BEFORE THE

NORTH CAROLINA UTILITIES COMMISSION

PUBLIC SERVICE COMPANY OF NORTH CAROLINA, INC.

DOCKET NO. G-5, SUB 632
DOCKET NO. G-5, SUB 634

REBUTTAL TESTIMONY

OF

REGINA J. ELBERT

OCTOBER 7, 2021

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

A. My name is Regina J. Elbert. My business address is 600 Canal Place, Richmond, Virginia 23219. I am employed by Dominion Energy Services, Inc., as Vice President of Human Resources Business Services. In that capacity, I oversee the human resources function for the company, including Public Service Company of North Carolina, Inc., d/b/a Dominion Energy North Carolina ("PSNC" or the "Company").

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND, WORK EXPERIENCE, AND OTHER QUALIFICATIONS.

A. I have a Bachelor of Arts degree in economics and foreign affairs from the University of Virginia and a Juris Doctor degree from Harvard Law School. In 2011, I joined Dominion Energy, Inc. ("Dominion Energy") as senior counsel for employee benefits and was promoted to manager of Executive Compensation in 2014. In 2017, I became managing counsel and in September 2018, was named deputy general counsel. In March 2019, I was promoted to my current position as Vice President of Human Resources Business Services.

Q. HAVE YOU PROVIDED DIRECT TESTIMONY IN THIS PROCEEDING?

A. No.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS PROCEEDING?

A. The purpose of my rebuttal testimony is to respond to 1) the testimony of Public Staff witness, Mary A. Coleman, regarding her proposal to disallow the total compensation of the top five executives in terms of compensation charged to PSNC; and 2) the testimony of Public Staff witness, Sonja R. Johnson, regarding her proposals to disallow components of both Annual Incentive Plan compensation and Long-Term Incentive Plan compensation for all executive level employees.

EXECUTIVE COMPENSATION

Q. WHAT IS PUBLIC STAFF WITNESS COLEMAN'S BASIS FOR THE TOP FIVE EXECUTIVES' COMPENSATION CHARGED TO PSNC BEING DISALLOWED IN PSNC'S COST-OF-SERVICE?

A. While Public Staff witness Coleman doesn't suggest that these executives' compensation is excessive, she states:

> This recommendation is based on the Public Staff's belief that it is appropriate and reasonable for the shareholders of the very large natural gas and electric utilities to bear some of the cost of compensating those individuals who are most closely linked to furthering shareholder interests, which are not always the same as those of ratepayers.

Q. WHAT IS PUBLIC STAFF WITNESS COLEMAN'S BASIS FOR CHOOSING TO REMOVE 50% OF THE TOP FIVE EXECUTIVES' COMPENSATION CHARGED TO PSNC?

A. Public Staff witness Coleman states:

> Officers have fiduciary duties of care and loyalty to shareholders, but not to customers. Consequently, the Company's executive officers are obligated to direct their efforts not only to minimizing the costs and maximizing the reliability of PSNC's service to customers, but also to maximizing the Company's earnings and the value of its shares. It is reasonable to

> expect that management will serve the shareholders as well as the ratepayers; therefore, a portion of management's compensation and pensions should be borne by the shareholders.

Q. AS A GENERAL MATTER, ARE DOMINION ENERGY'S REGULATED UTILITIES, SUCH AS PSNC, BURDENED WITH 100% OF EXECUTIVE COMPENSATION?

A. No. Under the Dominion Energy Services Agreement approved by this Commission, executive services are allocated across all affiliates within Dominion Energy – both regulated and non-regulated. There is also a portion allocated to the parent company, Dominion Energy, Inc. The parent company's and non-regulated entities' portions represent 22.4% of the total, with the shareholders bearing those costs rather than utility customers.

Q. ARE EXECUTIVE COMPENSATION COSTS ALLOCATED TO PSNC IN THE TEST PERIOD JUST AND REASONABLE EXPENSES?

A. Yes.

Q. ARE EXECUTIVES COMPENSATED IN WAYS THAT FURTHER SHAREHOLDER INTERESTS AT THE EXPENSE OF THE INTERESTS OF OUR CUSTOMERS?

A. No. The Company's market-competitive compensation policies focus all employees, including executives, on providing safe and reliable gas distribution service in a sustainable manner. Officers of the Company are responsible to all our constituents – employees, customers, shareholders, and the communities we serve. In fact, one of the officers selected by Public Staff witness Coleman is the leader in charge of regulation and customer experience – a position most definitely aligned with the interests of PSNC's customers.

ANNUAL INCENTIVE PLAN ("AIP") COMPENSATION

Q. WHAT IS PUBLIC STAFF WITNESS JOHNSON'S BASIS FOR THE ELIMINATION OF COMPONENTS OF AIP COMPENSATION FOR ALL EXECUTIVES?

A. Public Staff witness Johnson eliminates a portion of AIP compensation for all executives on the basis that financial metrics, specifically earnings per share ("EPS") align with shareholder interests, not customers. Witness Johnson states:

> I have adjusted the allowable costs of AIP to exclude the incentive amounts that were based on the earnings metric, which is closely tied to the EPS, since the entire AIP is funded based upon a consolidated EPS. I have removed only the amounts related to all executive-level employees because these goals align with the shareholders' interests.

Q. HOW IS THE COMPANY'S AIP INCENTIVE COMPENSATION STRUCTURED?

A. The AIP focuses the workforce on goals that align with corporate values and drive toward safe and efficient operations, reliable service for our customers, and the achievement of financial results. The objective is to strive for targeted performance levels in the areas of safety, diversity and inclusion, and environmental benefits, financial performance, and other operating and stewardship targeted performance, by emphasizing teamwork on common goals.

Q. WHAT ROLE DO FINANCIAL METRICS PLAY IN AIP COMPENSATION?

A. The financial targets and the stewardship goals exist in a mutually dependent way at all levels. Financial performance metrics instill a culture of cost-consciousness to serve PSNC's customers efficiently and safely while striving towards strong operating performance targets. Financial stewardship is completely aligned with our customers' interests, ensuring that all of our operational and customer service goals are achieved within a culture of economic efficiency that helps to maintain reasonable costs for our customers.

Q. HOW ARE FINANCIAL GOALS SET?

A. Financial goals are set for the Company at the beginning of each year through the budgeting process. When those goals are met, costs are controlled, and upward pressure on rates is reduced. The resulting culture of economic efficiency and cost control is built up year by year and directly benefits customers through a more efficient utility and lower rates.

Q. WHEN PUBLIC STAFF WITNESS JOHNSON REFERENCES "CLOSE TIES TO EPS" IN REASONING THAT SUCH A PORTION OF AIP SHOULD BE DISALLOWED, WHAT ITEMS ARE ACTUALLY UNDER THE CONTROL OF MANAGEMENT WHEN INFLUENCING FINANCIAL METRICS SUCH AS EPS OR NET INCOME?

A. When evaluating the Company's bottom-line, there are items under the control of the Commission such as PSNC's tariff rates and revenues as well as PSNC's depreciation rates. Taxing authorities at the federal and state level control federal and state income tax expense and payroll tax expense. Debt costs are driven by the financial markets. Thus, the primary item under the control of management is operations and maintenance expense. And while shareholders value the diligent management of operations and maintenance expense, that diligence is equally important to customers because it has a direct outcome on the customer bill for gas distribution service. Ultimately, if PSNC can manage its business in a way that allows it to meet financial targets and expectations year by year, a culture of cost control will be created and sustained, and access to capital on reasonable terms will be assured. Again, customers will benefit through lower costs for gas distribution services.

LONG-TERM INCENTIVE PLAN ("LTIP") COMPENSATION

Q. WHAT IS PUBLIC STAFF WITNESS JOHNSON'S BASIS FOR THE ELIMINATION OF LTIP COMPENSATION FOR ALL EXECUTIVES?

A. Public Staff witness Johnson eliminates a portion of LTIP compensation for all executives on the basis that performance shares tied to return on invested capital ("ROIC") and total shareholder return ("TSR") align with shareholder interests, not customers. Witness Johnson states:

> I have also adjusted the allowable LTIP costs to exclude the Performance Shares, which include the ROIC and TSR metrics. The Public Staff believes that the incentives related to ROIC and TSR should be excluded, because they provide a direct benefit to shareholders rather than to ratepayers. These costs should be borne by shareholders.

Q. WHY IS LTIP COMPENSATION APPROPRIATE FOR RECOVERY IN PSNC'S COST-OF-SERVICE?

A. Long-term incentive plans are recognized throughout the industry as an important way to attract, retain, and motivate key talent. LTIP is a standard executive benefit in the utility industry and in industries across the economy. It forms an important part of the Company's overall market-based incentive package. Without a long-term incentive plan, the Company would need to increase other aspects of its compensation program, such as base pay or AIP, to provide a competitive pay package for leaders and other key employees. In doing so, the Company would lose the benefit of using the long-term incentive plan to tie the compensation of its leadership to achieving its goal of long-term financial viability and sustainability of the enterprise, which are important for the protection of customers' interests. Together with the AIP, the long-term incentive plan maintains a balanced focus for key employees between goals that have shorter and longer time horizons.

Stock-based compensation plays an important role in focusing senior leadership on how the Company's strategic direction is being evaluated by the financial markets on which it relies for capital and that are uncompromising in their approach to evaluating the quality of leadership and strategy. Moreover, a utility's stock price is an indicator of the confidence investors have in that utility's leadership, its ability to anticipate and respond to the rapid changes in the energy, environmental and regulatory landscape, and the ability of its managerial team to execute on a strategy to meet those changes. Tying an element of compensation to stock price for the most senior leaders ensures that these leaders are not complacent in the face of the changes in the industry.

Q. WHAT IS THE IMPACT OF THESE DISALLOWANCES TO PSNC'S COST-OF-SERVICE?

A. As itemized in Public Staff witness Johnson's Exhibit I, Schedule 3 Page 1 of 4 and Page 2 of 4, the revenue requirement effect of the top five executive compensation adjustments totals $437,871 in disallowances and the AIP and LTIP executive compensation adjustments total $2,410,461 in disallowances. These three adjustments combined represents a total of $2,848,332 in disallowances for reasonable and prudent costs.

Q. DO YOU AGREE WITH PUBLIC STAFF'S DISALLOWANCES OF THESE THREE ITEMS FROM PSNC'S COST-OF-SERVICE?

A. No. These adjustments proposed by Public Staff should be rejected by the Commission.

Q. DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY?

A. Yes, although I reserve the right to supplement or amend my testimony before or during the Commission's hearing in this proceeding.