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SURREBUTTAL TESTIMONY OF

WILLIAM C. KLECKLEY

ON BEHALF OF

THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF

DOCKET NO. 2020-125-E

IN RE: APPLICATION OF DOMINION ENERGY SOUTH CAROLINA, INCORPORATED FOR ADJUSTMENT OF RATES AND CHARGES

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is William C. Kleckley. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina 29201. I am employed by the State of South Carolina as a Senior Auditor in the Audit Department of the South Carolina Office of Regulatory Staff ("ORS").

Q. DID YOU FILE DIRECT TESTIMONY RELATED TO THIS PROCEEDING?

A. Yes. I filed direct testimony with the Public Service Commission of South Carolina ("Commission") on November 10, 2020.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY IN THIS PROCEEDING?

A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony filed by Dominion Energy South Carolina Incorporated's ("Company" or "DESC") witness Regina J. Elbert, regarding ORS's adjustment for incentive compensation based on financial performance measures and the salary and benefits of the top four highest paid executives.

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Q. DOES DESC WITNESS ELBERT RAISE ANY NEW REASONS IN HER REBUTTAL TESTIMONY FOR INCLUSION OF INCENTIVE COMPENSATION TIED TO FINANCIAL PERFORMANCE GOALS IN CUSTOMER RATES?

A. No. Company witness Elbert offers no new facts or reasons to support the inclusion of incentive compensation directly linked to financial performance goals in customer rates.

Q. DOES THE REBUTTAL TESTIMONY OF COMPANY WITNESS ELBERT CAUSE A CHANGE IN THE ORS'S RECOMMENDATION TO ELIMINATE INCENTIVE COMPENSATION EXPENSES TIED TO FINANCIAL PERFORMANCE GOALS?

A. No. ORS recommends that incentive compensation attributed to goals which are linked to earnings per share ("EPS") ratios and other financial performance metrics should not be recovered through customer rates because the incentive compensation is directly tied to the earnings of the Company and primarily benefit the Company's shareholders. The reasons I outlined in my direct testimony for excluding incentive compensation tied to financial performance measures are still applicable. First, ORS's position comports with prior Commission orders regarding the expenses for financial performance goals. Second, the funding of these goals is speculative, at best, while the ongoing collections from customers are not. The annual incentive plan ("AIP") must first be funded before considering any financial performance or operational goals. The AIP is funded based on a target EPS as determined by Dominion Energy's board-level Compensation, Governance, and Nominated Committee ("CGN Committee"). Third, payment of incentives is uncertain because there are financial targets that must be met first. Fourth, increased earnings, which give rise to meeting financial goals, should provide adequate funds for the incentive

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payments. Lastly, certain events outside the control of employees often affect earnings such as unusual weather and unplanned customer growth, and lead to an increase or decrease in incentive compensation that has no correlation to employee performance.

Q. PLEASE RESPOND TO DESC WITNESS ELBERT'S ASSERTION THAT INCENTIVE COMPENSATION IS NOT UNCERTAIN AS STATED ON PAGE 10 OF HER REBUTTAL TESTIMONY.

A. Company witness Elbert states that "incentive compensation is an ongoing expense of utility operations that is reflected in test period expenses and is anticipated to be paid out in future years."[1] Company witness Elbert's statement that DESC "anticipates" incentive compensation in the future does not adequately address ORS's concern that incentive compensation is uncertain. In contrast, whether DESC pays out the incentives or not, the collections from customers through rates established to provide DESC recovery of the incentive compensation would be constant and inevitable. My direct testimony explains some of the reasons why incentive compensation is uncertain. Company witness Elbert's testimony does not directly address the fact that if financial performance goals are not met, the incentives attributed to those goals will not be paid to DESC employees. However, the DESC rates to customers cannot be adjusted to reflect the fact that labor expenses have declined. Moreover, the entire AIP must be funded first by the CGN Committee, which funding is contingent on Dominion Energy meeting a target EPS before considering any financial performance and operational goals. This contingency adds even more uncertainty to whether incentive payouts will occur even if financial or operational goals are met.

[1] Rebuttal Testimony of Regina J. Elbert p. 10.

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While the costs to the Company are uncertain and the benefits to customers speculative, the costs to customers would be made certain if included in rates.

Q. PLEASE RESPOND TO DESC WITNESS ELBERT'S REBUTTAL TESTIMONY ON PAGE 11 RELATED TO ORS'S PROPOSAL TO REMOVE 50% OF THE SALARY AND BENEFITS FOR THE FOUR HIGHEST COMPENSATED EXECUTIVES.

A. ORS recommends in Adjustment #2 to remove 50% of the salary and benefits for the four (4) highest compensated executives for the simple fact that high level executives hold a certain responsibility to both the company's customers and shareholders in both financial and operational matters. Company witness Elbert offers generalized statements that these executives are an integral part of the leadership team which ensures safe, reliable and economical service to customers.[2] Company witness Elbert did not specifically include information to demonstrate that executives also serve to satisfy financial performance goals for the benefit of the shareholders. This presentation by Company witness Elbert is not complete as the high-level executives often interact with shareholders and the Board of Directors. Additionally, the top two tiers of employees in Dominion Energy's 2019 AIP had goals that were more heavily weighted towards financial performance (85%) than operating and stewardship (15%). ORS recognizes that these executives have responsibilities to meet the needs of both shareholders and customers. Therefore, ORS's adjustment to remove 50% of the salary and benefits for the four highest paid executives is reasonable and remains unchanged.

[2] Rebuttal Testimony of Regina J. Elbert p. 11.

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Q. PLEASE EXPLAIN THE REASON FOR ORS'S PROPOSED ADJUSTMENT FOR INCENTIVE COMPENSATION AND EXECUTIVE COMPENSATION.

A. Incentive compensation and executive level positions do not exist with the sole purpose to benefit customers and therefore should not be funded solely by customers. The Company's incentive compensation plans and executives provide benefits to both shareholders and customers. Commissions who have addressed these issues often employ a 50/50 sharing of the costs between shareholders and customers or disallow a portion of the costs that are tied to financial performance.[3] ORS's adjustment eliminates incentives related to financial performance goals because they are tied to earnings, which benefits shareholders. However, because incentive and executive compensation provides benefits to both shareholders and customers, a cost sharing is appropriate. It is not reasonable that customers should contribute 100% of the revenue requirement for these costs.

Q. WILL YOU UPDATE YOUR SURREBUTTAL TESTIMONY BASED ON INFORMATION THAT BECOMES AVAILABLE?

A. Yes. ORS fully reserves the right to revise its recommendations via supplemental testimony should new information not previously provided by the Company, or other sources, becomes available.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes, it does.

[3] See Testimony of Mark E. Garrett in Cause No. 45235 before Indiana Utility Regulatory Commission pp. 19 and Incentive Compensation Survey at Appendix MG-3, available at: https://www.in.gov/oucc/files/45235MarkGarrett.pdf