

**BEFORE
THE NORTH CAROLINA UTILITIES COMMISSION**

DOCKET NO. E-2, SUB 1300

In the Matter of:)	
)	DIRECT TESTIMONY OF
Application of Duke Energy Progress, LLC)	JACOB J. STEWART
For Adjustment of Rates and Charges Applicable)	FOR DUKE ENERGY
to Electric Service in North Carolina and)	PROGRESS, LLC
Performance-Based Regulation)	

I. INTRODUCTION AND PURPOSE

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Jacob J. Stewart. My business address is currently 400 South Tryon Street, Charlotte, North Carolina 28202.

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

A. I am employed by Duke Energy Business Services LLC (“DEBS”) as Director Health and Wellness. DEBS provides various administrative and other services to Duke Energy Progress, LLC (“DEP” or the “Company”) and other affiliated companies of Duke Energy Corporation (“Duke Energy”).

Q. PLEASE SUMMARIZE YOUR EDUCATION AND PROFESSIONAL QUALIFICATIONS.

A. I graduated from the University of Illinois with a Bachelor of Science degree in Recreation, Sport and Tourism Management and a Master’s Degree in Human Resources and Industrial Relations. I have also held various certifications including a Certified Compensation Professional designation.

I have 16 years of human resource experience, primarily working with compensation and benefits programs. I joined Duke Energy in 2013 and have held various positions in compensation, including Director Compensation. While Director Compensation I was responsible for all broad-based compensation, including compensation design and strategy, management of key vendor relationships, and compensation administration and compliance. In addition, I have served in key roles on several projects, including the redesign of Duke Energy’s pay-for-performance strategy, the implementation of the

1 Workday HRMS system, and the integration of Progress Energy and Piedmont
2 Natural Gas employees into Duke Energy compensation and benefits programs.
3 In August 2021 I was named to my current position as Director Health and
4 Wellness. In this role I am responsible for the strategy, design, implementation,
5 compliance and communication of all health and wellness programs for Duke
6 Energy, including all of Duke Energy's affiliated regulated and non-regulated
7 companies, including DEP.

8 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS OR ANY**
9 **OTHER COMMISSION?**

10 A. I have not testified before the North Carolina Utilities Commission (the
11 "Commission"), but did provide testimony in Duke Energy Kentucky, Inc.'s
12 most recent Kentucky natural gas rate case, Case No. 2021-00190.

13 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

14 A. I am an expert in compensation and benefit programs, and the purpose of my
15 testimony is to demonstrate that the compensation and benefits programs
16 provided to Duke Energy employees are necessary to attract, engage and retain
17 the skilled and experienced workforce the Company needs to efficiently and
18 effectively provide electric service to its customers. I show further how these
19 programs are market competitive and comparable to programs offered by other
20 utilities, as well as other companies outside of the utility industry. As I explain
21 in my testimony, being market competitive is critical because Duke Energy
22 competes with these other utilities and companies in the labor market for talent.

1 I also outline the design and function of our incentive pay programs and
2 explain how the performance metrics directly benefit DEP customers through
3 safe and reliable service, customer service quality, and low energy costs. As
4 described in greater detail in my testimony, incentive pay is a key component
5 of Duke Energy's compensation program. In the competitive market for talent,
6 employees consider the total rewards package, including base pay, incentive
7 pay and benefits, as a key determinant in deciding whether to work for a
8 particular employer. Accordingly, whether it is through base pay or a
9 combination of base pay and incentives, Duke Energy must keep its overall
10 compensation package competitive to attract and retain a competent workforce.
11 Incentive pay is therefore similar to other costs necessary to provide customers
12 safe and reliable service. As such, in my opinion, the program expenditures by
13 the Company in connection with these programs are reasonable and prudently
14 incurred costs of service to our customers.

15 The factors that underpin the importance of full cost recovery have not
16 diminished since our last rate case in 2019 – to the contrary, many employers
17 and industries have experienced greater workforce turnover as a result of the
18 “Great Resignation,” and the electric utility industry is no exception. Employee
19 turnover is expense, particularly in industries – such as ours – which require
20 highly skilled labor, requiring lengthy and intensive periods of apprenticeship
21 and training. Accordingly, as my testimony demonstrates, the Company's
22 allocated compensation expense, including incentive compensation, is
23 reasonable and prudent, and DEP should be allowed to recover these costs.

1 **II. WORKFORCE OVERVIEW**

2 **Q. WHAT TYPES OF SPECIAL SKILLS OR KNOWLEDGE ARE**
3 **REQUIRED TO OPERATE AN ELECTRIC UTILITY SUCH AS DEP?**

4 A. Generation, transmission, and distribution of electric power are complex
5 undertakings requiring a highly skilled workforce. A few examples serve to
6 illustrate this point:

- 7 • Engineering professionals help to design, build, operate, and maintain
8 our generation plants and the transmission and distribution systems that
9 provide power to our customers.
- 10 • Plant operators are responsible for generating the electricity that powers
11 our customers' homes and businesses.
- 12 • Lineworkers must work quickly and efficiently, especially under
13 adverse weather conditions, to maintain, improve, and if necessary,
14 restore our transmission and delivery infrastructure to keep electricity
15 flowing to our customers.
- 16 • Field service and call center employees must understand the services
17 provided by the Company, including the metering, billing, and
18 collection processes plus various other customer service matters.
- 19 • At the corporate level, highly skilled managers, engineers, accountants,
20 cyber security analysts, and other professionals are needed to support
21 the employees who are directly responsible for generating, procuring,
22 and delivering electricity to the Company's customers.

1 **Q. HOW IMPORTANT IS THE RECRUITMENT AND RETENTION OF**
2 **SUCH EMPLOYEES TO THE COMPANY’S ABILITY TO PROVIDE**
3 **SERVICE TO ITS CUSTOMERS?**

4 A. The ability to attract and retain employees with the required technical skills is
5 critical to the success of the Company, and very important to our ability to
6 provide safe, reliable, and high-quality electric utility service to our customers.
7 A fundamental factor with respect to the ability of any employer to attract and
8 recruit skilled and qualified employees is the employer’s compensation and
9 benefits programs – potential employees will simply look elsewhere if the
10 employer’s total rewards package fails to achieve market competitiveness. This
11 is true in any labor market, but particularly important in a tight labor market
12 with high inflation, such as the one the U.S. economy is experiencing right now.
13 DEP does not present an exception to this rule.

14 Compensation and benefits – especially in a time of high employee
15 mobility and tight labor – are highly important to the Company’s ability to
16 attract, engage, and retain a diverse, qualified workforce. One of the keys to
17 providing a desirable workplace where employees want to continue working is
18 to ensure that employees have the opportunity to participate in competitive pay
19 and benefits programs.

1 **Q. IN RECENT YEARS HAS DUKE ENERGY EXPERIENCED**
2 **CHALLENGES ATTRACTING AND RETAINING A HIGHLY**
3 **TRAINED AND SKILLED WORKFORCE?**

4 A. Duke Energy has indeed experienced challenges both in attracting and retaining
5 its workforce across the entire enterprise. For example, our job offer acceptance
6 rate in 2021 was 87.8% compared to 90.7% in 2020 and 91.0% in 2019. In
7 addition, regarding retention, in 2021 our enterprise voluntary turnover was
8 7.06% compared to 4.26% in 2020 and 5.18% in 2019. These statistics show
9 that Duke Energy has not been immune from the challenges that many
10 employers have experienced attracting and retaining employees in the current
11 tight labor market conditions, marked by high employee mobility and high
12 inflation.

13 **Q. WHAT ARE THE IMPLICATIONS OF THE CHALLENGES THAT**
14 **DUKE ENERGY HAS EXPERIENCED IN ATTRACTING AND**
15 **RETAINING EMPLOYEES?**

16 A. Our employees deliver critical services to our customers every day and the
17 energy industry is a knowledge and experience-intensive industry where the
18 tenure of employees matters. It would be imprudent for Duke Energy to not
19 take measures to prevent potential losses of employees. Maintaining a
20 competitive compensation and benefits package is instrumental in meeting
21 Duke Energy's and DEP's shared goals of providing safe, adequate, reliable,
22 and reasonably priced utility service to customers.

III. COMPENSATION OVERVIEW: PHILOSOPHY, COMPONENTS, AND CUSTOMER BENEFIT

Q. WHAT IS DUKE ENERGY'S COMPENSATION PHILOSOPHY?

A. Duke Energy's overall compensation philosophy is to target total compensation of base pay and incentives, including both short- and long-term, at the median of the market when compared to peer companies, with the opportunity to earn more or less relative to the market median based on actual performance. We have an obligation to be responsive to the market for talent and assure the competitiveness of the total compensation package, consisting of base salary, cash-based incentives, and, for some employees, long-term incentive compensation. Duke Energy's compensation philosophy has three major parts:

First, Duke Energy wants its compensation to be market-based, meaning it is competitive with the external labor market, allowing it to remain attractive against competition in order to attract and retain qualified and diverse employees. Duke Energy employs a compensation strategy that combines base pay and variable incentive opportunities for all levels of positions. This approach fosters efficiency, safety, and a focus on the customer by aligning our employees' pay to quality service for customers.

Second, Duke Energy is performance oriented. It believes that linking compensation to performance is one way it can engage employees, set high expectations for employees and reward results that benefit customers. Duke Energy's compensation program is designed to provide total compensation that is consistent with performance.

1 Finally, Duke Energy is fair and flexible. Its well-managed policies and
2 pay administration guidelines ensure that it pays employees consistently and
3 fairly across departments, but it is also flexible when it needs to align its policies
4 with business needs as they grow and change.

5 DEP proposes to share its incentive plan expense between shareholders
6 and customers by proposing recovery of incentive pay expense at target levels
7 that are directly assigned or allocated to DEP as these expenses are prudent,
8 benefit customers, and are a component of market-competitive pay.

9 **Q. IS DUKE ENERGY'S COMPENSATION PHILOSOPHY FOR**
10 **EXECUTIVES SIMILAR TO THE PHILOSOPHY APPLICABLE TO**
11 **NON-EXECUTIVE EMPLOYEES?**

12 A. Yes. The compensation philosophy is similar for both executive employees and
13 all employees below the executive level. The compensation package for
14 executives consists of a combination of fixed and variable pay using base salary,
15 short-term incentives, and long-term incentives. These components, in the
16 aggregate, are targeted to deliver total compensation that is competitive with
17 Duke Energy's peers and consistent with performance. Duke Energy adopted
18 this executive compensation strategy in order to attract and retain the executive
19 talent required to deliver superior performance. The strategy emphasizes
20 performance-based compensation that balances rewards for both short-term and
21 long-term results and that aligns the executives' interests with the long-term
22 success of Duke Energy, including DEP, and its customers.

1 **Q. PLEASE PROVIDE AN OVERVIEW OF THE COMPENSATION**
2 **PROGRAMS PROVIDED BY DUKE ENERGY.**

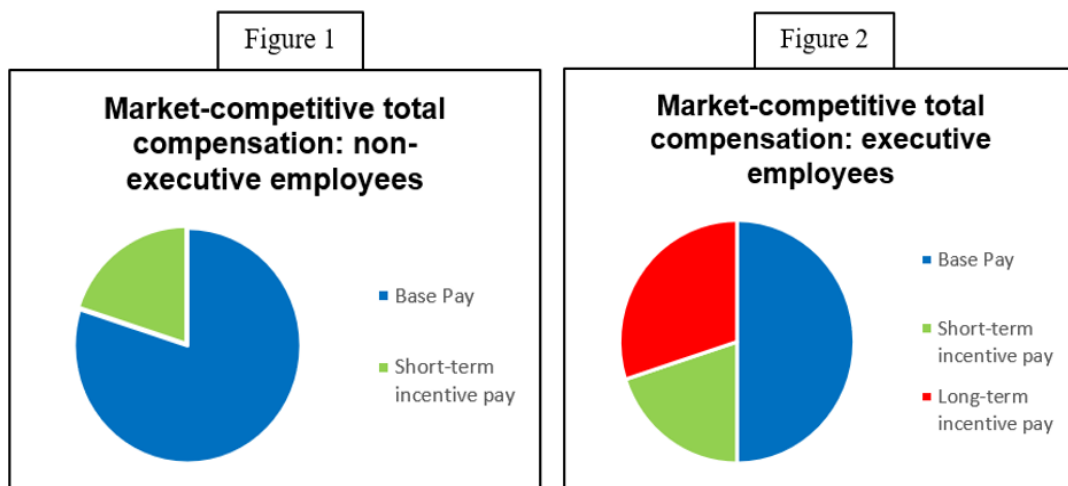
3 A. Duke Energy's compensation programs consist of a base pay component and
4 incentive pay components that together provide a market-competitive, total
5 compensation package for all employees. The base pay component is a set
6 amount, reviewed by management at least annually, and established at a level
7 that: (1) provides compensation based on the nature and responsibilities of the
8 employee's position; (2) is fair relative to the pay for other similarly situated
9 positions in the organization; and (3) when combined with the incentive pay
10 opportunities, is market competitive.

11 The short-term incentive ("STI") pay component is variable based on
12 performance and is "at risk" pay. All employees are eligible for the STI as a
13 component of their total pay – that is, employees are "at risk" of not receiving
14 this component of their compensation package. Carving out a portion of
15 employees' total compensation and delivering it through variable incentive pay
16 serves multiple purposes: (1) to encourage employees to accomplish specific
17 objectives intended to ensure safe, reliable, and economical utility service for
18 our customers; (2) to foster their business unit's and Duke Energy's overall
19 success; and (3) to incorporate a pay-at-risk component that is similar to
20 competitors in our market.

21 The long-term incentive ("LTI") plans round out a competitive total
22 compensation package for certain employees in leadership positions. Including
23 LTI programs as a portion of total compensation for leadership is market

competitive and necessary to attract and retain the high-caliber leaders needed to ensure safe, reliable, and economical utility service for our customers. Simply put, competent management is beneficial to customers.

For illustrative purposes, the total compensation concept is depicted below in Figures 1 and 2.



As Figures 1 and 2 make clear, base pay alone does *not* equate to market-competitive total compensation – rather, base pay *in combination with* incentive pay equates to market-competitive total compensation.

Q. HOW DOES DUKE ENERGY KNOW ITS COMPENSATION IS MARKET COMPETITIVE?

A. The Company's pay levels are competitive with market 50th percentile for base salary and total compensation (base pay plus incentives) when compared to numerous published surveys. As just one example, the salary range for a Senior Engineering Technologist is \$83,900 to \$125,900, with a midpoint of \$104,900 and total cash compensation of \$115,390. The market median from the WTW Energy Services Mid-Management & Professional 2021 survey is \$103,416 for

1 base pay and \$115,039 for total cash compensation. Further, we routinely
2 benchmark total compensation (base pay plus incentives) against other
3 similarly sized companies, both within and outside of the utility industry, and
4 participate in a variety of third-party salary surveys on an annual basis. These
5 surveys contain aggregated compensation data, including base pay and
6 incentive targets, from multiple employers for various job functions and career
7 levels. This data is analyzed to determine overall competitiveness of pay for
8 jobs throughout Duke Energy. A complete list of the salary surveys Duke
9 Energy is currently participating in is reflected in Stewart Exhibit 1.

10 **Q. DOES A COMPETITIVE TOTAL COMPENSATION PACKAGE FOR**
11 **EMPLOYEES BENEFIT THE COMPANY'S RETAIL CUSTOMERS?**

12 A. Yes. Our employees deliver critical services to our customers every day. We
13 need to attract, develop, and retain—over the long term—the employees that
14 design, build, and operate our plants and the employees that maintain and
15 improve the infrastructure necessary to keep the lights on. Many craft positions
16 require lengthy apprenticeships to learn the skills needed to perform work
17 independently and safely. The competencies needed for employees in highly
18 skilled positions – such as Line Technicians – take many years to develop. If
19 we were to lose such employees, we would incur additional costs to train
20 replacements for these positions, while experiencing additional risk with regard
21 to reliability issues. The expense incurred to hire and train new employees and
22 the loss of productivity realized through high turnover rates would negatively

1 affect the ability of the Company to provide safe and reliable service at a
2 reasonable cost.

3 This is also true for leadership positions. Duke Energy invests in
4 developing highly effective leaders who develop and carry out the
5 organization's strategy and inspire employees to work together to achieve
6 results the right way. Long-term incentive pay as a component of overall
7 compensation for our executive ranks is market competitive and provides Duke
8 Energy with an effective retention tool. Offering less than competitive levels of
9 compensation would put Duke Energy at risk of losing these valuable leaders
10 to other companies and potentially having to pay more to attract the same level
11 of leadership talent externally. In addition, the inclusion of long-term incentive
12 pay ensures that our leadership is focused on the long term, and not overly
13 focused on the short term. Finally, incenting a focus on long-term sustainable
14 company performance provides a benefit to customers, as a financially strong
15 company will have greater access to capital at a lower cost, which in turn
16 benefits customers through a lower cost structure.

17 **Q. HOW DO YOU KNOW THAT DUKE ENERGY'S COMPENSATION**
18 **PROGRAMS ARE SUCCESSFUL AT RECRUITING, RETAINING,**
19 **AND REWARDING TALENT?**

20 A. Despite the undeniable challenges we – along with many other employers, both
21 inside and outside the utility industry – are experiencing in attracting and
22 retaining qualified employees in today's labor market conditions, Duke
23 Energy's long-term trends of low voluntary attrition and high offer acceptance

1 rates are strong indicators that our pay for performance compensation
2 philosophy is successful. Our statistics bear out the proposition that we have
3 achieved a measure of success in retaining employees –as of December 31,
4 2021 the average tenure of our employees is 14 years, with 49% of employees
5 with Duke Energy for ten or more years. Of the 51% of employees with less
6 than 10 years of service, 88% have been with Duke Energy for five or more
7 years. These data points show that we are achieving the goals our compensation
8 philosophy is designed to achieve.

9 **IV. DETAILED REVIEW OF COMPENSATION COMPONENTS**

10 **Q. PLEASE DESCRIBE DUKE ENERGY'S BASE PAY PROGRAMS.**

11 A. Duke Energy utilizes base salary ranges consisting of a minimum and maximum
12 base salary for each job grade for most non-union positions. We perform an
13 annual review of market data for both general industry positions and energy
14 services positions and compare that data to our total compensation package
15 (base pay plus incentives). Using this market data, salary ranges are reviewed
16 annually to remain competitive. Market data is also reviewed and used to
17 determine annual wage increase recommendations.

18 To determine the compensation for executive officers on an annual
19 basis, the Compensation and People Development Committee of the Board of
20 Directors of Duke Energy reviews data from nationally recognized,
21 independent executive compensation consulting firms (Frederick W. Cook and
22 WTW). The peer group of companies used for these analyses consists of

1 companies that represent the talent markets from which Duke Energy competes
2 to attract and retain executive employees.

3 **Q. YOU MENTIONED EARLIER THAT THE INCENTIVE PAY**
4 **COMPONENT OF DUKE ENERGY'S COMPENSATION PROGRAM**
5 **HAS TWO COMPONENTS, STI AND LTI. PLEASE DESCRIBE THE**
6 **STI COMPONENT.**

7 A. All employees are eligible for the STI component of incentive pay, which, as I
8 testified previously, puts "at risk" a portion of each employee's compensation.
9 The STI program is designed to promote a workforce culture that responds to
10 pre-determined performance goals set both at the corporate level and at a
11 "team" (for non-leadership employees) or individual (for leadership employees)
12 level. How much of the STI component is actually paid out to an individual
13 employee depends on the degree to which the performance goals are met.

14 The process begins with the setting of goals at the commencement of
15 each year. The Compensation and People Development Committee (the
16 "Committee") of the Board of Directors approves the corporate level
17 performance goals for the upcoming year, as well as individual goals for
18 leadership employees. Executive leadership for each business unit sets the team
19 goals for non-leadership employees.

20 The corporate goals are reflected in a "scorecard," and Stewart Exhibit
21 2 is the 2021 STI Scorecard reflecting the corporate goals approved by the
22 Committee. As can be readily seen in the Scorecard, each goal reflects the
23 specific metrics required to meet the goal at three different levels – the

1 Minimum, Target, and Maximum level. The payout associated with
 2 achievement of the goal is based upon where along the Minimum to Maximum
 3 continuum the corporate performance falls. A thorough review is performed at
 4 the end of the year to determine the achievement level for each performance
 5 goal.

6 The scorecard reproduced in Stewart Exhibit 2 is a generic scorecard for
 7 non-leadership employees – it indicates that “team” goals are to be set and
 8 performance measured against achievement. For leadership employees,
 9 individual goals would replace the “team” component, with performance also
 10 measured against achievement. The Exhibit also details the weight given to
 11 achievement of each goal. A recap of the STI metrics, weights, and payout
 12 opportunities is set forth in the table below:

TABLE 1: SUMMARY 2021 STI PLAN

	Non- Leadership Weight	Leadership Weight	Payout range
Earnings Per Share (“EPS”)	50%	50%	0-200%
Operations & Maintenance (“O&M”) Expense	5%	10%	0-175%
Operational Excellence	10%	10%	0-175%
Customer Satisfaction (“CSAT”)	10%	10%	0-175%
Team	25%	N/A	0-175%
Individual	N/A	20%	0-175%

1 **Q. PLEASE PROVIDE ADDITIONAL DETAIL REGARDING THE**
2 **METRICS INCLUDED IN THE STI PROGRAM FOR 2021, AND, IN**
3 **PARTICULAR, DESCRIBE HOW THESE METRICS BENEFIT**
4 **CUSTOMERS.**

5 **A.** As the Scorecard in Exhibit 2 reflects, corporate STI metrics are grouped into
6 the categories of Financial Performance & Growth, Operational Excellence,
7 and Customer Satisfaction. A detailed description of these categories follows:

8 (1) Financial Performance & Growth: The Financial Performance &
9 Growth measure consists of Earnings per Share and Operations and
10 Maintenance expense measures, each of which motivates employees to focus
11 on financial discipline, efficient operations, and prudent use of resources, which
12 are vital to the health and stability of the organization.

13 (a) Earnings per Share (“EPS”): EPS is an important metric to
14 evaluate the success of our performance and it is a very common
15 practice, both within and outside of the utility industry, to use EPS as a
16 primary goal in incentive programs. A growing EPS benefits customers
17 by reducing the cost of capital as DEP continues to invest in the critical
18 infrastructure needed to ensure the continued reliability and resiliency
19 of the electric grid, achieve the ongoing energy transition, and transform
20 the customer experience by providing customers with more billing
21 options, additional energy usage information, and new tools to help
22 manage and reduce energy costs.

1 (b) O&M Expense Control (“O&M”): O&M expenses include
2 those costs necessary to support daily operations, as well as operate and
3 maintain the operating efficiency and productive life of assets. Cost
4 control is an integral part of any company’s success. The intent of this
5 goal is for employees to focus on cost control on a day-to-day basis,
6 which will allow Duke Energy to incorporate these savings into
7 programs that will benefit customers.

8 (2) Operational Excellence: This metric is broken into two equally
9 weighted measures, Reliability and Safety/Environmental. This objective
10 emphasizes service reliability and the mitigation of environmental risks
11 associated with our operations and motivates employees to provide reliable and
12 safe products and services to customers.

13 (a) Reliability: The intent of this metric is to ensure that cost
14 focus does not sacrifice DEP’s ability to provide reliable service, which
15 is expected by all customers. By including reliability in its annual
16 incentive metrics, employees are provided extra motivation to ensure
17 that the Company provides reliable service to its customers.

18 (b) Safety/Environmental: This metric incorporates safety and
19 environmental stewardship into day-to-day activities, thus making the
20 safety of employees, customers, and communities a priority. The safety
21 and environmental goal payout will be determined by averaging the
22 year-end accomplishment of two goals: (i) Total Incident Case Rate
23 (“TICR”), which measures the number of occupational injuries and

1 illnesses per 100 employees, including staff-augmented contractors; and
2 (ii) Reportable Environmental Events, which are environmental events
3 resulting from operations that have an impact on the environment,
4 require notification (verbal/written/electronic) to a regulatory agency, or
5 result in a regulatory citation or other enforcement action by a regulatory
6 agency.

7 (3) Customer Satisfaction: The incentive program also includes a
8 Customer Satisfaction goal, or CSAT, which measures the degree to which
9 customers have a favorable perception of an interaction, product, service, or of
10 Duke Energy overall. Achievement is based on Duke Energy's Net Promoter
11 Score (NPS), which is captured through its proprietary survey. Duke Energy
12 fosters a customer-centric culture, and the customer satisfaction goal is intended
13 to keep customers central to all that Duke Energy does across the company,
14 regardless of where its employees work.

15 (4) Team/Individual: In addition to these corporate metrics, the
16 performance of non-leadership employees is assessed against pre-determined
17 "team" goals set by their business units. The team goals directly benefit
18 customers by tying employee compensation to reliability, outage frequency,
19 time required to restore service, lost-time accidents, customer satisfaction
20 scores, O&M expense levels, and capital expenditures. These goals are
21 typically tactical and operational goals that align the work of each team to Duke
22 Energy's overall priorities. Team goal results establish a pool of dollars

1 allocated at the discretion of managers among employees based on their
2 individual performance and contributions to the team.

3 Finally, leadership employees are assigned individual goals. The
4 individual goals are intended to motivate the executive leadership members to
5 advance strategic and operational objectives and are generally aligned to the
6 business in which they operate. Superior performance relating to these team
7 and individual goals directly benefits DEP customers through safe and reliable
8 service, customer service quality, and low energy costs.

9 **Q. PLEASE NOW DESCRIBE THE LTI COMPONENT OF INCENTIVE**
10 **PAY.**

11 A. At a high level, Duke Energy's LTI programs provide equity-based
12 compensation (i.e., stock awards) to executive and leadership-level employees.
13 Compensation including stock awards aligns these employees' interests with
14 the long-term interests of Duke Energy, including its customers. The goal of
15 the LTI programs is to attract and retain high-caliber leaders by providing a
16 competitive compensation package and to encourage leaders to make sound
17 business decisions from a long-term perspective. Stock awards are an important
18 component of a compensation package that is reviewed annually to ensure
19 ongoing competitiveness. Duke Energy's LTI opportunities generally vest over
20 a period of three years, focusing executives on long-term performance and
21 enhancing retention.

1 **Q. WHAT SPECIFIC LTI PROGRAMS ARE OFFERED BY DUKE**
2 **ENERGY?**

3 A. Duke Energy has two LTI programs. One program is an Executive LTI
4 program, called the Executive LTI Plan, which is reserved for the most senior
5 executives, including the Senior Management Committee (“SMC”), which
6 includes the CEO and her direct reports, and members of the Enterprise
7 Leadership Team (“ELT”), which includes approximately 100 of the top leaders
8 within Duke Energy below the level of the SMC. The second LTI program, the
9 Restricted Stock Unit (“RSU”) Program, is available to other strategic leaders
10 below the ELT level who are responsible for the most critical
11 roles/responsibilities in each business group (population generally ranges
12 between 2-3 percent of the total Duke Energy employee population).

13 **Q. PLEASE DESCRIBE THE EXECUTIVE LTI PLAN.**

14 A. The Executive LTI Plan is designed to drive an ownership mindset for
15 participants and ensure accountability for making short- and long-term strategic
16 decisions. For 2021, participants in this program have 70 percent of their target
17 LTI opportunity awarded as performance shares and 30 percent of their target
18 LTI opportunity awarded as restricted stock units (RSUs).

19 Performance Shares: The performance shares granted in 2021
20 incorporate three performance goals: (1) cumulative adjusted EPS, (2) Total
21 Shareholder Return (“TSR”) compared to companies in the Philadelphia Utility
22 Index, and (3) Total Incident Case Rate (“TICR”), which (as indicated above in
23 my discussion of STI metrics) is a measure of operational safety – a factor of

1 great importance to Duke Energy and its customers. Similar to the payout
2 associated with meeting STI goals, payout of performance shares occurs only
3 if pre-defined performance metrics related to the goals are met, but in the case
4 of the performance share awards the goals must be met over a three-year vesting
5 period. The multi-year vesting period ties the number of performance shares
6 participants ultimately earn to Duke Energy's long-term performance, and this
7 correlates to long-term value. Executive LTI Plan participants must generally
8 continue their employment with Duke Energy for a three-year period to earn a
9 payout.

10 RSUs: The other 30 percent of Executive LTI Plan participants' target
11 LTI opportunity is awarded as RSUs. Vesting of RSUs is solely tied to the
12 participants' continued employment through vesting dates over a three-year
13 vesting period and is not dependent upon Duke Energy's financial performance.
14 Participants who remain employed with Duke Energy through a vesting date
15 receive a share of Duke Energy common stock for each vesting RSU.

16 **Q. PLEASE DESCRIBE THE LTI PROGRAM AVAILABLE TO LEADERS**
17 **BELOW THE ELT LEVEL.**

18 A. Leaders below the ELT level participate in the RSU program and receive their
19 LTI value in the form of RSUs that vest equally over three years, thereby
20 encouraging retention of high-quality employees. The reward of these RSUs is
21 purely aimed at continued employment and is in no way tied to actual company
22 performance. Participation in the RSU plan is reserved for positions that meet
23 at least one of the following criteria:

- 1 • Position has significant responsibility for a broad area or function or
- 2 geographic region;
- 3 • The employee leads major projects or groups with substantial enterprise
- 4 or business unit strategic or financial impact;
- 5 • The employee is in a role that has decision-making authority that
- 6 impacts Company performance; and
- 7 • Position requires specialized expertise that is critical to business
- 8 operations or strategy development.

9 The RSU plan is an equally important component within the total
10 compensation package for eligible leadership positions (below executive level)
11 and is critical to maintaining market competitiveness and retaining key
12 leadership talent. These employees' base salary is set at such a level that, when
13 factoring in the retention-driven RSUs, the total package results in market-
14 competitive compensation.

15 **Q. HOW DO GOALS BASED ON MEETING EPS OR TSR BENEFIT**
16 **CUSTOMERS?**

17 A. In order to achieve earnings per share goals, Duke Energy must have strong cost
18 management, prudent investments, and operational excellence, all of which
19 benefit customers. Achieving financial success benefits customers by reducing
20 the cost of capital as Duke Energy continues to conduct necessary maintenance
21 of the system, invest in modernization of the electric grid, and transforms the
22 customer experience by providing customers with more billing options,

1 additional energy usage information, and new tools to help manage and reduce
2 energy costs.

3 **Q. WHY IS IT IMPORTANT TO PROVIDE INCENTIVE**
4 **OPPORTUNITIES AS PART OF EMPLOYEES' TOTAL**
5 **COMPENSATION?**

6 A. Short-term incentive opportunities are components of market-competitive total
7 compensation that is necessary to attract and retain qualified employees. I
8 believe it is important to stress the fact that if Duke Energy did not provide
9 incentive opportunities to employees the same target value of incentive
10 compensation would need to be added to base pay – which is paid regardless of
11 Duke Energy's performance – in order to maintain market-competitive
12 compensation.

13 Similarly, Duke Energy's LTI programs are necessary components of
14 Duke Energy's compensation package for leaders. They allow Duke Energy to
15 attract and retain high-performing leaders who carry out its vision of leading
16 the way to cleaner, smarter energy solutions that are valued by customers. If the
17 Companies did not incorporate LTI as a part of the total compensation for these
18 leadership positions, it would require higher base salaries in order to provide
19 the same level of market-based total compensation. If an increase to base pay
20 was not made in place of the LTI component and the overall level of total
21 compensation was reduced, the Companies would not be able to effectively
22 attract or retain the experienced leaders necessary to direct the efforts of its
23 employees and make the best strategic decisions on behalf of the Duke Energy.

1 Put another way, whether it is through base pay or a combination of base
2 pay and incentives, Duke Energy must keep its overall compensation package
3 competitive in order to attract and retain a competent workforce. Incentive pay
4 is similar to the other costs related to providing electric service – it is a
5 necessary cost to provide customers safe and reliable service. In the competitive
6 market for talent, employees consider the total rewards package, including base
7 pay, incentive pay and benefits, as a key determinant in deciding whether to
8 work for a particular employer.

VII. COST RECOVERY OF INCENTIVE PAY EXPENSE

9 **Q. WHAT INCENTIVE PAY EXPENSE DOES DEP PROPOSE TO**
10 **RECOVER IN THIS PROCEEDING?**

11 A. DEP proposes to share its incentive plan expense between shareholders and
12 customers by proposing recovery of incentive pay expense at target levels that
13 are directly assigned or allocated to DEP as these expenses are prudent, benefit
14 customers, and are a component of market-competitive pay.

15 **Q. WHY DOES THE COMPANY'S PROPOSAL FOR INCENTIVE**
16 **COMPENSATION ASSUME REACHING 100 PERCENT OF TARGET**
17 **ACHIEVEMENT LEVELS?**

18 A. These are the accrued and budgeted achievement levels for the performance
19 goals for the STI and the LTI. The 100 percent target achievement level is used
20 for the accruals and budget because this is what the Company expects to achieve
21 on average over time.

VIII. CONCLUSION

1 **Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?**

2 **A. Yes.**

2021 Surveys

SURVEY CODE	SURVEY NAME
AON-EMT21	Aon Energy Marketing and Trading, 2021
AON-IEHRA21	Aon IEHRA Energy Industry, 2021
AON-REN21	Aon Renewable Energy, 2021
EMPS-WORKS21	Empsight The Works, 2021
FOU-ENV21	Foushee Environmental, Health & Safety, 2021
FOU-SEC21	Foushee Security & Compliance, 2021
GBS-AVI21	Gallagher Aviation, 2021
MER-MDC21	Mercer Data Connector, 2021
PM-CYB21	Pearl Meyer Cyber Security, AI, Data Science Salary Survey, 2021
RGCD-EXM21	Radford Global Compensation Database - Executive & Senior Management [EXM], 2021
RGCD-INF21	Radford Global Compensation Database - Infrastructure [INF], 2021
RGCD-ENE21	Radford Global Compensation Database - Energy [ENE], 2021
TW-EMT21	WTW Energy Marketing and Trading, 2021
TW-ESO21	WTW Energy Services Technical Support and Operations, 2021
TW-EXE-ES-DUKE21	WTW Energy Services Executive (Duke Energy), 2021
TW-MMPS-ES-DUKE21	WTW Energy Services Mid-Mgmt & Prof (Duke Energy), 2021
TW-EXE-DUKE21	WTW General Industry Executive (Duke Energy), 2021
TW-MMPS-DUKE21	WTW General Industry Mid-Mgmt, Prof & Support (Duke Energy), 2021

2021 Short-Term Incentive (STI) Scorecard

Weighting*	Measure	Goals and Payout Opportunity		
		Minimum (25% Payout)	Target (100% Payout)	Maximum (200% for EPS; 175% for others)
Financial Performance & Growth				
50%	EPS	\$5.00	\$5.15	\$5.35
	If 2021 adjusted basic EPS is less than or equal to the circuit breaker of \$5.09, payouts for all measures, including the team component, will be reduced.			
5%	Operations and Maintenance (O&M) Expense	\$5,400M	\$5,250M	\$5,050M
Operational Excellence: Achieve the highest standards of safety, reliability, and sustainable efficiency				
5%	Reliability Index	25	100	175
5%	Safety/Environmental			
	○ Total Incident Case Rate (TICR) – Employees	0.48	0.36	0.30
	○ Reportable Environmental Events (REE)	18	12	8
Customers: Improve customer loyalty over time to achieve top quartile performance among large utilities nationally in the J.D. Power Residential Utility Study.				
10%	Customer Satisfaction (CSAT) – NPS	44.0	48.0	53.0
Employees: Engage employees and ensure the safety of our workforce and the communities where we work				
25%	Team Goals			

*Weights may vary based on the terms of the applicable collective bargaining agreement(s). Percentages also vary for certain executives.