

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

**IN THE MATTER OF THE APPLICATION)
OF PUBLIC SERVICE COMPANY OF NEW)
MEXICO FOR REVISION OF ITS RETAIL)
ELECTRIC RATES PURSUANT TO ADVICE)
NOTICE NO. 507)**

Case No. 14-00332-UT

**PUBLIC SERVICE COMPANY OF NEW)
MEXICO,)**

Applicant)

**DIRECT TESTIMONY AND EXHIBIT
OF
GAIL VAVRUSKA-MARCUM**

DECEMBER 11, 2014

NMPRC CASE NO. 14-00332-UT
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WITNESS FOR
PUBLIC SERVICE COMPANY OF NEW MEXICO

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PNM EXHIBIT GVM-1 Résumé of Gail Vavruska-Marcum

AFFIDAVIT

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I. INTRODUCTION AND PURPOSE

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

A. My name is Gail Vavruska-Marcum. I am the Director of Compensation for PNM Resources, Inc. (“PNM Resources”) and its affiliates including Public Service Company of New Mexico (“PNM”). My business address is 414 Silver Avenue, SW, Albuquerque, New Mexico 87102.

Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES AS DIRECTOR OF COMPENSATION.

A. I am responsible for overseeing the compensation function for PNM Resources and its affiliates, including PNM. This entails oversight of the salary structure and administration of compensation policies, programs, and plans to attract, retain and motivate employees.

Q. CAN YOU PLEASE PROVIDE SOME INFORMATION ABOUT YOUR EDUCATION AND RELEVANT EXPERIENCE IN COMPENSATION MATTERS?

A. A copy of my resume is attached as PNM Exhibit GVM-1. I hold a degree in Business Administration from Baldwin-Wallace College. I am a Certified Public Accountant and also a Certified Investments Derivative Auditor. I have a diversified background with twenty-five years of experience, working with various companies in the areas of

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1 corporate financial management, training, auditing, public accounting and human
2 resources. I have worked for PNM Resources for approximately fourteen years in the
3 following departments: Audit, Transition Planning, Business Transformation, Strategic
4 Workforce Planning, Staffing & Learning, Executive Compensation and Compensation.
5 My experience in compensation-related matters includes working in the area of
6 executive compensation for approximately three years and general compensation for
7 approximately two years at PNM Resources. I have not previously filed testimony in a
8 regulatory proceeding.

9
10 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

11 **A.** The purpose of my testimony is to explain PNM's compensation philosophy and to
12 discuss the elements of and basis for compensation paid to PNM employees.
13 Specifically, I discuss employee base compensation and the typical annual adjustments
14 to base compensation. I also discuss certain PNM incentive compensation programs
15 and why the costs associated with these programs should be included as part of PNM's
16 revenue requirement as a reasonable cost of providing electric service to customers.

17
18 **Q. WHICH OF THE PNM INCENTIVE COMPENSATION PLANS DO YOU**
19 **DISCUSS?**

20 **A.** I discuss the following incentive compensation plans and programs:

- 21
- The PNM Resources Wholesale Power Marketing Incentive Plan ("WPM Plan")

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- 1 • The 2014 Spot Bonus Program (“Spot Bonus Program”) and the successor plan, the
2 Business Unit Group Incentive Program (“Group Incentive Program”)
3 • The Union Bonus Opportunity (“Union Bonus Opportunity”)
4 • The PNM Resources Annual Incentive Plan (“AIP”)
5

II. SUMMARY OF KEY CONCLUSIONS

7
8 **Q. PLEASE SUMMARIZE THE KEY CONCLUSIONS OF YOUR DIRECT**
9 **TESTIMONY?**

10 **A.** My key conclusions are as follows:

- 11 • Monetary compensation for PNM’s employees is comprised of base compensation
12 and incentive compensation.
13 • Incentive compensation is an effective means to motivate employees to achieve
14 goals and objectives in a cost-effective manner.
15 • Achievement of the goals under PNM’s incentive compensation programs benefits
16 PNM’s customers.
17 • PNM’s employee compensation and benefits programs are in accord with relevant
18 industry benchmarks and represent a reasonable cost of providing service to PNM’s
19 customers.
20 • The costs of certain incentive compensation programs have previously been
21 included in PNM’s revenue requirements with the approval of the New Mexico
22 Public Regulation Commission (“NMPRC” or “Commission”).

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1 **Q. HOW MUCH IS PNM REQUESTING THAT THE COMMISSION APPROVE**
2 **IN PNM'S TEST PERIOD REVENUE REQUIREMENTS ASSOCIATED**
3 **WITH INCENTIVE COMPENSATION?**

4 **A.** I prepared Table GVM-1 which identifies the anticipated costs of each of the incentive
5 compensation programs that I address in my testimony.

Table GVM-1

Incentive Compensation Program	Estimated Costs
WPM Program	\$761,760
Group Incentive/Spot Bonus Program	\$3,400,000
Union Bonus Opportunity	\$600,000
AIP	\$998,580
Total	\$5,760,340

6 **III. PNM'S BASE SALARIES, ANNUAL INCREASE AND BENEFITS**

7 **Q. PLEASE DESCRIBE PNM RESOURCES' COMPENSATION PHILOSOPHY?**

8 **A.** PNM Resources has established compensation policies and programs for its affiliated
9 companies, including PNM. PNM Resources utilizes a "Total Rewards" approach for
10 employee compensation and benefits to attract, retain, and motivate qualified
11 employees. The Total Rewards approach is comprised of both tangible (compensation
12 and benefits) and intangible (training and development, the work environment)
13 components. The Total Rewards approach is intended to support the overall business
14 objectives of PNM Resources and its affiliates, including the delivery of safe and

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1 reliable electric utility services to customers. Compensation plans and programs are
2 designed in accordance with the following principles:

- 3 • *Externally Competitive* - compensation opportunities are market competitive within
4 the relevant markets in which PNM competes to attract, retain and motivate
5 qualified employees.
- 6 • *Strategically Aligned* - compensation practices reinforce each business area's
7 business strategy, structure, needs and culture.
- 8 • *Internally Equitable* – jobs fairly reflect their value relative to other jobs within the
9 organization.
- 10 • *Personally Motivating* – salaries and incentives recognize employees based on
11 individual contribution and job responsibilities.
- 12 • *Cost Effective* – compensation programs are designed to provide value to PNM and
13 its customers in relation to the cost involved.
- 14 • *Legally Compliant* – programs are in compliance with all applicable state and
15 federal laws and regulations.

16
17 **Q. WHAT ARE THE PRIMARY COMPONENTS THAT MAKE UP THE**
18 **COMPENSATION PAID TO PNM'S EMPLOYEES?**

19 **A.** Compensation for most employees is made up of two primary elements: (1) base
20 compensation; and (2) incentive compensation. Additionally, all regular full time and
21 part-time employees are eligible to receive employee benefits.

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1 **Q. HOW ARE BASE SALARIES DETERMINED?**

2 **A.** Employee job classifications are benchmarked utilizing salary surveys that reflect their
3 job responsibilities and levels. Job classifications are aligned to a specified salary band.
4 An individual employee's base salary is determined using the applicable salary band and
5 reflects the employee's knowledge, skills, education and performance rating.
6 Benchmarking helps assure that base salaries are reasonable and within appropriate
7 market ranges.

8
9 **Q. DOES PNM TYPICALLY PROVIDE ANNUAL MERIT INCREASES TO
10 BASE SALARIES?**

11 **A.** Yes. Over the most recent years, PNM's annual merit increases have averaged 2.5% for
12 non-union employees and 2.0% for union employees. As discussed by PNM witness
13 Henry Monroy, PNM applied these annual escalation percentages to salaries in the Base
14 Period to estimate employee base salaries in the Test Period.

15
16 **Q. ARE THESE LEVELS OF THE ANNUAL MERIT INCREASES PRUDENT
17 AND REASONABLE?**

18 **A.** Yes. The annual merit increase percentages are similar to those that PNM employees
19 have been granted in recent years. The annual merit pool available for employee merit
20 increases, as determined in the budget process, is benchmarked against survey data to
21 validate that it is reasonable and competitive.

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1 **Q. ARE THE BENEFITS PROVIDED TO EMPLOYEES OF PNM**
2 **REASONABLE?**

3 **A.** Yes. The Benefits Department of PNM Resources annually benchmarks the benefits to
4 ensure they are market competitive. As of the last annual benchmark, the employee
5 benefit portfolio was determined to be slightly below the market median, largely
6 because PNM Resources froze the defined benefit plan for employees in 1997 while
7 other utilities continue to provide a defined benefit. As a result, the PNM Resources
8 employee benefit portfolio is about 3% to 4% below market; however, it is still
9 competitive.

10

11 **IV. PNM'S INCENTIVE COMPENSATION PROGRAMS**

12 **Q. WHAT IS THE PURPOSE OF PNM'S INCENTIVE COMPENSATION**
13 **PROGRAMS?**

14 **A.** As the nomenclature suggests, these programs are intended to incentivize employees to
15 meet or exceed specific performance goals or performance benchmarks. Incentive
16 compensation is "at risk." That means that if the specific goals are not met or exceeded,
17 the incentive compensation is not paid. Unlike base salary, which is paid regardless of
18 whether goals are met, incentive compensation gives employees a direct stake in
19 meeting performance goals. It is the most cost- effective way to motivate employees to
20 perform their work effectively and efficiently, with the ability to assess employee
21 performance against measurable goals.

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1 **Q. HOW DO PNM'S INCENTIVE COMPENSATION PLANS BENEFIT PNM'S**
2 **CUSTOMERS?**

3 **A.** PNM's performance goals under its incentive compensation programs are aligned with
4 the overall objectives of providing safe, reliable and cost-effective service to PNM's
5 customers. PNM's customers benefit from the attainment of these goals.

6
7 **Q. CAN YOU DETAIL THE INCENTIVE COMPENSATION PROGRAMS**
8 **THAT PNM SEEKS TO INCLUDE IN ITS REVENUE REQUIREMENTS IN**
9 **THIS CASE?**

10 **A.** Yes. I address each one separately.

11

12 **A. *The WPM Plan***

13 **Q. PLEASE DESCRIBE PNM'S WHOLESALE POWER MARKETING**
14 **DEPARTMENT ("WPM DEPARTMENT").**

15 **A.** PNM's WPM department is responsible for off-system sales and the electric power real-
16 time and short-term merchant function that trades in the wholesale market. This group
17 is also responsible for PNM's generation dispatch function and for maintaining
18 compliance with applicable regulations under the jurisdiction of the Federal Energy
19 Regulatory Commission, the North American Electric Reliability Corporation and other
20 regulatory entities.

21

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1 **Q. HOW DO THE FUNCTIONS OF THE WPM DEPARTMENT BENEFIT**
2 **PNM'S RETAIL CUSTOMERS?**

3 **A.** The WPM department is charged with the responsibility for determining the optimum
4 utilization of PNM's generation resources and making market purchases based on
5 system reliability requirements and the most economical source of power to serve
6 PNM's customers' needs. By optimizing generation dispatch and market purchases,
7 customers only pay for the most economic source of supply. The WPM department is
8 also responsible for the marketing and sale of available power from PNM's generation
9 portfolio when the power is not otherwise needed to serve New Mexico customers.
10 Presently, PNM customers are credited with 90% of the net margin from these sales
11 through the fuel and purchased power cost adjustment clause, which also reduces the
12 overall cost of electricity. Beginning January 1, 2017, customers will receive 100% of
13 the net margin from these sales through at least December 31, 2019.

14
15 **Q. WHICH EMPLOYEES ARE COVERED UNDER PNM'S WPM PLAN?**

16 **A.** All twenty-five employees in the WPM department are eligible, including the director,
17 managers, traders, preschedulers and administrators. Employees eligible for the WPM
18 Plan are not eligible for the Spot Bonus Program/Group Incentive Program, the Union
19 Bonus Opportunity or the AIP and vice versa. PNM Resources adopted the WPM Plan
20 specifically to motivate and reward employees in the WPM department.

21

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1 **Q. IS THE WPM PLAN CURRENTLY INCLUDED IN PNM'S REVENUE**
2 **REQUIREMENTS FOR PURPOSES OF SETTING RATES?**

3 **A.** Yes. The revenue requirements related to the WPM Plan were approved by the
4 Commission in NMPRC Case No. 10-00086-UT.

5
6 **Q. PLEASE DESCRIBE THE KEY PROVISIONS OF THE WPM PLAN.**

7 **A.** The WPM Plan is designed to motivate and reward employees for achieving a variety of
8 reliability and financial performance targets. The WPM Plan reliability performance
9 targets includes those related to system reliability such as 100% compliance with
10 Reliability Based Control, 98% compliance with the Southwest Reserve Sharing
11 Group and 100% compliance with the Disturbance Recovery Standard Recovery.
12 Jurisdictional financial targets include controlling costs and maximizing off-system sales
13 margins for the benefit of New Mexico customers. The WPM Plan is capped at a
14 specified maximum amount. Individual employee payouts are be based on performance
15 during the WPM Plan year, competitive market data and the level of overall award pool
16 funding.

17
18 **Q. WHAT HAS BEEN THE HISTORY IN TERMS OF PAYMENT OF**
19 **INCENTIVE COMPENSATION UNDER THE WPM PLAN?**

20 **A.** The WPM Plan has been awarded to WPM department employees achieving the
21 incentive performance goals from 2010 through 2013. It is reasonable to anticipate that

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1 the WPM Plan will be earned and paid to employees in 2014 and after, and therefore
2 reasonable to include this incentive plan in the Test Period cost of service.

3
4 **Q. IS THE LEVEL OF PNM'S INCENTIVE COMPENSATION FOR THE**
5 **EMPLOYEES IN THE WPM DEPARTMENT BENCHMARKED IN ANY**
6 **WAY?**

7 **A.** Yes. The incentive compensation paid to employees under the WPM Plan is
8 benchmarked against the market median for similar employee positions elsewhere as
9 indicated by the survey data compiled by Towers Watson LLC ("Towers Watson") and
10 AONHewitt. The survey utilized for the benchmarking purpose was the 2013 CDB
11 Energy Marketing and Trading Compensation Survey Report – US Total Direct
12 Compensation. Benchmarking of base salaries, for all employees, was previously
13 discussed above. The other survey utilized for the benchmarking purpose was the
14 AONHewitt U.S. annual Energy Marketing and Trading Compensation Survey.

15
16 **Q. WHAT ARE TOWERS WATSON AND AONHEWITT?**

17 **A.** Towers Watson is a national firm that conducts national and industry surveys and
18 provides consulting and other services in the areas of benefits, talent management,
19 reward and risk and capital management. AONHewitt is a provider of human capital
20 and management consulting services.

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1 **Q. SHOULD THE COST OF THE WPM PLAN CONTINUE TO BE INCLUDED**
2 **AS PART OF PNM’S REVENUE REQUIREMENT FOR PURPOSES OF**
3 **SETTING CUSTOMER RATES?**

4 **A.** Yes. The cost is reasonable in relation to the requirements and experience necessary for
5 the positions and the compensation provided for comparable work by other firms.

6
7 **Q. WHAT IS THE ANTICIPATED COST OF THE WPM PLAN FOR THE TEST**
8 **PERIOD?**

9 **A.** The cost of the WPM Plan, for the Test Period (January 1, 2106 through December 31,
10 2016) is estimated to be \$761,760. As previously discussed, the incentive compensation
11 is benchmarked against market median for similar positions elsewhere. The cost was
12 determined based on the maximum award payable if all of the performance metrics are
13 achieved.

14
15 **B. *Spot Bonus Program and Group Incentive Program***

16 **Q. WHAT IS THE PNM RESOURCES 2014 SPOT BONUS PROGRAM?**

17 **A.** The Spot Bonus Program is designed to motivate and recognize eligible non-union
18 employees who exceed individual performance targets, team performance targets, who
19 excel on special projects and/or for special work circumstances.

20

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1 **Q. WHICH PNM EMPLOYEES ARE ELIGIBLE TO RECEIVE SPOT BONUS**
2 **PROGRAM AWARDS?**

3 **A.** Eligible employees in salary grades P1–P14, generally professionals, support
4 administration and supervisory employees, are eligible. Employees eligible for the Spot
5 Bonus Program are not eligible for the WPM Plan, the Union bonus Opportunity or the
6 AIP and vice versa. Awards under this program are not related to an earnings per share
7 trigger.

8

9 **Q. WAS THERE AN INCENTIVE PROGRAM OR PLAN BEFORE THE SPOT**
10 **BONUS PROGRAM THAT COVERED THESE EMPLOYEES?**

11 **A.** Yes. Prior to the Spot Bonus Program, employees participated in the Results Based Pay
12 Plan. In Case No. 07-00077-UT, the Commission approved recovery of the costs of the
13 portion of this incentive plan that was not related to the achievement of earnings per
14 share goals.

15

16 **Q. ARE THE COSTS ASSOCIATED WITH THE SPOT BONUS PROGRAM**
17 **INCLUDED AS A COST ELEMENT IN THE BASE PERIOD?**

18 **A.** Yes. However, this program will be replaced by the Group Incentive Program
19 beginning in 2015.

20

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1 **Q. PLEASE DESCRIBE THE GROUP INCENTIVE PROGRAM**

2 **A.** The Group Incentive Program is designed to motivate and reward eligible non-union
3 employees for achieving business unit goals that align with the corporate and business
4 unit objectives and strategy. While the 2014 Spot Bonus Program rewards employees
5 for individual performance and contributions, the Group Incentive Program will reward
6 eligible employees for achieving business unit goals as a team. The Group Incentive is
7 intended to promote collaboration and teamwork efforts to achieve specified business
8 area goals. This program provides benefits to the New Mexico customers by
9 encouraging employees to meet business goals which are anticipated to be related to the
10 provision of safe, reliable and cost-effective service to PNM's customers.

11

12 **Q. WHICH PNM EMPLOYEES WILL BE ELIGIBLE TO RECEIVE AWARDS**
13 **UNDER THE GROUP INCENTIVE PROGRAM?**

14 **A.** Eligible employees are those in the salary structure grades of P1-P14, the same
15 employees included in the 2014 Spot Bonus Program. Employees eligible for the Group
16 Incentive Program are not eligible for the WPM Plan, the Union Bonus Opportunity or
17 the AIP, and vice versa.

18

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1 **Q. WHAT IS THE ANTICIPATED COST OF THE GROUP INCENTIVE**
2 **PROGRAM IN THE TEST PERIOD?**

3 **A.** The anticipated Group Incentive Program is limited to a total pool of \$3,400,000 for the
4 period January 1, 2016 to December 31, 2016. Individual employee awards will be
5 calculated as a percentage of each employee's eligible earnings for the performance
6 period, generally, January 1st to December 31st. Group Incentive Program awards will
7 vary by business unit and each individual's eligible compensation. While payments
8 under this plan are based on performance and therefore not assured, based on the history
9 of payouts under the Spot Bonus Plan and Results Pay, it is reasonable to expect that the
10 total amount of available pool will be expensed in 2016.

11

12 **Q. ARE THE COSTS OF THE GROUP INCENTIVE PROGRAM**
13 **REASONABLE?**

14 **A.** Yes. The \$3,400,000 funding of the bonus pool is reasonable compared to similar plans.
15 PNM Resources engaged Towers Watson to benchmark incentive compensation by
16 employee position and pay grade to the market median. The surveys utilized by Towers
17 Watson for the analysis were the 2013 Towers Watson Data Services (TWDS) Energy
18 Service Middle Management Professional & Support (MMPS) Compensation survey
19 and the 2013 TWDS General Industry MMPS Compensation Survey. Based on the
20 results of that analysis and the population of the eligible employees, the incentive award
21 pool, at market median level, was determined to be \$5,565,300. Thus, the requested

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1 incentive compensation under the Group is about sixty percent of market median for
2 similar programs. The cost is reasonable in amount and will assist PNM in attracting
3 and retaining qualified employees and should be included in the determination of
4 PNM's Test Period revenue requirements.

5
6 **C. Union Bonus Opportunity**

7 **Q. WHAT IS THE PNM'S UNION BONUS OPPORTUNITY?**

8 **A.** The Union Bonus Opportunity provides bargaining unit employees the opportunity to
9 earn awards totaling up to \$1,000 maximum award for calendar years 2013 and 2014.
10 Per the collective bargaining agreement ("CBA") entered into in July 2012, between
11 PNM and the Local 611, International Brotherhood of Electrical Workers ("IBEW"),
12 each bargaining unit employee is eligible for two awards of \$500 each (total maximum
13 of \$1,000 per year). Each of the \$500 awards is based on specific performance goals,
14 both individual and business area goals, e.g. reliability and percentage of meters read
15 accurately.

16
17 **Q. BECAUSE THE UNION BONUS OPPORTUNITY IS COVERED UNDER THE**
18 **CBA, DOES THAT MEAN THAT IT IS NOT "AT RISK"?**

19 **A.** No. The Union Bonus Opportunity is considered "at risk" pay. Individual employees
20 must achieve the specified goals before they can receive the applicable bonuses.

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1 However, based on the history of awards under this program, it is reasonable to project
2 that PNM will incur program expenses in the Test Period at the level indicated below.

3
4 **Q. WHAT ARE THE ELIGIBILITY REQUIREMENTS FOR THE UNION
5 BONUS OPPORTUNITY?**

6 **A.** Employees must have completed their contractual probationary period by the end of the
7 applicable calendar year, not have been placed on decision-making leave (the highest
8 level of discipline, prior to termination, under the bargaining unit positive discipline
9 policy) during the applicable calendar year and be employees of PNM when payments
10 are made. Employees eligible for the Union Bonus Opportunity are not eligible for the
11 WPM Plan, the Spot Bonus Program/Group Incentive Program or the AIP and vice
12 versa. There are approximately 600 collective bargaining unit employees at PNM.

13
14 **Q. WHAT SPECIFIC PERFORMANCE IS PNM SEEKING TO ENCOURAGE
15 UNDER THE UNION BONUS OPPORTUNITY?**

16 **A.** The performance goals are focus on improving customer service, reliability, accuracy of
17 meter readings and collections. All of these goals benefit PNM's customers.

18
19 **Q. WHAT IS THE COST OF THE UNION BONUS OPPORTUNITY AND HOW
20 MUCH OF THAT AMOUNT IS PNM REQUESTING TO BE INCLUDED IN
21 TEST YEAR REVENUE REQUIREMENTS?**

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1 **A.** The Test Period cost of the Union Bonus Opportunity is \$600,000 based on a per
2 employee award of \$1,000 and 600 eligible employees.

3

4 **D. AIP**

5 **Q. WHAT IS THE AIP?**

6 **A.** The AIP is an annual incentive award program for eligible employees in salary grades
7 P15 through P18, typically managers and directors. Employees who participate in the
8 WPM Plan, the Union Bonus Opportunity and the Spot Bonus Program/Group
9 Incentive Program are not eligible to participate in the AIP and vice versa.

10

11 **Q. HAS INCENTIVE COMPENSATION TYPICALLY BEEN PAID PURSUANT**
12 **TO THE AIP?**

13 **A.** Yes. The AIP has been earned and paid to employees in 2010, 2011, 2012 and 2013.

14

15 **Q. WHAT IS THE AIP INTENDED TO INCENTIVIZE?**

16 **A.** The AIP is designed to incentivize employees, as examples, to improve safety, customer
17 service satisfaction, cost control, compliance, operational efficiency and reliability of
18 services. It rewards eligible employees for the achievement of individual, business area
19 and corporate scorecard goals.

20

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1 Q. HOW ARE THE AIP AWARDS DETERMINED?

2 A. A set of performance goals identified as “threshold,” target,” and “maximum” are
3 established at the beginning of each calendar year for each business area (New Mexico
4 Operations, Generation, Chief Financial Officer, General Counsel and Public Policy)
5 along with corporate scorecard goals. For an eligible employee to receive an AIP
6 award, the corporate threshold performance goal for earnings per share must be met or
7 exceeded. If the threshold performance goal for earnings per share is not met, no awards
8 are made. Eligible employees can receive from ten percent (10%) to twenty-five (25%)
9 of their base salaries at the target performance achievement level. All awards are capped
10 at the maximum award opportunity. An award will be determined based on the
11 applicable weightings, per the plan document, of the elements in Table GVM-2:

Table GVM-2

Level	Corporate Scorecard Weightings	Business Area Weightings	Individual Performance Weighting
P16 – P18	35%	65%	0%
P15	10%	45%	45%

12 Individual performance weighting results are based on the individual’s performance.
13 Business area weighting results are based on achieving business area performance goals
14 tied to, for examples, safety, customer service satisfaction, cost control, reliability,
15 compliance, operations efficiency and goals specific to the business areas. Corporate

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1 scorecard weightings results are based on three performance metrics as follows: safety,
2 at twenty percent (20%) of the total corporate scorecard; customer satisfaction, at twenty
3 percent (20%) of the total corporate scorecard; and earnings per share, at sixty (60%) of
4 the total corporate scorecard. Similar to the business area performance goals above, the
5 corporate earnings per share also has a set of performance goals identified as
6 “threshold,” “target,” and “maximum” that are established at the beginning of each
7 calendar year. If an eligible employee’s applicable business area total award is less
8 than the eligible employee’s corporate earnings per share award, the eligible employee
9 will receive the smaller amount.

10
11 **Q. ARE THE TARGET AWARD OPPORTUNITIES UNDER THE AIP**
12 **REASONABLE AND MARKET COMPETITIVE?**

13 **A.** Yes. Target award opportunities, as described on page 19, were compared to applicable
14 median market data, from an annual survey conducted by AONHewitt, entitled the
15 Variable Compensation Measurement Report. In addition, the current target award
16 levels were validated as part of the analysis conducted by Towers Watson as previously
17 described in the Group Incentive portion of this testimony. The surveys utilized by
18 Towers Watson were the 2013 Towers Watson Data Services (TWDS) Energy Service
19 Middle Management Professional & Support (MMPS) Compensation survey and the
20 2013 TWDS General Industry MMPS Compensation Survey.

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1 **Q. HOW DOES THE AIP BENEFIT CUSTOMERS?**

2 **A.** Compensating employees at reasonable levels is a necessary cost of providing electric
3 service. The AIP is a key component of the PNM cash compensation package.
4 Eligible PNM employee's earnings potential depends on "at risk" pay that is dependent
5 upon achieving key business area and corporate scorecard goals. The business unit
6 goals support safety, customer service satisfaction, compliance, reliability, cost control,
7 operational efficiency and other business area goals which benefit PNM customers. By
8 having a variable pay program that is "at risk", such as the AIP, the eligible employees
9 receive an award only if they achieve the business area goals and the corporate scorecard
10 goals.

11

12 **Q. SHOULD THE AIP BE INCLUDED AS PART OF PNM'S TEST PERIOD**
13 **REVENUE REQUIREMENT?**

14 **A.** Yes, for the reasons I just stated. The AIP is a part of PNM's total compensation
15 package for eligible employees and it is a reasonable and necessary cost of doing
16 business and providing electric service to PNM's customers. The target award
17 opportunities are reasonable based on benchmarking data as noted above. The AIP
18 fosters the right behaviors by focusing on key improvements that benefit our customers.

19

**DIRECT TESTIMONY OF
GAIL VAVRUSKA-MARCUM
NMPRC CASE NO. 14-00332-UT**

1 **Q. IS PNM SEEKING TO INCLUDE ALL OF THE COSTS ASSOCIATED WITH**
2 **THE AIP IN ITS REVENUE REQUIREMENTS?**

3 **A.** No. The amount PNM seeks to include in the Test Period revenue requirement
4 represents approximately 25% of the total cost of the AIP. PNM has included for
5 recovery the portion of the AIP awards related to individual performance, achievement
6 of business area goals at the target performance level, and the achievement of corporate
7 scorecard goals related solely to safety and customer satisfaction, also at the target
8 performance level. PNM is not requesting recovery of the cost of any awards related to
9 the corporate earnings per share goal. For the Test Period, the amount included in the
10 revenue requirement is \$998,580.

11

12 **V. CONCLUSIONS**

13 **Q. DO YOU HAVE ANY CONCLUDING OBSERVATIONS?**

14 **A.** Yes, I want to reiterate that PNM's compensation and benefits costs are reasonable and
15 prudent based on relevant industry benchmarks. The costs associated with PNM's
16 incentive compensation programs benefit PNM's customers and are a necessary cost of
17 providing safe, reliable and cost-effective electric service.

18

19 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

20 **A.** Yes it does.

GCG#518970

Résumé of Gail Vavruska-Marcum

PNM Exhibit GVM-1

Is contained in the following page.

GAIL VAVRUSKA-MARCUM, CPA, CIDA

PROFESSIONAL EXPERIENCE

PNM RESOURCES, INC., Albuquerque NM

Director of Compensation	July 2012 - Current
Director of Strategic Workforce Planning, Staffing, Learning & Executive Compensation	2011 - 2012
Director of Strategic Workforce Planning, Staffing & Learning	2007 - 2012
Director of People Services	2007 - 2007
Executive Director of Business Transformation	2007 - 2007
Director of Transition Planning (Project Lead)	2006 - 2007
Director, Audit Services	2002 - 2006
Senior Manager, Audit Services	2000 - 2002

AVILA RETAIL DEVELOPMENT & MANAGEMENT, Albuquerque NM

Chief Financial Officer 1999 - 2000

LANGE-WILCOX & ASSOCIATES, Albuquerque NM

Associate Partner 1997 -1999

RICK JOHNSON & COMPANY, Albuquerque NM

Vice President, Corporate Treasurer 1989 - 1993

ERNST & YOUNG, Phoenix AZ & Cleveland OH

Senior Auditor 1985 - 1989

EDUCATION & PROFESSIONAL CERTIFICATIONS

B.A. in Business Administration, Baldwin-Wallace College, Berea OH

Certified Public Accountant (CPA)

Certified Investments & Derivatives Auditor (CIDA)

PROFESSIONAL AND COMMUNITY AFFILIATIONS

University of New Mexico STEM Council 2010-Current

AWARDS AND RECOGNITIONS

Nominee for YMCA Woman On The Move Award 2003

Leadership Albuquerque Graduate 2002

PUBLISHED

APICS Magazine, December 1998, "Training: Getting the Most out of Your Investment: (co-author Rich Lange)

The Electrical Distributor Magazine, February 1998, "Customer Services is Everyone's Business" (co-author Rich Lange)

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

**IN THE MATTER OF THE APPLICATION)
OF PUBLIC SERVICE COMPANY OF NEW)
MEXICO FOR REVISION OF ITS RETAIL) Case No. 14-00332-UT
ELECTRIC RATES PURSUANT TO ADVICE)
NOTICE NO. 507)
)
)
**PUBLIC SERVICE COMPANY OF NEW MEXICO,)
Applicant.)
_____)****

AFFIDAVIT

STATE OF NEW MEXICO)
) ss
COUNTY OF BERNALILLO)

GAIL VAVRUSKA-MARCUM, Director of Compensation, PNM Resources, Inc. and its affiliates including Public Service Company of New Mexico, upon being duly sworn according to law, under oath, deposes and states: I have read the foregoing **Direct Testimony and Exhibit of Gail Vavruska-Marcum** and it is true and accurate based on my own personal knowledge and belief.

SIGNED this 4th day of December, 2014.

Gail Vavruska-Marcum
GAIL VAVRUSKA-MARCUM

SUBSCRIBED AND SWORN to before me this 4th day of December, 2014.

Ronda Morehead
NOTARY PUBLIC IN AND FOR
THE STATE OF NEW MEXICO

