Align incentive compensation payments with the achievement of short and long-term Company goals.

The Committee is responsible for developing and monitoring an executive compensation program and philosophy that achieves the foregoing objectives. In performing its duties, the Committee obtains information and advice on various aspects of the executive compensation program from its independent executive compensation consultant, Meridian Compensation Partners, LLC (Meridian). The Committee recommends to the Board for approval both the salary level for our CEO, based on information provided by Meridian and other relevant factors described below, and the salary levels for the other executives, based on recommendations from our CEO. The Committee also recommends to the Board for approval the annual and long-term incentive compensation plans for the executives, the setting of performance goals and the determination of target and actual awards under those plans, based on the compensation philosophy information provided by Meridian and other relevant factors.

In 2020, the Company used the following strategies to achieve the objectives of our executive compensation program:

- **Design and deliver a competitive total compensation opportunity.** To attract, retain and motivate a talented executive team, the Company believes that total pay opportunity should be competitive with companies of similar size, revenue, industry and scope of operations. As described below in the discussion of Compensation Program Elements (Role of Market Data), the Committee, with the support of Meridian, annually compares executive compensation levels to external market data from similar companies in our industry and generally targets each element of target total direct compensation (base salary and target annual and long-term incentive award opportunities) to the 50th percentile of the market data with variations by individual executive, as appropriate. During 2019, the Committee worked with Meridian to develop a compensation package for Ms. Kipp who became CEO in January 2020. The Company also recognizes the importance of providing retirement income. As such, the Committee reviews our retirement programs and provides benefits that are competitive with our peers.
- **Place a significant portion of each executive's target incentive compensation at risk to align executive compensation with Company financial and operating performance.** Under its "pay for performance" philosophy, the Company maintains an incentive compensation program that supports the Company's business strategy and aligns executive interests with those of investors and customers. The Committee believes that a significant portion of each executive's compensation should be "at risk" and earned based on achievement relative to annual and long-term performance goals. For example, 78% of Ms. Kipp's target 2020 compensation was considered "at risk" compensation. By establishing goals, monitoring results, and rewarding achievement of goals, the Company seeks to focus executives on actions that will improve Company performance and enhance investor value, while also retaining key talent. The Committee annually evaluates and establishes the performance goals and targets for our annual and long-term incentive programs
- **Oversee the Company's talent management process to ensure that executive leadership continues uninterrupted by executive retirements or other personnel changes.** The CEO leads talent reviews for leadership succession planning through meetings and discussions with her executive team. Each executive conducts talent reviews of senior employees that report to him or her and who have high potential for assuming greater responsibility in the Company. Utilizing evaluations and assessments, the Committee and the Board annually review these assessments of executive readiness, the plans for development of the Company's key executives, and progress made on these succession plans. The Committee and the Board directly participate in discussion of succession plans for the position of CEO.

### Compensation Philosophy

The target total compensation package is designed to provide executives with appropriate incentives that are competitive with the comparator group described below and motivate the achievement of current operational performance and customer service goals as well as the long-term objective of enhancing investor value. The Company does not have a specific policy regarding the mix of compensation elements, although long-term incentive awards comprise the largest portion of each executive's incentive pay.

As a matter of philosophy, all three components of target total direct compensation are generally targeted at the 50th percentile of industry practice, with deviations by individual executive as described below. If Company performance results are below expectations, actual compensation is expected to be below this targeted level. If Company performance exceeds target, actual compensation is expected to be above this targeted level.

Individual pay adjustments are reviewed annually relative to the 50th percentile of market pay, while also considering other factors such as the executive's recent performance, experience level, company performance, retention and internal pay equity. Notwithstanding the median philosophy, the Company may choose to target an executive's compensation above or below the 50th percentile of market pay when that individual has a role with greater or lesser responsibility than the best comparison job or when our executive's experience and performance differ from those typically found in the market.

### Role of Market Data

The Company uses market data compiled by Meridian to inform its pay decisions on base salary, target annual incentives and target long-term incentive awards. Market data is obtained from both industry-specific surveys and proxy statements of public companies selected for inclusion in the Company's custom executive compensation peer group. The market survey data were sourced from a select cut from the Willis Towers Watson 2019 Energy Services Survey, comprised of utility and other

companies similar in size and scope of operations to PSE. The 23 companies in the custom market survey cut used to inform target compensation decisions for 2020 are shown below:

#### Custom Survey Peer Group

1. Allete	10. Evergy	19. Portland General Electric
2. Alliant Energy	11. Eversource Energy	20. Southwest Gas
3. Ameren	12. Hawaiian Electric Industries, Inc.	21. Spire, Inc.
4. Atmos Energy	13. NiSource	22. UGI
5. Avangrid	14. Oncur	23. WEC Energy Group
6. Avista	15. OGE Energy	
7. Black Hills	16. ONE Gas	
8. Cleco	17. Pinnacle West Capital	
9. CMS Energy	18. PNM Resources	

The market survey data were supplemented with proxy statement data for select positions in the Company's executive compensation peer group, which was comprised of 15 companies, all but one of which overlapped with companies included in the market survey data. The 2019 median revenue of the executive compensation peers was \$3.6 billion, which was comparable to PSE's annual revenues of \$3.4 billion at the time the peer group was developed. The proxy peer group was reviewed by Meridian to assess the continued relevancy of the companies. Based on Meridian's evaluation, as well as discussion with the Committee, six companies were removed due to either non-regulated business operations or because of being acquired. Five new revenue-size appropriate regulated utilities were added to the group.

#### Proxy Peer Group

1. Alliant Energy	7. Eversource Energy	13. Portland General Electric
2. Ameren	8. Idacorp	14. Spire, Inc.
3. Atmos Energy	9. NiSource	15. WEC Energy
4. Avista	10. ONE Gas	
5. CMS Energy	11. Pinnacle West Capital	
6. Evergy	12. PNM Resources	

#### Compensation Program Elements

The Company's executive compensation program encompasses a mix of base salary, annual and long-term incentive compensation, retirement programs, health and welfare benefits and a limited number of perquisites. Since the Company is not publicly listed and does not grant equity awards to its executives, it relies on a mix of fixed and variable cash-based compensation elements to achieve its compensation objectives.

#### Base Salary

We recognize that it is necessary to provide executives with a fixed amount of regularly paid compensation that provides a balance to other pay elements that are at risk. Base salaries are reviewed annually by the Committee based on its median philosophy, internal pay equity considerations and considerations specific to an individual such as an executive's expertise, level of performance, experience in the role and contribution relative to others in the organization.

#### Base Salary Adjustments for 2020

The Committee reviewed the base salaries of the Named Executive Officers in early 2020 and recommended base salary adjustments to the Board. The Board approved the Committee's salary recommendations shown in the table below. The adjustments were effective March 1, 2020. Base salaries for 2020 generally remained at the 50th percentile of market among the comparator group. The annual salary for Ms. Kipp was adjusted to reflect her promotion to President and CEO and aligns with the market median. The salary increase percentages approved by the Board for Mr. Doyle, Mr. Secrist and Mr. Mills were similar to salary increases for other non-represented employees, and the salary increases for Ms. Gilbertson and Ms. Hopkins were adjusted to reflect their expanded roles in 2020. Ms. Harris did not receive an increase in 2020 salary.

Name	2019 Base Salary	2020 Base Salary	% Change
Marv E. Kipp	\$860,000	\$900,000	5%
Daniel A. Doyle	531,420	547,363	3
Steve R. Secrist	462,800	483,626	4.5
Booga K. Gilbertson	391,000	428,145	9.5
Margaret F. Hopkins	327,540	350,000	6.9
David E. Mills	392,700	404,481	3

## 2020 Annual Incentive Compensation

All PSE employees, including the Named Executive Officers, are eligible to participate in an annual incentive program referred to as the “Goals and Incentive Plan.” The plan is designed to incent our employees to achieve both (i) desired annual financial results, measured by EBITDA, and (ii) pre-established goals based on a service quality commitment to customers, a reliability measure (based on non-storm outage duration—System Average Interruption Disruption Index-- or “SAIDI”) and an employee safety measure. EBITDA was selected as a performance goal because it provides a financial measure of cash flows generated from the Company’s annual operating performance.

For 2020, the Company’s service quality commitment was measured by performance against eight Service Quality Indicators (SQIs) covering three broad categories, set forth below. These are the same SQIs for which the Company is accountable to the Washington Commission. The Company’s annual report to the Washington Commission and our customers describes each SQI, how it is measured, the Company’s required level of achievement, and performance results. The Company’s service quality report cards are available at <http://www.PSE.com/PerformanceReportCards>.

The SQIs for 2020 were the same as those in 2019 and were as follows:

- **Customer Satisfaction (3 SQIs)** - Customer satisfaction with the customer care center, natural gas field services and number of Washington Commission complaints.
- **Customer Service (1 SQI)** - Calls answered “live” within 60 seconds by the customer care center.
- **Operations Services (4 SQIs)** - Gas emergency response, electric emergency response, non-storm outage frequency, and on-time appointments.

In 2019, the Company began measuring SAIDI according to a scale based on improvement compared to a five-year average, with the measure for 2020 being 155 minutes.

The employee safety performance measure reflects the Company’s continued commitment to employee safety. The safety performance measure contains three targets which must all be satisfied for the safety measure to be treated as met. The three employee safety targets for 2020 were:

- All employees attend a monthly safety “meeting in a box” presentation or complete the same content online. The target completion rate is no less than 95%.
- All employees complete a safety conversation with their supervisor or manager. The target completion rate is no less than 95%.
- All employees complete an online mental health training course. The target completion rate is no less than 95%.

Annual incentive funding is decreased if a SQI is not achieved. The employee safety measure and SAIDI function similarly to the eight SQIs in determining the funding of the annual incentive plan. That is, if the safety measure or SAIDI is not achieved, annual incentive funding will be decreased by 10%, in the same way as a missed SQI.

In 2020, 100% funding for the annual incentive plan required (i) achievement of 10 out of 10 customer service and safety measures (all eight SQIs, SAIDI and achievement of the safety measure) and (ii) target EBITDA performance. All customer service measures were met for 2020, but the SAIDI measure was not met, and EBITDA finished at 90.1% of target, so funding was less than 100%, as described further below.

Individual awards may be adjusted upward or downward based on an evaluation of an executive officer’s performance against individual and team goals that align with the corporate goals described below.

## 2020 Corporate Goals

In 2020, the Company continued using the Integrated Strategic Plan (ISP) to summarize for employees, including the Named Executive Officers, the direction and overall goals of the Company. The plan has five objectives which capture our 2020 corporate goals and which have been communicated to our employees. Each employee has specific individual and team goals linked to driving strategies that meet one or more of the following ISP objectives:

- **Safety** - Our safety objective is our foundation: If nobody gets hurt today, we will feel safe and secure and be able to perform at our best.
- **People** - When we're safe, we can achieve our people objective of being a great place to work, with engaged employees who live our values, embrace an ownership culture and are motivated to drive results for our company and our customers.
- **Process and Tools** - Engaged employees achieve our process and tools objective where results start with achieving operational excellence, with continuous improvement of our internal processes and tools so that we can increase efficiency, eliminate waste, improve reliability and enhance customer service.
- **Customer** - We now have the fundamentals to achieve our customer objective of delivering greater value and being our customer's energy partner of choice in a competitive marketplace.
- **Financial** - Being our customer's energy partner of choice takes us to our financial objective of increasing our financial strength, allowing us to sustain further improvement.

## 2020 Annual Incentive Plan Results

For 2020, achievement of the corporate goals under the annual incentive plan was at 90.1% of target for EBITDA. PSE EBITDA was \$1,291.1 million, and SQI, SAIDI and safety achievement was 9 out of 10, leading to a funding level for 2020 of 45.6% for the annual incentive plan for the named executive officers.

Funding levels for 2020 at maximum, target, and threshold are shown in the table below:

Annual Incentive Performance Payout Scale and Actual Performance

Performance Measure (Dollars in Millions)	2020 EBITDA	SQI, SAIDI & Safety*	Funding Level
Maximum	\$ 1,933.2	10/10	200%
Target	1,432.0	10/10	100
Threshold	1,288.8	6/10	30
2020 Actual Performance	\$ 1,291.1	9/10	45.6%

\* Combined SQI, SAIDI & Safety results of 6/10 or better and minimum EBITDA of \$1,288.8 million are required for any annual incentive pay out funding. SQI, SAIDI and Safety results below 10/10 reduce funding (e.g., 9/10=90%, 8/10=80%, 7/10=70%)

For 2020, individual target incentive levels for the annual incentive plan varied by executive officer as a percentage of 2020 base salary as shown in the table below, based on the executive's level of responsibility within the Company and informed by market data. Target annual incentive opportunities as a percentage of base salary for the Named Executive Officers were unchanged from 2019 levels, except for Ms. Kipp whose target annual incentive opportunity was increased to 100% of base salary as part of her promotion to President and CEO. Ms. Harris, who retired in January 2020 was not eligible for a 2020 annual incentive award. No bonus is earned unless at least threshold EBITDA and SQI, SAIDI and safety goals are achieved. The achievement of threshold performance results in a 30% of target bonus payout. The maximum incentive payable for exceptional performance in this plan is two times each Named Executive Officer's target incentive.

An executive's individual award amount can be increased or decreased based on an assessment by the CEO (or the Board in the case of the CEO) of the executive's individual and team performance results. After considering performance on individual and team goals, adjustments were made by the CEO for individual performance of certain Named Executive Officers below CEO in 2020. The adjustments for individual performance are noted in the "Bonus" column on the Summary Compensation table and

did not materially change the amounts resulting from 2020 achievement of the corporate goals. The Board approved the incentive amounts shown below, which will be paid in March 2021:

Name	Target Incentive (% of Base Salary)	2020 Actual Incentive Paid	2020 Actual Incentive (% of Base Salary)
Mary E. Kipp	100%	\$ 492,480	54.7%
Daniel A. Dovle	65	194,686	36
Steve R. Secrist	65	157,681	33
Booga K. Gilbertson	65	145,938	34
Margaret F. Hopkins	62.5*	104,810	30
David E. Mills	65**	77,139	19

\* Ms. Hopkins 2020 Annual Incentive Target is pro-rated for 2 months as VP and 10 months as SVP.

\*\* Mr. Mills 2020 Annual Incentive Target was 65%, but based on plan rules as a retiree, his award was pro-rated for time worked in 2020.

### Long-Term Incentive Compensation

Long-term incentive compensation opportunities are designed to align the interests of executives with those of our investors, provide competitive pay opportunities, support a customer-focused utility, reward long-term performance and promote retention. Starting with the 2020-2022 grant cycle, long term incentive plan (LTI Plan) grants are denominated and paid in cash, if at least threshold performance measures are met. Prior to 2020, LTI Plan awards were denominated in units and settled in cash if at least threshold performance measures are met.

For the 2020-2022 grant cycle, an EBITDA threshold goal was added to the Return on Equity (ROE) metric. Under this goal, EBITDA during the three-year performance cycle must meet or exceed 90% of target EBITDA for a payment to occur. Assuming the EBITDA threshold is met, the 2020-2022 grant cycle is funded based on the three-year average ROE metric. ROE reflects the income earned on our equity investment. The 2020-2022 LTI payment ultimately paid may range from 0% to 200% of target, depending on performance.

The Committee recommends for Board approval a targeted LTI grant value for each executive, which is expressed as a percentage of base salary. The targeted LTI grant value is determined by evaluating LTI grant values provided to similarly situated executives at comparable companies (using the previously discussed survey and peer group data) as well as other relevant executive-specific factors. The Company generally does not consider previously granted awards or the level of accrued value from prior or other programs when making new LTI Plan grants.

The 2018-2020 and 2019-2021 LTI plan cycles were denominated in units, determined by dividing the target LTI grant value by the unit value on the grant date. The initial per-unit value was measured at the Puget Holdings level and subsequent unit values are calculated annually by an independent auditing firm or based on market transactions. For 2018-2020 and 2019-2021 LTIP grants, the number of units ultimately earned may range from 0% to 200% of target depending on performance, with the payout being made in cash based on the number of units earned and the per-unit value at the end of the performance period. The 2018-2020 grant cycle was based on performance against two financial goals—total return (Total Return) and ROE—each weighted equally and measured over a three-year performance cycle. Total Return reflects the change in the value of the Company during the performance cycle plus any distributions made to investors. The 2019-2021 grant cycle is based on achievement of the ROE metric only.

Executives generally must be employed on the payment date to receive a cash payment under the LTI Plan, except in the event of retirement, disability or death.

### 2020-2022 Long-Term Incentive Plan Target Awards

Consistent with prior years, target LTI Plan awards for the 2020-2022 performance cycle were calculated based on a percentage of an executive's annual base salary, taking into account the executive's level of responsibility within the Company and the corresponding market data. Ms. Kipp's target LTI Plan grant was set at 265% of base salary as part of her promotion to

President and CEO. These percentages were unchanged from amounts established for the 2019-2021 performance cycle, with the exception of Ms. Kipp. Target LTI Plan award amounts for the 2020-2022 performance cycle are shown in the following table. Ms. Harris was not eligible for a 2020-2022 LTI Plan grant.

Name	Target Long Term Incentive (% of Base Salary)
Mary E. Kipp	265%
Daniel A. Doyle	95
Steve R. Secrist	95
Booga K. Gilbertson	95
Margaret F. Hopkins	95
David E. Mills	95

Details of the target grants and expected values at target, threshold and maximum performance levels can be found in the “2020 Grants of Plan-Based Awards” table below.

### Long-Term Incentive Plan Performance 2018-2020 Performance Cycle Results and Payouts

The 2018-2020 performance cycle has now ended. Amounts payable as a result of award vesting are shown in the following table:

- Performance on the Total Return component for the three-year performance cycle was a compounded annual rate of 10.4%, above target and at the maximum of the funding scale. The Total Return Component funded at 200% of target units.
- Performance on the ROE component of the grant was an average of 105.9% of target. The ROE component funded at 133.6% of target units.

Name	Target Incentive (% of Base Salary) <sup>1</sup>	Total Return Component Units Granted/Paid	ROE Component Units Granted/Paid	2018-2020 Actual LTIP Paid <sup>2</sup>
Mary E. Kipp	165%	8,667.24/17,334.5	8,667.24/11,579.4	\$ 2,354,749
Daniel A. Doyle	95	4,084.5/8,169	4,084.5/4,456.9	1,109,693
Steve R. Secrist	95	3,488.5/6,977	3,488.5/4,660.6	947,769
Booga K. Gilbertson	95	2,665.5/5,331	2,665.5/3,561.1	724,173
Margaret F. Hopkins	50	1,312/2,624	1,312/1,752.8	356,449

<sup>1</sup> Target LTI Plan incentive is a percentage of 2018 base salary when the grants were made in 2018 with a unit price of \$60.59, except that Ms. Kipp's target is a percentage of 2019 base salary equal to 75% of target LTI % of 220% with a per unit price of \$81.86.

<sup>2</sup> 2018-2020 actual LTI Plan amount payable is equal to the unit price of \$81.44 multiplied by earned Total Return and ROE component units.

<sup>3</sup> In connection with Ms. Kipp's commencement of employment in 2019, Ms. Kipp was eligible to participate in the 2018-2020 performance cycle at a target amount that reflected her reduced participation during that performance cycle but was intended to incentivize her performance following commencement of employment.

In connection with Ms. Harris' retirement, she was eligible to receive pro-rated portion of her LTI grants for the 2018-2020 and 2019-2021 performance cycles in accordance with the LTI Plan in the amounts of \$3,871,077 and \$1,105,636, respectively, paid in March 2020. In connection with Mr. Mills's retirement, he was eligible to receive a pro-rated portion of his LTI grant for the 2018-2020 and 2019-2021 performance cycles at retirement in the amounts of \$663,826 and \$236,281, respectively, paid in March 2021.

### Retirement Plans — Executive Retirement Plans and Retirement Plan



The Company maintains executive retirement plans to attract and retain executives by providing a benefit that is coordinated with the tax-qualified Retirement Plan for Employees of Puget Sound Energy, Inc. (Retirement Plan). Without the addition of the executive retirement plans, these executives would receive lower percentages of replacement income during retirement than other employees. All the Named Executive Officers participate in executive retirement plans during 2020—Mr. Doyle, Mr. Secrist, Ms. Gilbertson and Ms. Hopkins participate in the SERP and Ms. Kipp participates in the Officer Restoration Benefit, as part of the Deferred Compensation Plan for Key Employees. Ms. Harris and Mr. Mills participated in the SERP until their departures in 2020. Additional information regarding the SERP, Officer Restoration Benefit and the Retirement Plan is shown in the “2020 Pension Benefits” table.

### **Deferred Compensation Plan**

The Named Executive Officers are eligible to participate in the Deferred Compensation Plan for Key Employees (Deferred Compensation Plan). The Deferred Compensation Plan provides eligible executives an opportunity to defer up to 100% of base salary, annual incentive bonuses and earned LTI Plan awards, plus receive additional Company contributions made by PSE into an account that has three investment tracking fund choices. The funds mirror performance in major asset classes of bonds, stocks, and an interest crediting fund that changes rates quarterly. The Deferred Compensation Plan is intended to allow the executives to defer current income, without being limited by the Internal Revenue Code contribution limitations for 401(k) plans and therefore have a deferral opportunity similar to other employees as a percentage of eligible compensation. The Company contributions are also intended to restore benefits not available to executives under PSE’s tax-qualified plans due to Internal Revenue Code limitations on compensation and benefits applicable to those plans. Additional information regarding the Deferred Compensation Plan is shown in the “2020 Nonqualified Deferred Compensation” table.

### **Post-Termination Benefits**

Prior to Ms. Harris’ retirement, she was a party to an Executive Employment Agreement that provided severance benefits in the event of a qualifying termination of employment within two years of a change in control. No other executive officers have similar agreements. The agreement with Ms. Harris terminated upon her retirement on January 2, 2020.

The Committee periodically reviews existing change in control and severance arrangements for the peer group companies. Based on this information, the Committee has determined not to extend such arrangements to current and newly hired executives.

The “Potential Payments Upon Termination or Change in Control” section describes the current post-termination arrangements with the Named Executive Officers as well as other plans and arrangements that would provide benefits on termination of employment or a change in control, and the estimated potential incremental payments upon a termination of employment or change in control based on an assumed termination or change in control date of December 31, 2020.

### **Other Compensation**

The Company also provides the Named Executive Officers with benefits and limited perquisites. The Company may provide payments upon hiring a new executive to help offset the executive’s relocation expenses in order to attract qualified candidates from other areas of the country. In connection with Ms. Kipp’s commencement of employment, she was eligible to receive a bonus of \$1,500,000 in the event the previously announced acquisition of El Paso Electric by the Infrastructure Investments Fund, an investment vehicle advised by J.P. Morgan Incentive Management Inc. was completed in 2020. This acquisition was completed and Ms. Kipp was paid \$1,500,000 during 2020.

The current executives participate in the same group health and welfare plans as other employees. Company vice presidents and above, including the Named Executive Officers, are eligible for additional disability and life insurance benefits. The executives are also eligible to receive reimbursement for financial planning, tax preparation and legal services up to an annual limit. The reimbursement for financial planning, tax preparation and legal services is provided to allow executives to concentrate on their business responsibilities. These perquisites generally do not make up a significant portion of executive compensation and did not exceed \$10,000 in total for each Named Executive Officer in 2020. Executives are taxed on the value of the perquisites received, with no corresponding gross-up by the Company.

### **Relationship among Compensation Elements**

A number of compensation elements increase in absolute dollar value as a result of increases to other elements. Base salary increases translate into higher dollar value opportunities for both annual and long-term incentives, because each plan operates with a target award set as a percentage of base salary. Base salary increases also increase the level of retirement benefits, as do actual annual incentive plan payments. Some key compensation elements are excluded from consideration when determining other elements of pay. Retirement benefits exclude LTI Plan payments in the calculation of qualified retirement (pension and 401(k)) and SERP benefits.

### **Impact of Tax and Accounting Treatment of Compensation**

The accounting treatment of compensation generally has not been a significant factor in determining the amounts of compensation for our executive officers. However, the Company considers the accounting impact of various program designs to balance the potential cost to the Company with the benefit/value to the executive. As a result of changes in federal tax law effective in 2018, the Company is now subject to IRS section 162(m). Section 162(m) limits the tax deductibility of compensation paid to certain executive officers, including the Named Executive Officers, to \$1 million per year. Notwithstanding the new tax law, the Company does not expect to make changes in its executive compensation program designs and retains the discretion to pay compensation that may not qualify for a tax deduction.

### **Risk Assessment**

A portion of each executive's total direct compensation is variable, at risk and tied to the Company's financial and operational performance to motivate and reward executives for the achievement of Company goals. The Company's variable pay program helps focus executives on interests important to the Company and its investors and customers and creates a record of their results. In structuring its incentive programs, the Company also strives to balance and moderate risk to the Company from such programs: individual award opportunities are defined and subject to limits, goal funding is based on collective company performance, annual incentive awards are balanced by long-term incentive awards that measure performance over three years, performance targets are based on management's operating plan (which includes providing good customer service), and all incentive awards to individual executives are subject to discretionary review by management, the Committee and/or the Board. As a result, the Committee and the Board believe that the programs' design do not have risks that are reasonably likely to have a material adverse effect on the Company and also provide appropriate incentive opportunities for executives to achieve Company goals that support the interests of our investors and customers.