

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

In the matter of:)
)
ELECTRONIC APPLICATION OF) Case No. 2024-00092
COLUMBIA GAS OF KENTUCKY, INC.)
FOR AN ADJUSTMENT OF RATES;)
APPROVAL OF DEPRECIATION STUDY;)
APPROVAL OF TARIFF REVISIONS; AND)
OTHER RELIEF)

**PREPARED REBUTTAL TESTIMONY OF
BETH OWENS
ON BEHALF OF COLUMBIA GAS OF KENTUCKY, INC.**

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PREPARED REBUTTAL TESTIMONY OF BETH OWENS

1 **Q: Please state your name and business address.**

2 A: My name is Beth Owens. My business address is 290 West Nationwide
3 Boulevard, Columbus, OH 43215.

4 **Q: Did you provide Direct Testimony in this proceeding?**

5 A: Yes.

6 **Q: What is the purpose of your Rebuttal Testimony in this proceeding?**

7 A: I will respond to the testimony of Attorney General Witness John Defever.

8 **Q: What issues will you be addressing in your rebuttal testimony?**

9 A: I will address Witness Defever's recommendations about exclusion of
10 certain 401(k) costs, recovery of financial measures in short-term incentive
11 ("STI") and long-term incentive ("LTI") compensation, profit sharing
12 expense, and the exclusion of Supplemental Executive Retirement Plan
13 ("SERP") expenses.

14 **Q: Please describe NiSource's and Columbia's compensation and benefits
15 philosophy.**

16 A: NiSource's compensation and benefits philosophy is to compensate
17 employees and provide benefits that are competitive in comparison to the
18 utility industry, as well as general industry (all industry) employers, in order
19 to attract, retain and motivate employees who are qualified to perform the

1 functions needed by the Company. This philosophy enables the Company to
2 meet its obligations to provide safe, reliable and affordable service to its
3 customers. This philosophy is consistent across all NiSource companies.

4 **Q. Please briefly describe Witness Defever's recommendation to remove**
5 **certain 401(k) costs.**

6 A. Mr. Defever recommends removing from Columbia's revenue requirement
7 the 401(k) expense in the FTP for employees that are also covered under a
8 defined benefit plan.

9 **Q. Do you agree with Mr. Defever's proposed 401(k) adjustment?**

10 A. No, the Company disagrees. These benefits are part of a competitive
11 compensation and benefits program offered to our employees. As part of a
12 significant cost-savings initiative, the pension program was discontinued on
13 January 1, 2010 for exempt employees and on January 1, 2013 for nonexempt,
14 non-union employees. At that time, the remaining employees in the pension
15 plan programs were also converted to a less costly account balance program,
16 and new hires since then are not offered a pension plan. The employees who
17 were in the pension program at that time continue to accrue the account
18 balance pension benefits, however the Company has made no pension cash
19 contributions to the Voluntary Employees' Beneficiary Association ("VEBA")
20 Trust since 2021. In addition, there are no pension cash contributions in the

1 forecasted BP or FTP budget. This cost savings initiative lowered pension
2 plan costs for the company. The Company maintains this dual pension
3 program and lower 401(k) match for a declining number of employees.

4 **Q. Please briefly describe Witness Defever's recommended adjustment to**
5 **recovery of STI and LTI compensation.**

6 A. Mr. Defever proposed an adjustment to remove the portion of STI and LTI
7 compensation related to financial goals from the cost of service, which he
8 states is 70% of STI and 80% of LTI for 2024.

9 **Q. Do you agree with Mr. Defever's recommended adjustment?**

10 A. No, the Company disagrees. The purpose of STI and LTI is to motivate
11 employees by setting achievable goals and aligning employee rewards that
12 support providing safe, reliable, efficient, and cost-effective service to our
13 customers and to recognize successful achievement of those goals. All metrics
14 used, both financial and non-financial, are necessary to achieve this. Further,
15 Mr. Defever's calculation for the amount of LTI tied to financial goals is
16 incorrect.

17 **Q. Should 100% STI and LTI recovery be allowed?**

18 A. Yes. The Company's STI goals related to safety, customer satisfaction, and
19 quality of service, and operational excellence are all customer-oriented goals
20 by which every Company employee is expected to abide. Employees are

1 accountable for these goals, and employees take action to reach these goals in
2 order to achieve incentive recognition. The Company's LTI goals related to
3 operational excellence, safety, employee engagement, and environmental
4 measures are all customer-oriented goals by which every Company employee
5 is expected to abide. Employees are accountable for these goals, and
6 employees take action to reach these goals in order to achieve incentive
7 recognition. The financial goals in both STI and LTI are intended to motivate
8 employees to provide cost-effective service to our customers. By removing
9 recovery of any portion related to financial goals in STI and LTI, it sends a
10 message that being efficient and cost-effective to meet the Company's budget
11 is not important. The Company believes that it is critically important that our
12 employees focus on and are recognized for all aspects of providing safe,
13 reliable and cost-effective service.

14 **Q. Please briefly describe Witness Defever's additional concerns about the**
15 **STI program.**

16 A. Mr. Defever states that because the Company typically pays STI to every
17 eligible employee, that employees assume they will receive an award and
18 therefore the incentive created by the program is diminished. If the program
19 does not result in extra effort, rate payers are not benefitted and therefore the
20 entire STI amount could be removed from the cost of service.

1 Q. Do you agree with Mr. Defever's perception that payment of STI to nearly
2 all employees is a dis-incentive to performing with extra effort in support
3 of customers?

4 A. No. As described in Witness Owens Testimony, employee performance is
5 one of the direct determining factors in the size of the STI incentive paid to
6 exempt employees. Under the terms of the incentive plan, each exempt
7 employee's supervisor is provided with an incentive award dollar range
8 based on the employee's performance rating. The manager then has
9 discretion to award the final incentive amount based on the employee's
10 individual performance. This is designed to motivate employees to perform
11 at their highest level to provide safe, reliable, and affordable service to
12 customers. Each year, there are employees that do not receive any STI award
13 because their performance did not warrant receiving the incentive.

14 In addition, to remain competitive in the labor market and to retain high
15 performing employees, it is important to provide STI compensation as part of
16 total compensation. If the Company maintains a competitive base
17 compensation but does not provide incentive compensation, it follows that
18 total compensation will lag the competition and employees will have larger
19 total compensation opportunities at other employers providing competitive
20 compensation inclusive of incentives. Without STI, this could lead to

1 departure of employees, a loss of valuable skills and institutional knowledge,
2 then increased turnover costs, including recruiting costs, relocation costs, and
3 training costs. It also would have an impact on safety and customer service
4 goals, as less experienced employees could be brought into the organization.
5 Inclusion of STI in every NiSource employee's pay mix helps us attract and
6 retain talent and sets us apart from other employers.

7 **Q. Do you agree with Mr. Defever's determination that 80% of LTI**
8 **compensation is related to financial goals?**

9 A. No. LTI is granted in the form of Restricted Stock Units (RSUs) and
10 Performance Share Units (PSUs). The amount of RSUs and PSUs is
11 determined based upon the level of the job. For example, when the President
12 and COO of the Company is granted an LTI award, 30% of the award is in the
13 form of RSUs and 70% is in the form of PSUs. VPs are granted 40% RSUs and
14 60% PSUs, while Directors are granted 70% RSUs and 30% PSUs. RSUs vest
15 upon achievement of a restriction based upon the continued service of the
16 employee over a three-year period. This is a time-based measure not a
17 financial measure. PSUs vest after achieving specific performance goals that
18 vary by year over a three-year period. These metrics include non-financial
19 measures (such as operational excellence, safety, employee engagement, and
20 environmental) and financial measures. Therefore the application of financial

1 measures on PSUs only, to the Company individuals who received an LTI
2 grant, results in a total of 48% of LTI compensation related to financial goals.
3 The remaining 52% of LTI compensation is not related to financial goals.

4 **Q. If an adjustment were to be made to LTI expenses, what is the correct**
5 **percentage related to financial goals?**

6 A. If an adjustment is made to the Company's LTI expense in this proceeding, if
7 the Commission adopts Mr. Defever's argument related to incentive tied to
8 financial goals, the adjustment should be no more than 48%.

9 **Q. Please explain how LTI provides benefits to Columbia's customers.**

10 A. LTI is designed to attract and retain talent for a long period of time. LTI
11 compensation is a common element of compensation at key management
12 levels of organizations throughout the United States, including major utilities
13 and, as such, the costs should be allowed. LTI compensation allows NiSource
14 to attract and retain these individuals which would be extremely difficult to
15 accomplish without this element of compensation. Retaining key leaders and
16 attracting new talented individuals is critical in order for Columbia to
17 maintain high quality of service, efficiency and safety. Therefore, offering LTI
18 is an appropriate cost of providing reliable service to the Company's
19 customers. If the Company did not provide LTI, it would be at high risk of
20 losing talent to competitors. The potential departure of Company leadership

1 would create a loss of valuable skills and institutional knowledge. This would
2 have significant financial impact in the form of turnover costs, including
3 recruiting costs, relocation costs, and training costs. In addition, leadership
4 sets the tone and direction for the Company.

5 **Q. Please briefly describe Witness Defever's proposed profit-sharing**
6 **adjustment.**

7 A. Mr. Defever recommends removal of the profit-sharing expense related to
8 financial goals, as it aligns to the STI program financial measures.

9 **Q. Do you agree with Mr. Defever's proposed profit-sharing adjustment?**

10 A. No, the Company disagrees. Profit-sharing is an important element of the
11 Company's Retirement Savings Plan, and as such is an important part of
12 overall retirement funding earned by Columbia employees. Profit-sharing
13 supplements employees' contributions to their retirement accounts. These
14 contributions to the Retirement Savings Plan have become even more
15 important as more traditional elements of retirement savings, including
16 defined benefit plans, are no longer offered new hires. Absent these
17 contributions, the Company would have to make other adjustments to its
18 compensation package, such as increases to base pay, to remain competitive
19 in the market for quality employees. As an element of a balanced competitive

1 benefits program, the cost of profit-sharing contributions into the Retirement
2 Savings Plan should be allowed for ratemaking purposes.

3 **Q. Please briefly describe Witness Defever's proposed SERP adjustment.**

4 A. Mr. Defever suggests that these costs should not be recoverable as they do not
5 benefit rate payers.

6 **Q. Do you agree with Mr. Defever's proposed SERP adjustment?**

7 A. No, the Company disagrees. SERP is part of the compensation and benefits
8 program that is provided to employees. The Company's compensation and
9 benefits program, taken as a whole and including SERP, provides the means
10 to competitively compensate employees in order to attract and retain quality
11 employees responsible for the safe and reliable service to Columbia.

12 **Q: Does this complete your Rebuttal Testimony?**

13 A: Yes.