BEFORE THE STATE CORPORATION COMMISSION

OF THE STATE OF KANSAS

DIRECT TESTIMONY

OF

JERL BANNING

WESTAR ENERGY

DOCKET NO. 15-WSEE-115-RTS

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Jerl L. Banning, 818 South Kansas Avenue, Topeka, Kansas 66612.

Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?

A. Westar Energy, Inc. (Westar), Senior Vice President, Operations Support and Administration. I have responsibility for operations support, human resources, technology and facilities.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A. Between 1996 and 2008, I held various positions in human resources at Aquila, Inc., and Koch Industries. Prior to this, I worked in a variety of professional services organizations as a human resources consultant with clients in multiple industries. I joined Westar in 2008 as Executive Director, Human Resources, shortly thereafter was promoted to Vice President of Human Resources and held that position until 2014, when I was promoted to Vice-President of Human Resources and Information Technology. In January 2015, I was promoted to Executive Vice President, Operations Support and Administration.

I received a B.A. in psychology from Bethel College and a master's degree in organizational/personnel psychology from the University of Kansas.

Q. HAVE YOU TESTIFIED BEFORE THIS OR OTHER REGULATORY BODIES IN THE PAST?

A. Although I have prepared written testimony on behalf of Aquila, Inc. for the Nebraska Public Service Commission and on behalf of Westar for this Commission, I have not previously testified in person.

II. PURPOSE AND SUMMARY OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I will discuss Westar's pay and benefits programs, including base pay and short-term variable compensation for non-executive employees, retirement and other benefits, and executive compensation. I will discuss how each of these programs compares to the pay and benefits offered by other similarly-situated utility companies and demonstrate that Westar's pay and benefits programs are reasonable and supported by evidence that they are at or near the market median in all instances. I will also discuss why it is appropriate for Westar to include in rates all of its at-risk variable compensation for non-executive level employees and its executive compensation, including long-term, at-risk compensation paid in equity.

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. Westar's compensation program is designed to attract and retain the talent necessary to provide safe, reliable electric service, and to do so while managing our costs responsibly. Our overall employee compensation for union, non-union, and executive level employees is right at the market median – in other words, right in the middle of the pack of similarly-situated utility companies. We make a portion of the compensation for non-union employees variable, which means it is at risk and tied to performance in order to incent high performance levels and align the operations, safety and cost performance goals of our employees with those of the company. The total cost of the benefits we provide to our employees is also in line with the median for our peer group.

Compensation for executives at Westar is determined by the Compensation Committee of the Board of Directors, comprised entirely of non-employee directors. It is also managed to remain in line with the median for our peer group.

Although some parties to our previous rate cases have suggested that the Commission should disallow a portion of our variable employee and executive compensation tied to financial performance, such disallowance would be inappropriate. Providing employees with an incentive to work toward solid financial performance for Westar provides a strong incentive to manage costs aggressively, to provide higher customer satisfaction, and leads to a more efficient utility overall, all of which benefit our customers directly through lower rates. Additionally, decisions about employee and executive compensation are within the reasonable discretion of the company's management and the associated costs should not be disallowed unless those decisions are shown to be imprudent. As I discuss in detail in my testimony, Westar's expense related to employee compensation and benefits is prudent. Consequently, Westar should be permitted to include the full cost in rates.

III. OVERVIEW OF WESTAR'S PAY AND BENEFITS PROGRAMS

Q. HOW ARE WESTAR'S PAY AND BENEFITS PROGRAMS STRUCTURED?

A. Westar compensates all non-union, non-executive level employees with both base pay and short-term variable pay. The short-term variable pay ties employees' compensation to their performance and Westar's operating, safety and financial performance. Based on that performance, employees may earn below, above, or at market levels. Director level employees have the same structure, but in addition have a portion that is variable and at risk based on longer-term performance, which when paid, is in the form of equity. Westar executives receive base pay and are eligible for long-term variable compensation, which, when paid is in the form of equity. Our executives are not eligible for short-term variable pay. Westar has been serving our customers and has played an important part of the communities in Kansas for more than 100 years. We want the incentives of our officers to be aligned with the long-term focus of doing so for another 100 years. Therefore, we believe that it is better to align all of the market average variable compensation that our officers would be eligible for at other companies with the long-term value of Westar rather than things that might have the potential to incent a too narrow and too short-sighted view of the business.

All Westar employees are eligible to participate in Westar's retirement plan and also to contribute to a 401(k) plan with a market-based matching contribution from Westar up to an established limit. Westar provides customary healthcare and other benefits to employees.

Q. WHAT IS THE PURPOSE AND OBJECTIVE OF WESTAR'S PAY AND BENEFITS PROGRAMS?

A. Our pay and benefits are designed and managed to attract and retain the talent necessary to provide safe, reliable electric service, and to do so while managing our costs responsibly. We do this by monitoring employee turnover, employee engagement, and payroll-related expenses. This information is compared to industry standards, along with overall payroll costs and benefits, to ensure we are properly aligned with our peer companies.

Q. WHY IS IT IMPORTANT THAT WESTAR'S PAY AND BENEFITS ARE COMPARABLE TO THOSE OF ITS INDUSTRY PEERS?

A. We compete with other utilities for employees with the same experience and ability to meet our goal of providing safe, reliable service to customers at reasonable cost. In order to ensure that we can effectively attract and retain the skilled employees we need, our pay and benefits must be competitive in the industry.

Q. TO WHICH UTILITIES DO YOU COMPARE YOURSELF TO ENSURE THAT WESTAR'S COMPENSATION AND BENEFITS PROGRAMS ARE REASONABLE?

A. Management and the independent Compensation Committee of Westar's Board of Directors have selected a set of utilities that reflect the general size and characteristics of our business – other small to mid-sized regulated electric utilities. Table 1 lists the companies in our peer group. The information in Table 1 reflects data compiled from SNL Energy, with sub-sources being 2013 10-Ks and 2012 EIA 860 filings.

TABLE 1

Westar Peer Group Comparisons			
Company	**Generating Capacity (MW)**	**Revenue ($ in mm's)**	**Employees**
Alliant Energy Corporation	6,786	2,689	3,945
Ameren Corporation	11,505	4,832	8,527
Avista Corporation	1,931	1,031	3,310
Black Hills Corporation	1,142	711	1,948
Cleco Corporation	3,710	1,097	1,205
Great Plains Energy Inc.	7,414	2,446	2,964
IDACORP, Inc.	3,610	1,243	2,033
NorthWestern Corporation	1,437	865	1,493
OGE Energy Corp.	7,705	2,262	3,269
Pinnacle West Capital Corporation	7,277	3,451	6,433
PNM Resources, Inc.	2,443	1,388	1,924
Portland General Electric Company	3,085	1,810	2,596
SCANA Corporation	5,787	2,423	5,989
TECO Energy, Inc.	5,208	1,950	3,692
Vectren Corporation	1,458	619	5,500
Westar Energy, Inc.	7,341	2,371	2,302
Wisconsin Energy Corporation	7,170	3,309	4,303
Average	5,001	2,029	3,614
Min	1,142	619	1,205
25th	2,443	1,097	2,033
50th	5,208	1,950	3,269
75th	7,277	2,446	4,303
Max	11,505	4,832	8,527

We size-adjust our peers' numbers using regression analysis and use this analysis as the primary source of comparison when determining compensation levels. We also use industry published numbers and sometimes seek specific comparisons from other companies when appropriate and necessary. I will discuss in more detail the method of gathering comparative information throughout my testimony because it varies a bit according to the availability of information for each component of pay and benefits.

Q. WHY COMPARE TO THE MARKET MEDIAN – THE MIDPOINT OF THE MARKET – INSTEAD OF SOME OTHER MEASURE OF CENTRAL TENDENCY?

A. The median is the point at which one-half of the values in a series of numbers are above and one-half are below. As such, the median represents the "middle of the pack," and is less susceptible to the influence of outliers – an extraordinarily high or low number that can skew the mean -- the mathematical average -- when the distribution is not "normal." Therefore, it is the most appropriate measure for comparing pay and benefits. Aiming our compensation levels at the median ensures that we are acting well within industry norms, which helps us judiciously manage costs for our customers while meeting our goals of attracting and retaining necessary skills and talent.

IV. WESTAR'S BASE PAY AND SHORT-TERM VARIABLE COMPENSATION PROGRAMS

Q. HOW DO WESTAR'S BASE PAY PROGRAMS COMPARE TO OTHERS IN THE INDUSTRY?

A. Westar's comparison ratio for total direct compensation for non-union employees is at the market median. The comparison ratio for union employees is just slightly above the median, at 102% of the midpoint. This equates to a combined total company ratio of 101%. These comparison ratios were determined by comparing the total direct compensation for each of Westar's employment positions to the total direct compensation for similar categories of employees at the members of our peer group. Total direct compensation is defined as the value of fixed and variable – both short and long-term – compensation. Of course, for any one person, depending on his or her experience, productivity, and contributions, that person may be paid below or above or nearly at the median, depending on their circumstances. While we target an overall median, we do not suggest that each person should also be at the median, because each person's contributions differ from others.

Q. WHAT IS A COMPARISON RATIO?

A. A comparison ratio is the ratio between the market median for a position and the amount Westar actually pays its employees in that position. Market data is generally not available for all of Westar's positions. Therefore, we focus primarily on jobs that are common in the industry for which reliable market data can be found. These jobs are called "benchmark jobs." The comparison ratio is determined by the average of the difference in pay for each Westar employee in a benchmark position from the median pay for the companies within the industry for which data was available, reported as a percentage of the median. A percentage greater than 100 percent means pay is above the market median, a percentage less than 100 percent means pay is below the market median. The comparison ratio is the best available metric for showing Westar's overall actual pay position relative to market.

Q. HOW DOES WESTAR USE PROGRAMS TO PLACE COMPENSATION AT RISK?

A. For our non-union employees, depending on their position, part of their pay is variable, depending on performance. This is short-term variable compensation.

Q. HOW IS WESTAR'S SHORT-TERM VARIABLE PROGRAM DESIGNED?

A. For most of our non-union employees (management, professional, technical and clerical personnel), the effect of the short-term variable compensation (STVC) program is to make part of their compensation vary with their performance and Westar's performance. We believe it is important to make part of employees' compensation variable because it helps to reinforce important group and individual goals and behaviors and to focus employees on Westar's strategic objectives. Variable compensation helps to ensure that employees are working to further the good of Westar as a whole and our customers and helps to create accountability for the impact their performance has on the performance of the company. As a result, and based on performance, in any given year employees may earn below, above, or at the overall market.

Westar's STVC plan, the variable pay component of our compensation mix, is a common element of pay for non-union employees.[1] Performance targets are established for each pay grade and designed to bridge the gap between the median market base pay and the median market targeted total cash pay. To be clear, our base salaries alone are not market competitive with overall market compensation. As designed, absent the opportunity to earn at-risk incentive compensation, our base salaries alone would not allow us to compete for the talent we need. Total cash compensation, as reported in our survey sources, is the combination of base pay and any annual cash payments under the STVC program. While we expect these payments to vary around the targets in any given year based on performance, over time, they average out to reflect the targeted market variable payout. When combined with our base pay program, total compensation to employees is commensurate with the market median.

The variable compensation pool for each of our business units is established through performance on a combination of customer service, operational, safety, and financial goals, with customer service, operational and safety goals comprising half of the potential amount. That incentive pool is distributed to individual employees by the leadership of the business unit according to each individual's

[1] At Westar, officers are not eligible for the short-term incentive plan.

relative contribution as measured through our performance management system.

Q. WHAT IS WESTAR'S TARGET PAYOUT FOR ITS SHORT-TERM VARIABLE COMPENSATION PROGRAM?

A. We also target the market median for our short-term variable compensation.

Q. IN WHAT WAYS DOES THIS MAKE A PORTION OF EMPLOYEES' COMPENSATION VARIABLE?

A. We only pay it, or pay a portion of it, if certain broad-based goals and objectives are met – objectives indicative of overall company performance across many important dimensions. It is not a "bonus" for superior performance, but rather, a sliding scale of compensation that matches the scale of possible company performance across important dimensions, and a reflection of the individual's contribution and the company's performance, which are common practice in our part of the labor market.

Q. WHAT ARE THE BROAD-BASED GOALS AND OBJECTIVES IN THE STVC?

A. There are four components: safety, customer satisfaction, departmental goals and objectives, and a financial component. When determining the payout for the STVC each year, the components for safety, customer satisfaction, and departmental goals make up 50%; the other half relates to cost management and financial performance.

Q. HOW IS THE STVC FINANCIAL COMPONENT DETERMINED?

A. It is based on total shareholder return relative to the total shareholder return (TSR) of the same peer group of utilities I referred to previously. A company's TSR is comprised of the sum of dividends paid together with any change in the company's stock price. By making the measure *relative* TSR, we remove the possibility of paying employees more, just because the market did well. For employees to earn more of the financial portion of the STVC, Westar must do *relatively* better than its peers. We do that primarily by managing our cost performance. To further that incentive, the relative TSR measure incorporates a bias against paying it, with a zero dead band below a threshold level of relative performance.

Q. HOW DO YOU DETERMINE PAYOUT FOR THE FINANCIAL COMPONENT OF THE STVC?

A. If Westar's TSR is at or below the 25th percentile of the peer group, employees receive nothing. There is a sliding scale making the payout relative to target higher or lower depending on the TSR percentile performance. For example, at the 50th percentile – indicative of median performance – the payout is equal to the targeted amount for the financial component, which, with the other measures, represents the overall market median.

Q. DOES YOUR ACTUAL HISTORY BEAR OUT THAT COMPENSATION IS INDEED VARIABLE AS RELATES TO PERFORMANCE?

A. Yes. For the past five years, Table 2 below shows the payout of the STVC relative to target.

Table 2

Q. DOES YOUR APPLICATION REFLECT ACTUAL COSTS FOR SHORT-TERM INCENTIVE FROM THE TEST YEAR?

A. No. We have adjusted our test year expense related to the short-term incentive to reflect the average payout for the short-term incentive over the last five years (2010-2014) as recommended by Staff in our last general rate case. In that rate case, Docket No. 12-WSEE-112-RTS, Staff witness Grady recommended that Westar use a five-year average when including the short-term incentive in rates.

See Grady Direct, Docket No. 12-WSEE-112-RTS, at pp. 19-20. The five-year average of the short-term incentive payout is 101%, which is essentially at the target of 100%.

Westar witness Devin sponsors the adjustment to reflect the five-year average in his direct testimony.

Q. HOW DOES A SOLID SHOWING BY WESTAR IN THE TSR CALCULATION PROVIDE BENEFITS TO WESTAR'S CUSTOMERS?

A. First, the key way by which employees can contribute to this measure is by managing costs aggressively. That clearly is in our customers' interests, when balanced, of course, with safety and other operating goals.

As Ms. North discusses in her direct testimony, solid stock performance also benefits customers because it translates into lower cost of debt, which flows through to benefit the customers in the form of lower rates.

By encouraging employees to focus on all principal facets of our business – safety, customer service, technical and operational performance, and financial performance – we create a balanced approach to our business. This balance serves not just our shareholders and employees, but also the communities in which we operate and our customers. If this balance is ignored, the business can become unstable and unable to meet its goals for any of its constituents. To design or encourage a compensation program without such balance encourages unhealthy tradeoffs. Employee interests can be elevated above those of customers or shareholders. Operational performance can be achieved at the expense of long-term reliability or employee and/or public safety.

We want employees in the our call center to think about more than customer service, the power plant operator to think of more than just production goals, and the financial analyst to think of more than just profitability. We want them to think of the good of the whole – the overall integrity of our business and how everyone affects performance. Our compensation program is designed so everyone sees the bigger picture, the importance of keeping our business in balance, for both the short and long term for the benefit of customers, shareholders and our communities. An assertion that achieving financial goals is not of benefit to our customers, tempting though it may be, would be short-sighted and not well founded. Good quality service at reasonable cost cannot be achieved by an employee whose interests are divorced from those of the company's owners.

Westar can only obtain a solid shareholder return if it minimizes unnecessary costs, provides good customer service with reasonable expense, and improves performance by increasing productivity. All of these things benefit customers just as they benefit shareholders.

Finally, the markets in which Westar competes for talent generally reflect compensation that incorporates variable compensation similar to that offered by Westar. Thus, if we are to remain competitive for talent, we need to offer a compensation structure and level generally competitive with the market; one that results in lower compensation for inferior performance, but offers the possibility of higher compensation for superior performance, yet overall can be verified to remain in line with the market.

V. WESTAR'S RETIREMENT AND BENEFITS PROGRAMS

Q. WHAT KIND OF RETIREMENT PROGRAMS DOES WESTAR PROVIDE?

A. Westar provides all union employees, and non-union employees hired prior to 2002, with a traditional pension plan, the formula of which is based on final average earnings (FAE). It provides employees a level annuity payment after they retire, based upon a formula of tenure and final pay. In 2002, Westar introduced a more modern cash balance plan formula, which credits to non-union employees' accounts annually based upon a percentage of pay according to their age, for all hires on or after January 1, 2002. Since our last general rate review, we have also been successful in our labor negotiations to include all new union employees hired on or after January 1, 2012, in the cash balance pension formula as well. Westar also offers a 401(k) plan to all employees, which provides a partial match on the first six percent an employee contributes to the plan.

Q. IS THE COMPOSITION OF WESTAR'S RETIREMENT PLANS CONSISTENT WITH WHAT TYPICALLY IS AVAILABLE IN THE ELECTRIC INDUSTRY?

A. Yes. According to a 2013 study performed by Towers Watson, nearly 55% of the electric utilities participating in the studies offer a pension plan, and of that, even for new employees, 20% still base it on final average earnings. The others, like Westar, mostly have grandfathered FAE plans and provide cash balance formula plans for new hires. Most also offer a 401(k) plan. These studies are discussed in more detail below. The most relevant metric, which I describe, is the total costs of our benefits in relations to others in our industry, because that normalizes the costs for the different use of different plan formulae.

Q. WHAT IS WESTAR DOING TO MANAGE THE COSTS OF ITS RETIREMENT EXPENSE?

A. In 2014, we modified the medical benefits we offer to retirees. Effective January 1, 2015, we no longer sponsor retiree medical plans. Instead retirees will enroll in individual plans offered on either the private exchange or public exchange (non-Medicare eligible retirees only), and if they do, we will provide a Health Reimbursement Account contribution and retirees can get reimbursed for medical expenses. Because access to customized health care results in a cost-savings opportunity, Westar concurrently reduced the level of medical subsidy provided to non-union employees, including elimination of future indexation on the subsidy. This modified approach to providing medical benefits is simpler to administer and account for and results in lower cost and less volatility than the prior design.

As I mentioned above we changed our FAE plan for non-union employee to the less costly cash balance plan in 2002, and as I testified in our last general rate case, we attempted and were successful in negotiating with our unions to replace the final average earnings (FAE) plan design for new hires with a cash balance plan. This change is effective for employees hired after on or after January 1, 2012. This account-based approach should reduce the cost and volatility of the retirement program.

Q. HOW DO WESTAR'S BENEFIT AND RETIREMENT PLANS COMPARE TO THE MEDIAN OF ITS PEER GROUP?

A. Both Westar's overall benefits, including variable, or at risk compensation, and Westar's retirement benefits are just below the median of its peer group. Westar's union plan provisions are negotiated through collective bargaining, which makes Westar's ability to meet the median target subject to slightly more variation. However, according to the best information we could obtain, Westar's overall benefits and retirement benefits for union employees were also very close to the median of our peer group.

Q. PLEASE DESCRIBE HOW YOU CAME TO THE CONCLUSIONS STATED ABOVE REGARDING WESTAR'S BENEFIT AND RETIREMENT PLANS FOR NON-UNION EMPLOYEES.

A. In 2013, we participated in the Towers Watson Energy Services BENVAL Study of our union and non-union benefit plans and expenses relative to our industry (2013 Towers Watson Study). Towers Watson provided data for Westar and seven utilities from our peer group. The peer companies included in the Towers Watson study were: Great Plains Energy Inc., NV Energy, Pinnacle West Capital Corp., PNM Resources, Inc., Portland General Electric Co., TECO Energy, Inc., and Tucson Electric Power Company. The Towers Watson study also included eight companies not from our peer group but matched according to similar revenue size. These companies were: CPS Energy, Dynegy Inc., Integrys Energy Group Inc., OGE Energy Corporation, Potomac Electric Power Company, Puget Sound Energy Inc., Salt River Project, and SCANA Corporation.

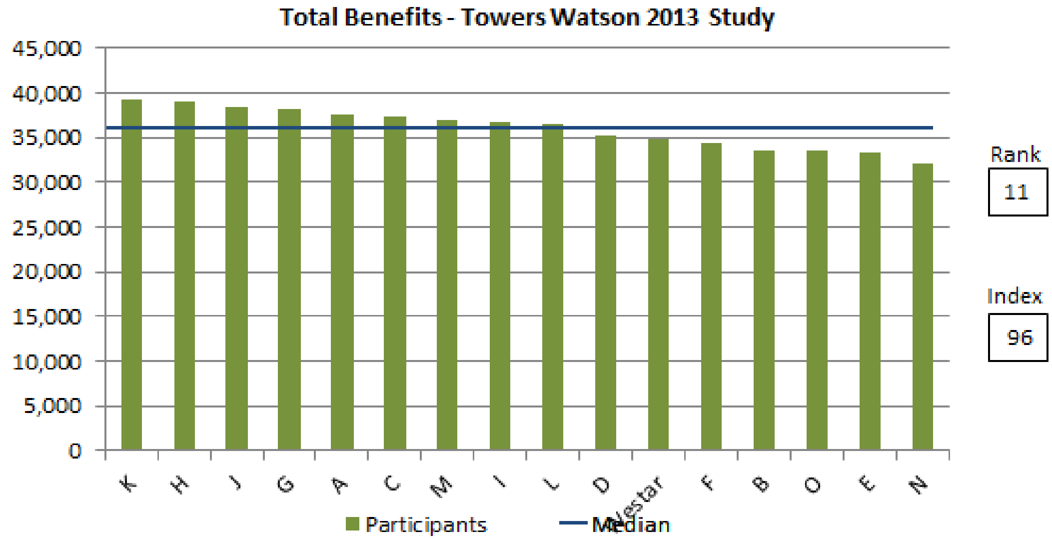
The 2013 Towers Watson Study used sophisticated actuarial methods to compare company benefits. It determined whether the value of the benefits plan offered by Westar is comparable to the value of benefits provided by the peer group companies. This comparison was made by estimating the pre-tax salary that employees from each participating company would give up in order to gain each benefit offered, while controlling for company differences that might impact costs, such as demographics and regional cost differences.

Q. WHAT WAS THE RESULT OF THE 2013 TOWERS WATSON STUDY WITH RESPECT TO TOTAL BENEFITS PROVIDED TO NON-UNION EMPLOYEES?

A. The results of the 2013 Towers Watson Study are summarized below. The "Rank" is where the cost of Westar's benefits plans ranked among the peer group, with "1" being the highest cost. The "Index" identifies, on a percentage basis, how the cost of Westar's benefits plans compares to the median of the peer group with 100 representing the median.

The 2013 Towers Watson Study indicate that Westar's overall benefits values are less expensive than 10 of the 16 utilities included in its database with an overall value slightly below (that is, at 96 percent of) the median. These results are illustrated in Figure 2 below.

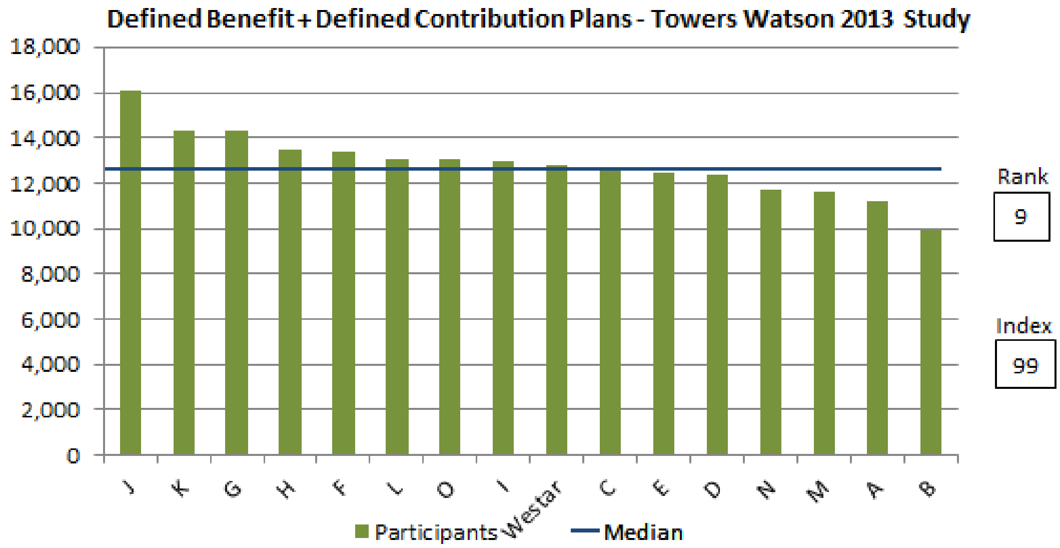
FIGURE 2
WESTAR NON-UNION BENEFIT COST BELOW MEDIAN



Q. WHAT WERE THE RESULTS OF THE STUDIES WITH RESPECT TO THE RETIREMENT BENEFITS WESTAR PROVIDES TO NON-UNION EMPLOYEES?

A. In the 2013 Towers Watson Study, Westar's total retirement benefits for non-union employees (again, the cost of the pension plan together with the 401(k) plan) ranked ninth out of 16, just slightly below industry median. The results are illustrated in Figure 3 below.

FIGURE 3
WESTAR'S RETIREMENT SAVINGS AT INDUSTRY MEDIAN



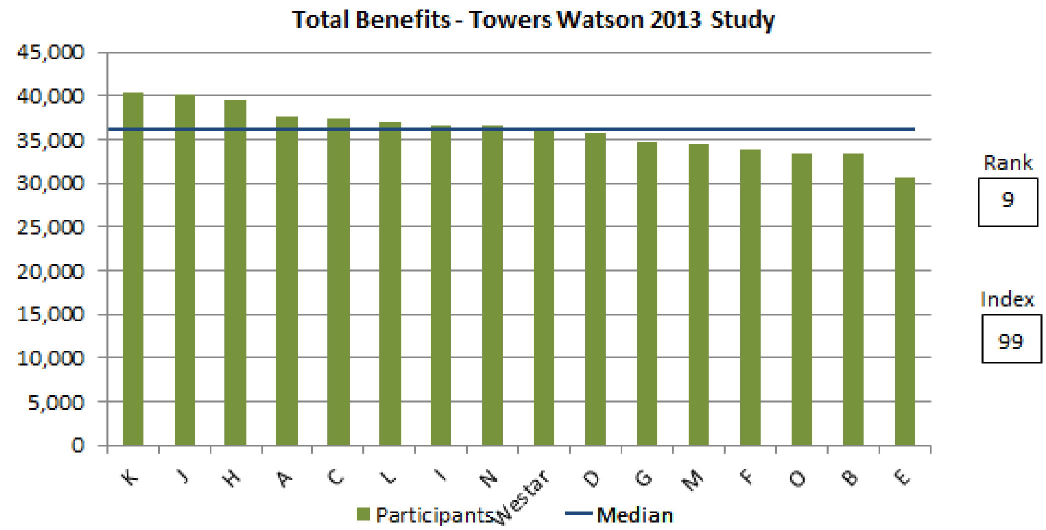
Q. HOW DO WESTAR'S BENEFIT AND RETIREMENT PLANS FOR UNION EMPLOYEES COMPARE TO OTHER COMPANIES?

A. The 2013 Towers Watson Study included an analysis of the value of Westar's union benefit plans provided to new hires. In Figures 4-5 shown below, the "Rank" is where the cost of Westar's benefits plans ranked among the peer group, with "1" being the highest cost. The "Index" identifies, on a percentage basis, how the cost of Westar's benefits plans compares to the median of the peer group with 100 representing the median.

The results of the 2013 Towers Watson Study of the total benefits provided to union employees are provided in Figure 4 below. The results indicate that Westar's overall union benefit plan ranked ninth (again, less costly) out of the 16 utilities participating in the 2013

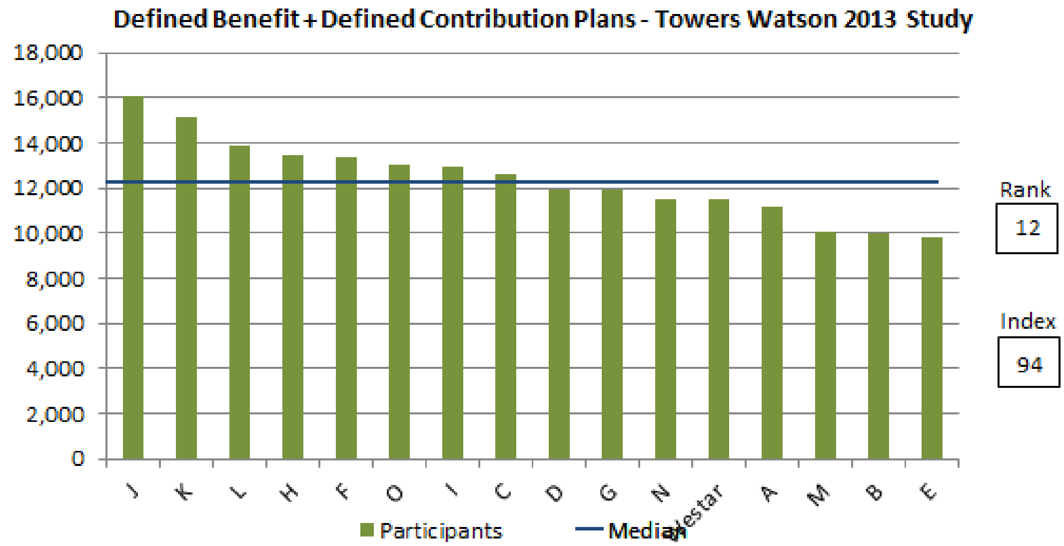
Towers Watson Study with an overall value just slightly below the median.

FIGURE 4
WESTAR TOTAL UNION BENEFITS AT MEDIAN



Westar's total retirement benefits for union employees (the defined benefit plan together with the defined contribution plan) ranked twelfth out of 16 and slightly below (at 94 percent of) the median, as further illustrated in Figure 5 below**.**

FIGURE 5
WESTAR UNION RETIREMENT BENEFIT PLAN BELOW MEDIAN



VI. WESTAR'S EXECUTIVE COMPENSATION PLAN

Q. PLEASE DESCRIBE WESTAR'S EXECUTIVE COMPENSATION PLAN.

A. Westar's compensation for its executives includes base pay and a long-term variable compensation. Executives do not have the opportunity to earn short-term variable compensation. The long-term variable pay plan for executives is composed of Restricted Share Units (RSU). Half of the RSU amounts made under the long-term variable compensation plan vest based on Westar's relative performance over a three-year period and the other half vest after three years. If the executive resigns or is terminated before the RSUs vest, the RSUs are forfeited. Executive compensation is also targeted at the market median with individual officer compensation set above or below the market median based on individual officer considerations such as performance and experience.

Q. HOW DOES WESTAR'S BASE PAY AND TOTAL COMPENSATION FOR ITS EXECUTIVES COMPARE TO THE INDUSTRY?

A. As of January 2014, Westar's base pay for the executives listed in the 2014 Proxy Statement is well below the market median, at 89% of the midpoint, and Westar's overall total compensation for those same executives (base pay and the long-term variable compensation) is 88% of the median for the industry. For both base pay and variable compensation Westar has paid below the market midpoint. Although we target compensation for our executives at 100% of the market median, many of our executives are new in their roles and, as a result, are compensated at below the market median. Over time, as they gain experience in their roles, compensation for these executives will move towards the target – 100% of market median.

Q. HOW DO YOU MANAGE EXECUTIVE COMPENSATION TO ENSURE THAT IT IS REASONABLE GIVEN THE MARKET AND WESTAR'S PERFORMANCE?

A. Compensation for our executives is set by the Compensation Committee of the Board of Directors. Like all of our Board Committees, it is composed entirely of independent directors, otherwise unaffiliated with Westar. The Compensation Committee hires its own outside independent consultant to summarize and interpret data regarding executive compensation and to advise the Committee. In order to ensure breadth of data, the consultant uses Towers Watson's database, discussed above, as the primary benchmark source for executive compensation. Towers Watson provides a broad utility industry view and the data is size-adjusted based on revenues – the most common approach – to account for Westar's relative size.

The Compensation Committee of the Board of Directors then analyzes the pay for Westar's Chief Executive Officer and the executive group as a whole as compared to the market and makes a decision on the budget for salaries and equity compensation for the group and for the top five proxy reported positions.

To obtain an additional perspective regarding the level of Westar's executive compensation as compared to the industry, Westar analyzes proxy-reported data from Westar's peer group.

Q. PLEASE DESCRIBE WESTAR'S LONG-TERM VARIABLE COMPENSATION (LTVC) PLAN FOR EXECUTIVES.

A. The LTVC plan for executives is composed of RSUs, which put a significant amount of the executives' compensation at risk. Half of the RSUs can vest after the passage of time, irrespective of company performance. Because an executive would forfeit this value if he or she left the company, it provides a strong retention incentive. The other half – titled “performance-based” – have both a time and performance component. The executive must remain with Westar for a three-year period and at the end of those three years, the RSUs can vest in whole or in part depending on the relative performance of the company. If the executive resigns or is terminated, both the time-based and performance-based RSUs are forfeited.

Similar to the financial component of the STVC, performance is measured based on Westar’s TSR relative to the same peer group of utilities as that used for the non-union employees STI discussed earlier. Executive compensation is targeted at the market median with individual officer compensation set above or below the market median based on individual considerations such as performance and experience. RSUs are used as a method of reaching compensation targets.

Q. WHY IS IT APPROPRIATE TO INCLUDE THE EXPENSE ASSOCIATED WITH THE PERFORMANCE-BASED RSUS IN WESTAR’S RATES?

A. For very much the same reasons that I explained above when discussing Westar's STVC. Solid stock performance clearly benefits Westar's customers by providing a strong cost management motive, lowering Westar's cost of debt and ultimately keeping our prices more affordable. As I indicated above, Westar can only obtain a solid shareholder return if it uses resources wisely, minimizes costs, provides good customer service, and increases productivity. Each of these items benefits both customers and shareholders.

Even with the performance-based RSUs, an executive must remain with Westar for at least three years in order for the RSU grants to vest, just as is required for the time-based RSUs. By encouraging its executives to remain with Westar and to take an interest in the long-term health of the company, Westar benefits both shareholders and customers.

Q. IN PREVIOUS RATE CASES CERTAIN INTERVENORS HAVE PROPOSED THAT PORTIONS OF EXECUTIVE COMPENSATION BE EXCLUDED FROM RATES. DO YOU FEEL THIS IS WARRANTED?

A. I am aware of that history, and am discouraged that parties succumb to that temptation, as it is not well based. As I have discussed, studies and analyses by independent consultants clearly establish that the total compensation provided to Westar's executives, which include base salary and RSUs, is reasonable and in line with the market. The LTVC plan is an essential portion of Westar's executive compensation program and elimination of even the performance-based RSUs would result in compensation to Westar's officers drastically below market levels.

Were Westar to eliminate its LTVC plan in response to such adjustments – were they accepted – there is little question that to remain competitive, base salaries would have to be raised by an amount equal to the target incentive.

Additionally, as Mr. Ruelle discusses in his direct testimony, decisions about employee and executive compensation are within the reasonable discretion of the company's management and the associated costs should not be disallowed unless the decisions are shown to be imprudent. Thus, the Commission should include the full cost of the LTVC plan – whether the RSUs are time or performance-based – in Westar's cost of service.

Q. IS THERE COMMISSION PRECEDENT TO SUPPORT INCLUDING THE EXPENSE RELATED TO PERFORMANCE-BASED RSUS IN WESTAR'S COST OF SERVICE?

A. Yes. There are several instances when the Commission has approved full recovery of the costs associated with long-term incentive plans such as Westar's plan. For example, in Docket No. 04-AQLE-1065-RTS, CURB challenged Aquila, Inc., d/b/a Aquila Networks – WPK's (WPK) variable incentive plan on the basis that it was tied to financial performance. The Commission found that WPK had "maintained its compensation philosophy of splitting traditional cash compensation into fixed and variable components" with the variable component funded based on "service, reliability, safety, customer service, and effective use of capital metrics." Order on Reconsideration, Docket No. 04-AQLE-1065-RTS, at ¶ 79 (March 14, 2005). The Commission ruled that the related costs are properly included in rates. The Commission explained:

> While WPK acknowledged that the incentive plan includes a financial goal, WPK demonstrated that it is balancing the company's interests with the customers' interests. WPK asserted that its variable compensation plan contains factors which create a natural check and balance system. WPK asserted that without its financial metrics, there could be an incentive to over-invest for the sake of reliability or customer service metrics. WPK further asserted that at the same time, appropriate levels of capital have to be spent to meet operational objectives. WPK maintained that the effective use of capital services as a balancing factor for the reliability and customer metrics . . . the record reflects that the program employed splits traditional cash compensation into fixed and variable components in a manner to create a financial incentive for employees to achieve goals important to not only the customers, but also WPK's employees and shareholders.

Id. at ¶ 80.

VII. CONCLUSION

Q. DO YOU HAVE ANY CONCLUDING OR SUMMARY REMARKS?

A. Many of our employees are highly educated and skilled and are accordingly compensated well in the marketplace for talent they bring to their jobs. I suppose each of us has a view whether the market is "fair" in deciding which professions allow higher or lower incomes in exchange for their required investment in time, talents, skills, and experiences. Most of us might, for example, agree that a good school teacher does more for society than a mediocre pop star, but the pop star is nevertheless more generously rewarded in the market. But if, when a good market metric is available, anyone substitutes his or her own judgment for that market information, it is a slippery slope to the arbitrary.

We understand that it may be fashionable in these times to yield to emotion when so many in our country are frustrated with the fact that many are not doing well – maybe don't even have a job – and yet some continue to be well compensated in the market for their talent. Although we understand that some public utility commissions have yielded to this pressure and disallowed cost recovery for performance-based compensation, as an expert in these matters I firmly believe that such an approach is not appropriate in this case, nor would it be based on any evidence.

It would be a bad precedent for the Commission to begin to issue rate orders based on emotions of the times and not on facts about whether the utility is meeting its service obligations and doing so prudently and reasonably and in accordance with market-informed levels of compensation. So long as Westar is providing good service at reasonable expense – and with ample evidence that its overall compensation expense and approach is reasonable, there is simply no foundation for any adjustment to the short and long term variable portions of Westar's compensation, when the evidence supports their inclusion in Westar's cost of service.

Q. THANK YOU.