Date Filed: September 29, 2026

Witness: Sasha P. Lazor and Marianne H. Eichler
Request from: Office of Consumer Counsel

Question:

Incentive Compensation. Refer to the response to OCC-292 Attachments 1 and 2.

a. Explain why it is reasonable for ratepayers to subsidize incentive compensation for employees falling in the "improvement needed to be a successful contributor" and the "Did not meet performance expectations" categories.
b. Explain why the number of service company employees falling in the "improvement needed to be a successful contributor" category has increased each year from 2021 through 2025.

Response:

a. As an initial matter, "ratepayers" do not "subsidize" incentive compensation. "Incentive compensation" is the variable pay component of employee wages and salaries, which is paid to employees as part of their total compensation for work performed day after day to provide safe and reliable services. Therefore, for the Company's customers, it is a necessary cost of obtaining the service that they receive. In terms of the cost of employees rated in the "improvement needed to be a successful contributor" category, it is entirely appropriate for the Company to incur this cost because the program is a performance-based *incentive* program designed to give employees the financial incentive to perform at a level that meets the Company's obligations to customers efficiently and effectively.

   Importantly, this rating does not imply that the employee is not performing their job function without any degree of competency or commitment – instead, there is simply room for improvement. When those employees have demonstrated measurable progress toward their performance objectives and are actively engaged in a documented plan to achieve sustained performance improvement, they will be eligible to receive a greater proportion of their variable pay component. That is always the Company's goal – for all employees to perform at or above expectations, to contribute meaningfully to the company and ultimately, to benefit the customers. This practice does not reward inadequate performance. Employees who fail to meet performance expectations to any extent, or without demonstrating meaningful progress, do not receive merit or incentive compensation.

b. The increase in service company employees rated “improvement needed to be a successful contributor” reflects the Company’s ongoing commitment to continuously improve the performance management process, including more training, more required check-ins and stronger expectations for leader and employee accountability.