

BEFORE THE

INDIANA UTILITY REGULATORY COMMISSION

**PETITION OF THE BOARD OF DIRECTORS FOR)
UTILITIES OF THE DEPARTMENT OF PUBLIC)
UTILITIES OF THE CITY OF INDIANAPOLIS, AS)
TRUSTEE OF A PUBLIC CHARITABLE TRUST FOR)
THE WATER SYSTEM, D/B/A CITIZENS WATER)
FOR (1) AUTHORITY TO INCREASE ITS RATES)
AND CHARGES FOR WATER UTILITY SERVICE)
AND APPROVAL OF A NEW SCHEDULE OF RATES)
AND CHARGES APPLICABLE THERETO,)
INCLUDING A NEW RATE FOR LOW-INCOME)
CUSTOMERS, (2) APPROVAL OF A REVISED)
METHODOLOGY FOR ALLOCATING CORPORATE)
SUPPORT SERVICES COSTS RESULTING IN A)
REVISED ALLOCATION OF SUCH COSTS TO)
CITIZENS WATER, AND (3) APPROVAL OF)
CERTAIN CHANGES TO ITS GENERAL TERMS)
AND CONDITIONS FOR WATER SERVICE.)**

CAUSE NO. 44644

SUBMISSION OF COMPLIANCE FILING

In response to Ordering Paragraph No. 7 of the Commission's April 20, 2016 Order ("Order"), the Board of Directors for Utilities of the Department of Public Utilities of the City of Indianapolis (the "Board," "Citizens Energy Group" or "Citizens"), as Trustee for the Water System, d/b/a Citizens Water ("Citizens Water"), by counsel, hereby files a redacted version of the Executive Compensation Benchmarking Analysis, Municipal/Public Power Perspective ("2016 Analysis") prepared by Willis Towers Watson. Citizens Water is contemporaneously filing a Motion for Protection and Nondisclosure of Confidential and Proprietary Information ("Motion"), and in support of the Motion, the Affidavit of David J. Wathen. The purpose of this submission is to provide context for the 2016 Analysis, including a summary of actions the Board has taken in response to the Commission's recent directives regarding executive compensation.

I. Background of Citizens Energy Group and Citizens Water

Citizens Energy Group is a trade name through which the Board does business. The Board was established by the Indiana General Assembly in 1929 to serve as the successor trustee of a public charitable trust (the “Energy Trust”) originally established in 1906 to, among other things, supply heat, light and power to the City and its inhabitants. (*See* Cause No. 44644, Direct Testimony of Jeffrey A. Harrison, Pet. Exh. 1 at p. 3)

From its inception, the Energy Trust was intentionally designed to be managed and operated differently than a traditional municipally-owned utility. Indeed, the Energy Trust’s founders, a group of some of the City’s most accomplished business and community leaders at that time, created a structure designed to protect critical Indianapolis utility infrastructure from partisan political governance. The Energy Trust’s principal founder, Alfred Potts, described the public charitable trust as “an institution which stands as a successful substitute for municipal ownership.” Other founders of the original public charitable trust included Colonel Eli Lilly, John Holliday and Edward Claypool. (*See id.* at pp. 3 – 4)

In 1929, the Board was created by statute to acquire the assets of the Citizens Gas Company of Indianapolis, a privately owned company, and serve as the successor trustee of the Energy Trust. The Board was specifically structured such that it would continue to fulfill the purposes for which the public charitable trust was created, including a governance structure that ensures the Energy Trust continues to be protected from partisan political governance. Shortly after its creation by the General Assembly, the Board acquired all the assets, including the gas utility assets, formerly owned by the Energy Trust’s prior trustee, the Citizens Gas Company of Indianapolis. (*See id.* at p. 4)

On August 26, 2011, Citizens Energy Group acquired the water utility assets formerly owned and operated by the Indianapolis Department of Waterworks. Citizens Energy Group’s

acquisition of the water utility was approved by the Commission in Cause No. 43936. Citizens Energy Group owns the water utility assets as trustee of a public charitable trust (the “Water Trust”) that was modeled after and is substantially similar to the Energy Trust, including a governance and management structure that is intentionally vastly different from the governance and management structure of a traditional municipal utility. (*See id.* at p. 5)

In Cause No. 43936, the Commission conducted an in-depth review of the Citizens governance and management structure and recognized the differences between the City of Indianapolis’s Department of Waterworks and the Citizens organization. Indeed, the management experience and expertise possessed by Citizens was a key reason the Commission concluded the public interest would be served by removing the water utility assets from the control of the City’s Department of Waterworks and transferring those assets to Citizens. In the Order approving the transfer of the water utility to Citizens, the Commission observed:

Utilities are better managed by a utility company with continuity of management and a longer term view of what is necessary to efficiently operate utilities. Mr. Cotterill [Chief of Staff to Mayor Ballard at the time of the water utility transfer] specifically referred to Citizens’ extensive experience in managing its other public utilities, and stated his belief that Citizens will be able to deliver benefits to ratepayers that the City simply could not achieve.

(Cause No. 43936 July 13, 2011 Order at page 18)

Based on that and other evidence presented in Cause No. 43936, the Commission found:

[i]t was presented with evidence demonstrating the significant challenges . . . the [water utility] face[s] in the upcoming years, which underscores the need to ensure these critical utility assets are under the operational control of a qualified and experienced utility organization. . . . Based upon the evidence presented in this proceeding, we find that transferring control of the [water utility] from the City to Citizens . . . will provide many benefits to the City’s water, wastewater, gas, and steam customers and is in the public interest.

(*Id.*)

(*See* Cause No. 44644, Direct Testimony of Jeffrey A. Harrison, Pet. Exh. 1 at pp. 24 - 25)

II. Citizens Water's First Rate Case in Cause No. 44306, the Docket Entry in Cause No. 44462 and Citizens Water's Second Rate Case in Cause No. 44644

A. Cause No. 44306

Following Citizens' acquisition of the water utility from the City, based on the approvals granted in Cause No. 43936, Citizens Water filed its first rate case in February 2013, which was docketed as Cause No. 44306. On March 19, 2014, the Commission issued its final Order in Cause No. 44306. The Commission expressed concerns with the Board's executive compensation philosophy, primarily rooted in the notion that the amount of executive compensation allocated to Citizens Water was inconsistent with "municipal-based expenses." The Commission disallowed long-term incentive compensation paid to Citizens' executive officers, disallowed a portion of short-term incentive compensation and mandated that Citizens Water "in its next base rate case . . . shall present an allocation of executive compensation that is consistent with municipal-based expenses, and considers the level of compensation (base and incentive pay) as well as the number of executive salaries allocated to the municipal utility."

B. Cause No. 44462

On September 17, 2014, the Commission issued a Docket Entry in Cause No. 44462 requesting Citizens to identify an expected completion date for an executive compensation analysis being performed by Towers Watson (now known as Willis Towers Watson) on behalf of the Board (the "2014 Analysis"). The docket entry further requested that if the 2014 Analysis was completed, Citizens should provide a copy to the Commission. On September 24, 2014, Citizens filed with the Commission a summary of the 2014 Analysis, dated September 22, 2014. The Commission issued its Final Order in Cause No. 44462 on March 4, 2015 and ordered Citizens to file the complete 2014 Analysis. On March 30, 2015, Citizens submitted the complete 2014 Analysis as a confidential filing.

C. Cause No. 44644

1. Citizens Water's Case-in-Chief and the August 21, 2015 Docket Entry

On June 26, 2015, Citizens Water filed its case-in-chief in Cause No. 44644. That testimony described a number of changes the Board approved and implemented in response to the Commission's final Order in Cause No. 44306. The Board directed Towers Watson to include municipal/public power utilities in the peer group used to conduct compensation benchmarking. Additionally, the Board eliminated the long-term incentive compensation plan for executive officers and reduced targets for short-term incentive compensation paid to officers, resulting in reductions in targeted total cash compensation for every Citizens executive ranging from five percent to 27 percent.

On August 21, 2015, the Commission issued a docket entry with two alternative requests. The first alternative request asked Citizens Water to provide the 2014 Analysis "in electronic Excel format" along with "a breakdown of the title, base salary, and short-term and long-term incentive pay of each of the executives of the peer group utilities used in the study." In the alternative, the Commission stated that Citizens Water "may submit a compensation analysis that excludes investor-owned utilities from the peer group and includes supporting data in electronic Excel format." Citizens Water elected to prepare and submit a response to the first alternative request.

On September 16, 2015, Citizens Water filed its response stating that a hard copy of the 2014 Analysis had been previously submitted to the Commission in Cause No. 44462. Citizens Water further stated that, based on Towers Watson's need to protect trade secret information contained in the Excel spreadsheets, Citizens Water would submit the 2014 Analysis in electronic format in Cause No. 44644 upon entry of an order granting confidential treatment of the requested Excel spreadsheet information. The Commission issued a confidentiality order on

September 17, 2015, and Citizens Water thereafter provided the requested Excel spreadsheet information as a confidential submission in Cause No. 44644 (the 2014 Analysis also was introduced as Attachment JLW-1 in Cause No. 44644). Additionally, in its response filed on September 16, 2015, Citizens Water explained it did not possess the requested breakdown of title, base salary, and short-term and long-term incentive pay for executives of the peer group of utilities used to prepare the 2014 Analysis. Citizens Water submitted the affidavit of David J. Wathen demonstrating that Towers Watson had not provided and would not provide that information to Citizens. Thus, Citizens Water provided all the information it possessed and could obtain in response to the Commission's first alternative request set forth in the August 21, 2015 docket entry. Citizens Water received no follow-up requests from the Commission or indication that its response was deemed insufficient until the final Order was issued seven months after the response was submitted.

2. *The Settlement Agreement and Final Order in Cause No. 44644*

On December 23, 2015, Citizens Water filed a Stipulation and Settlement Agreement ("Settlement Agreement") among all of the Parties to Cause No. 44644. In Paragraph 2 a. of the Settlement Agreement, the settling parties agreed to "a reduction of \$452,000 to the amount of pro forma short-term incentive plan pay" The settling parties further agreed the reduction "resolve[d] all compensation-related issues."

On April 20, 2016, the Commission approved the Settlement Agreement, "consistent with findings set forth in the Order." Among the Commission's findings was Finding No. 14(H) on Executive Compensation. That Finding and Ordering Paragraph 7 ordered Citizens Water to submit, within 60 days of the effective date of the Order, a compensation study of executive salaries that "includes only municipal utilities." The Commission's findings indicated Citizens Water could utilize the 2014 Analysis, which included 7 municipal/public power utilities, if

Citizens Water removed the 15 investor-owned utilities also included in the peer group used to prepare the 2014 Analysis. Alternatively, the Order stated Citizens Water could create a new study.

3. *The 2016 Analysis*

To comply with the Order in Cause No. 44644, Citizens Water engaged Willis Towers Watson to prepare a new executive compensation analysis and directed it to remove any investor-owned utilities from the utility group used to prepare that analysis. As noted on page 3 of the 2016 Analysis, Willis Towers Watson utilized a perspective of municipal/public power utilities to conduct its study due to insufficient municipal utility pay data being available. The 2016 Analysis, however, does not reflect any investor-owned utilities or for-profit general industry companies. While the 2016 Analysis was prepared in response to the Order, the Board continues to believe Citizens Energy Group must compete with investor owned utilities and other private, for-profit companies in order to attract, retain and motivate the caliber of employees required to successfully manage the complex utility organization under its ownership and control. (See Cause No. 44644, Direct Testimony of Jodi L. Whitney, Pet. Exh. 9 and Att. JLW-1)

For the foregoing reason, Citizens Water questions the probative value of the 2016 Analysis for compensation benchmarking purposes. The analysis does, however, demonstrate the actions taken by the Board, including the reductions to executive officer compensation previously described, should satisfy the concerns expressed by the Commission in Cause No. 44306 regarding the amount of executive compensation allocated to Citizens Water. For example, as shown on page 10 of Ms. Whitney's Rebuttal testimony, only 27.06% of Citizens Energy Group's President and CEO's total compensation was allocated to Citizens Water in Cause No. 44644. Based on the President and CEO's current compensation as shown on page 4

of the 2016 Analysis, the amount allocated to the water utility would be \$202,950. Citizens Water respectfully requests that the Commission accept this Compliance Filing in satisfaction of the directive in the Order and grant the relief requested in the Motion.

Dated this 20th day of June, 2016.

Respectfully submitted,

/s/ Michael E. Allen

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing was served on the following by delivering a copy thereof by electronic mail on this 20th day of June, 2016.

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/s/ Michael E. Allen

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Executive Compensation Benchmarking Analysis

Municipal/Public Power Perspective

Citizens Energy Group

June 20, 2016

Contents

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Compensation Analysis Summary

The comparison of Citizens Energy Group (CEG) executive compensation to municipal/public power utility data set forth in this benchmarking analysis is in compliance with the Indiana Utility Regulatory Commission's Order in Cause No. 44644 requiring Citizens Water "to submit a compensation study of executive salaries that includes only municipal utilities."

Based on the Order, a compensation analysis was conducted reflective of the following scope:

- Given insufficient municipal utility pay data, a broader perspective of municipal/public power utilities was examined
 - Reflects municipal utilities, public power utilities, cooperatives, joint action agencies and service providers to municipal utilities in published surveys available to Willis Towers Watson
 - Note: this perspective does not reflect CEG's market for executive talent, as defined by the Board
- Data provided are from a custom cut of the Western Management Group Survey (WMG) of comparably sized organizations
 - Companies included in the study were selected based on self-reported revenue using a criteria of one-half to two times CEG's annual revenues of \$842 million
 - Revenue scope of one-half to two times CEG's revenues is a compensation consulting standard and a best practice for benchmarking and scoping executive positions to survey data
 - Data are provided for seven of the fifteen positions identified by CEG due to available survey benchmark data
 - Detailed description of the methodology can be found in Appendix A
- There can be inconsistency year-to-year in compensation survey participation due to a company's choice to participate in a particular survey or not; CEG did not use the WMG survey previously to assess executive pay levels as the peer group did align with their primary market for executive talent

Compensation Analysis Summary (cont'd)

The table below presents the variance of each executive's base salary, target total cash and target total direct compensation relative to the requested municipal/public power perspective:

Executive	Position	Current Base Salary	Current TTC ¹	Current TTDC ²	Median Data					
					Municipal / Public Power					
					Base Salary	% diff	TTC ¹	% diff	TTDC ²	% diff
Harrison	President & Chief Executive Officer	\$555,556	\$750,001	\$750,001		29%		74%		74%
Brehm	SVP & CFO	\$413,889	\$558,750	\$558,750		62%		119%		119%
Hill	SVP & General Counsel	\$361,111	\$487,500	\$487,500		54%		107%		107%
Strohl	SVP Chief Customer Officer	\$347,222	\$468,750	\$468,750		N/A		N/A		N/A
Vacant	SVP Operations	--	--	--		N/A		N/A		N/A
Braun	VP Energy Operations	\$294,370	\$397,400	\$397,400		N/A		N/A		N/A
Lucas	VP Information Technology	\$260,389	\$351,525	\$351,525		30%		76%		76%
Whitney	VP Human Resources	\$249,025	\$336,184	\$336,184		13%		53%		53%
Jacob	VP Capital Programs & Engineering	\$243,370	\$328,550	\$328,550		4%		40%		40%
Popp	VP Customer Operations	\$243,370	\$328,550	\$328,550		N/A		N/A		N/A
Perkins	VP Corporate Communications and Chief Diversity Officer	\$236,500	\$319,275	\$319,275		N/A		N/A		N/A
Prentice	VP Regulatory Affairs	\$235,778	\$318,300	\$318,300		N/A		N/A		N/A
Johnson	VP Strategy and Corporate Development	\$228,139	\$307,988	\$307,988		N/A		N/A		N/A
Willman	VP Water Operations	\$225,000	\$303,750	\$303,750		N/A		N/A		N/A
Karner	VP Controller	\$185,000	\$249,750	\$249,750		19%		61%		61%
Aggregate ³		\$2,268,340	\$3,062,259	\$3,062,259		31%		77%		77%

Source: Willis Towers Watson Analysis; CEG Management

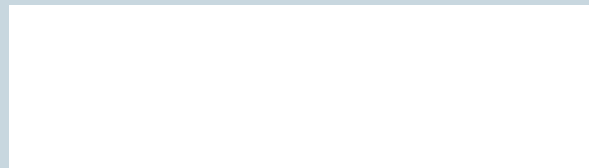
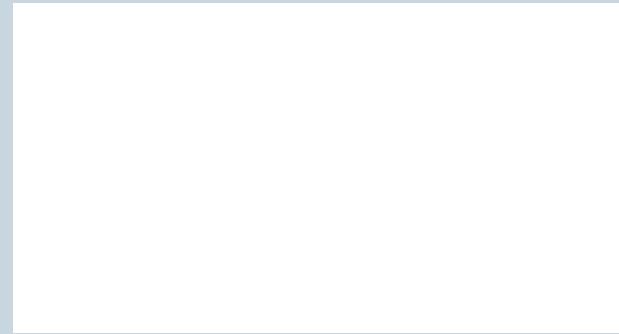
¹ TTC (Target Total Cash) = base salary + target short-term incentive

² TTDC (Target Total Direct Compensation) = base salary + target short-term incentive + long-term incentive; for CEG, TTC equals TTDC because CEG does not provide long-term incentives.

³ Aggregate reflects the sum of the value in each column where municipal / public power data are available. The "% diff" column represents the percentage difference between the Current TTC and Current TTDC columns and the municipal / public power data. When municipal / public power data are not available, CEG's Current TTC and TTDC values are not included in the calculation.

Compensation Analysis

Detailed Findings



President & Chief Executive Officer

Citizens Energy Group		Municipal/Public Power			% Difference Between Pay Element and Municipal/Public Power		
Position	Current Compensation	25th Percentile	50th Percentile	75th Percentile	25th Percentile	50th Percentile	75th Percentile
President & Chief Executive Officer							
Base Salary	\$555,556					29%	
Target STIP (as a % of Base)	35%					35	
Target Total Cash Compensation	\$750,001					74%	
Long-Term Incentives	\$0					--	
Target Total Direct Compensation	\$750,001					74%	

Notes:

Target STIP “% Difference Between Pay Element and Municipal/Public Power” reflects absolute variance.

A “--” represents no data reported.

SVP & CFO

Citizens Energy Group		Municipal/Public Power			% Difference Between Pay Element and Municipal/Public Power		
Position	Current Compensation	25th Percentile	50th Percentile	75th Percentile	25th Percentile	50th Percentile	75th Percentile
SVP & CFO							
Base Salary	\$413,889					62%	
Target STIP (as a % of Base)	35%					35	
Target Total Cash Compensation	\$558,750					119%	
Long-Term Incentives	\$0					--	
Target Total Direct Compensation	\$558,750					119%	

Notes:

Target STIP “% Difference Between Pay Element and Municipal/Public Power” reflects absolute variance.

A “--” represents no data reported.

SVP & General Counsel

Citizens Energy Group		Municipal/Public Power			% Difference Between Pay Element and Municipal/Public Power		
Position	Current Compensation	25th Percentile	50th Percentile	75th Percentile	25th Percentile	50th Percentile	75th Percentile
SVP & General Counsel							
Base Salary	\$361,111					54%	
Target STIP (as a % of Base)	35%					35	
Target Total Cash Compensation	\$487,500					107%	
Long-Term Incentives	\$0					--	
Target Total Direct Compensation	\$487,500					107%	

Notes:

Target STIP “% Difference Between Pay Element and Municipal/Public Power” reflects absolute variance.

A “--” represents no data reported.

SVP Chief Customer Officer

Citizens Energy Group		Municipal/Public Power			% Difference Between Pay Element and Municipal/Public Power		
Position	Current Compensation	25th Percentile	50th Percentile	75th Percentile	25th Percentile	50th Percentile	75th Percentile
SVP Chief Customer Officer							
Base Salary	\$347,222					--	
Target STIP (as a % of Base)	35%					--	
Target Total Cash Compensation	\$468,750					--	
Long-Term Incentives	\$0					--	
Target Total Direct Compensation	\$468,750					--	

Note:

A "--" represents no data reported.

SVP, Operations

Citizens Energy Group		Municipal/Public Power			% Difference Between Pay Element and Municipal/Public Power		
Position	Current Compensation	25th Percentile	50th Percentile	75th Percentile	25th Percentile	50th Percentile	75th Percentile
SVP, Operations							
Base Salary	--					--	
Target STIP (as a % of Base)	--					--	
Target Total Cash Compensation	--					--	
Long-Term Incentives	--					--	
Target Total Direct Compensation	--					--	

Note:

A "--" represents no data reported.

VP Energy Operations

Citizens Energy Group		Municipal/Public Power			% Difference Between Pay Element and Municipal/Public Power		
Position	Current Compensation	25th Percentile	50th Percentile	75th Percentile	25th Percentile	50th Percentile	75th Percentile
VP Energy Operations							
Base Salary	\$294,370					--	
Target STIP (as a % of Base)	35%					--	
Target Total Cash Compensation	\$397,400					--	
Long-Term Incentives	\$0					--	
Target Total Direct Compensation	\$397,400					--	

Note:

A "--" represents no data reported.

VP Information Technology

Citizens Energy Group		Municipal/Public Power			% Difference Between Pay Element and Municipal/Public Power		
Position	Current Compensation	25th Percentile	50th Percentile	75th Percentile	25th Percentile	50th Percentile	75th Percentile
VP Information Technology							
Base Salary	\$260,389					30%	
Target STIP (as a % of Base)	35%					35	
Target Total Cash Compensation	\$351,525					76%	
Long-Term Incentives	\$0					--	
Target Total Direct Compensation	\$351,525					76%	

Notes:

Target STIP “% Difference Between Pay Element and Municipal/Public Power” reflects absolute variance.

A “--” represents no data reported.

VP Human Resources

Citizens Energy Group		Municipal/Public Power			% Difference Between Pay Element and Municipal/Public Power		
Position	Current Compensation	25th Percentile	50th Percentile	75th Percentile	25th Percentile	50th Percentile	75th Percentile
VP Human Resources							
Base Salary	\$249,025					13%	
Target STIP (as a % of Base)	35%					35	
Target Total Cash Compensation	\$336,184					53%	
Long-Term Incentives	\$0					--	
Target Total Direct Compensation	\$336,184					53%	

Notes:

Target STIP “% Difference Between Pay Element and Municipal/Public Power” reflects absolute variance.

A “--” represents no data reported.

VP Capital Programs & Engineering

Citizens Energy Group		Municipal/Public Power			% Difference Between Pay Element and Municipal/Public Power		
Position	Current Compensation	25th Percentile	50th Percentile	75th Percentile	25th Percentile	50th Percentile	75th Percentile
VP Capital Programs & Engineering							
Base Salary	\$243,370					4%	
Target STIP (as a % of Base)	35%					35	
Target Total Cash Compensation	\$328,550					40%	
Long-Term Incentives	\$0					--	
Target Total Direct Compensation	\$328,550					40%	

Notes:

Target STIP “% Difference Between Pay Element and Municipal/Public Power” reflects absolute variance.

A “--” represents no data reported.

VP Customer Operations

Citizens Energy Group		Municipal/Public Power			% Difference Between Pay Element and Municipal/Public Power		
Position	Current Compensation	25th Percentile	50th Percentile	75th Percentile	25th Percentile	50th Percentile	75th Percentile
VP Customer Operations							
Base Salary	\$243,370					--	
Target STIP (as a % of Base)	35%					--	
Target Total Cash Compensation	\$328,550					--	
Long-Term Incentives	\$0					--	
Target Total Direct Compensation	\$328,550					--	

Note:

A "--" represents no data reported.

VP Corporate Communications and Chief Diversity Officer

Citizens Energy Group		Municipal/Public Power			% Difference Between Pay Element and Municipal/Public Power		
Position	Current Compensation	25th Percentile	50th Percentile	75th Percentile	25th Percentile	50th Percentile	75th Percentile
VP Corporate Communications and Chief Diversity Officer							
Base Salary	\$236,500					--	
Target STIP (as a % of Base)	35%					--	
Target Total Cash Compensation	\$319,275					--	
Long-Term Incentives	\$0					--	
Target Total Direct Compensation	\$319,275					--	

Note:

A "--" represents no data reported.

VP Regulatory Affairs

Citizens Energy Group		Municipal/Public Power			% Difference Between Pay Element and Municipal/Public Power		
Position	Current Compensation	25th Percentile	50th Percentile	75th Percentile	25th Percentile	50th Percentile	75th Percentile
VP Regulatory Affairs							
Base Salary	\$235,778					--	
Target STIP (as a % of Base)	35%					--	
Target Total Cash Compensation	\$318,300					--	
Long-Term Incentives	\$0					--	
Target Total Direct Compensation	\$318,300					--	

Note:

A "--" represents no data reported.

VP Strategy and Corporate Development

Citizens Energy Group		Municipal/Public Power			% Difference Between Pay Element and Municipal/Public Power		
Position	Current Compensation	25th Percentile	50th Percentile	75th Percentile	25th Percentile	50th Percentile	75th Percentile
VP Strategy and Corporate Development							
Base Salary	\$228,139					--	
Target STIP (as a % of Base)	35%					--	
Target Total Cash Compensation	\$307,988					--	
Long-Term Incentives	\$0					--	
Target Total Direct Compensation	\$307,988					--	

Note:

A "--" represents no data reported.

VP Water Operations

Citizens Energy Group		Municipal/Public Power			% Difference Between Pay Element and Municipal/Public Power		
Position	Current Compensation	25th Percentile	50th Percentile	75th Percentile	25th Percentile	50th Percentile	75th Percentile
VP Water Operations							
Base Salary	\$225,000					--	
Target STIP (as a % of Base)	35%					--	
Target Total Cash Compensation	\$303,750					--	
Long-Term Incentives	\$0					--	
Target Total Direct Compensation	\$303,750					--	

Note:

A "--" represents no data reported.

VP Controller

Citizens Energy Group		Municipal/Public Power			% Difference Between Pay Element and Municipal/Public Power		
Position	Current Compensation	25th Percentile	50th Percentile	75th Percentile	25th Percentile	50th Percentile	75th Percentile
VP Controller							
Base Salary	\$185,000					19%	
Target STIP (as a % of Base)	35%					35	
Target Total Cash Compensation	\$249,750					61%	
Long-Term Incentives	\$0					--	
Target Total Direct Compensation	\$249,750					61%	

Notes:

Target STIP “% Difference Between Pay Element and Municipal/Public Power” reflects absolute variance.

A “--” represents no data reported.

Appendices

A: Compensation Analysis Terminology & Methodology

B: Survey Benchmark Matches

C: Custom Peer Group List

Appendix A

Compensation Analysis Terminology

- The following definitions are provided to facilitate an understanding of the analyses contained in this report:
 - **Municipal/Public Power Utility:** a utility that maintains the infrastructure for a public service that is subject to public control and regulation
 - **Base Salary:** the fixed and recurring part of an executive's annual compensation
 - **Short-Term Incentive:** the part of compensation tied to performance during a twelve-month period which may vary with company, business unit or individual performance
 - **Target Short-Term Incentive %:** the target short-term incentive amount stated as a percentage of base salary
 - **Target Total Cash Compensation (Target TCC):** the sum of base salary and target short-term incentive
 - **Target Long-Term Incentive (LTI):** the annualized accounting value of target long-term incentives, which is pay at risk typically paid over multiple years
 - **Target Total Direct Compensation (Target TDC):** the sum of target total cash compensation and target long-term incentives
 - **25th Percentile:** the figure above which 75% of all reported data fall
 - **50th Percentile (median):** the figure above and below which 50% of all reported data fall
 - **75th Percentile:** the figure above which 25% of all reported data fall

Appendix A

Methodology

- To develop pay references for the executive positions under study, Willis Towers Watson took the following steps:
 - Gathered position-specific information, organizational charts, scope and current compensation data from CEG
 - Compiled appropriate municipal/public power utility data from survey sources, as described below
 - Gathered and analyzed the compensation data in accordance with the target municipal / public power perspective articulated by the Commission
 - Used size-appropriate compensation data to reflect the appropriate CEG revenue scope
 - Data were aged using an annual update factor of 3.0% to an effective date of June 1, 2016
- Willis Towers Watson used the following data source as its primary point of comparison for municipal/public power survey data:
 - Western Management Survey (2015 edition)
 - Custom cut peer group comprised 29 municipal/public power utilities with revenues in a range of approximately ½ to 2 times CEG's annual revenue of \$842 million

Note: Willis Towers Watson also reviewed the Towers Watson CDB Energy Services Executive Compensation Survey and the AGA Executive Compensation Survey; however, insufficient data were provided for municipal/public power participants in those surveys. Therefore, these data sources were excluded from this benchmarking analysis.

Appendix B

Survey Benchmark Matches

Citizens Energy Group			Survey Sources	
Executive	Title	Revenue Scope (\$MM)	Western Management Survey	Premium/Discounts
Harrison	President & Chief Executive Officer			
Brehm	SVP & CFO			
Hill	SVP & General Counsel			
Strohl	SVP Chief Customer Officer			
Vacant	SVP Operations			
Braun	VP Energy Operations			
Lucas	VP Information Technology			
Whitney	VP Human Resources			
Jacob	VP Capital Programs & Engineering			
Popp	VP Customer Operations			
Perkins	VP Corporate Communications and Chief Diversity Officer			
Prentice	VP Regulatory Affairs			
Johnson	VP Strategy and Corporate Development			
Willman	VP Water Operations			
Karner	VP Controller			

Appendix C

Western Management Custom Peer Group

- Peer group was selected based on municipal/public power utilities with revenues in a range approximately ½ to 2 times CEG's revenue of \$842 million

Company	Company
American Municipal Power	Knoxville Utilities Board
American Transmission Company	Lafayette Utilities System
Arkansas Electric Cooperative	Lower Colorado River Authority
Associated Electric Cooperative	Nashville Electric Service
Basin Electric Power Cooperative	Old Dominion Electric
Buckeye Power	Omaha Public Power District
City of Anaheim Public Utilities	Orlando Utilities Commission
City of Austin	Pedernales Electric (PEC)
Colorado Springs Utilities	Seattle City Light
Electric Power Board of Chattanooga	Southern California Public Power Authority
Electricities of North Carolina	Sunflower Electric Power Corporation
Florida Municipal Power Agency	The Middle Tennessee Electric Membership Corporation
Georgia System Operations	Tri-State Generation & Transmission Association Inc
Indiana Municipal Power Agency	WPPI Energy
Intermountain Power Agency	