BEFORE THE

PUBLIC UTILITIES COMMISSION OF OHIO

THE DAYTON POWER AND LIGHT COMPANY
D/B/A AES OHIO

CASE NO. 20-1651-EL-AIR
CASE NO. 20-1652-EL-AAM
CASE NO. 20-1653-EL-ATA

SUPPLEMENTAL DIRECT TESTIMONY OF JEREMY BUCHANAN

- □ MANAGEMENT POLICIES, PRACTICES, AND ORGANIZATION
- □ OPERATING INCOME
- □ RATE BASE
- □ ALLOCATIONS
- □ RATE OF RETURN
- □ RATES AND TARIFFS
- □ OTHER

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I. INTRODUCTION

Q. Please state your name, employer and position.

A. My name is Jeremy Buchanan. I am employed by AES US Services LLC, and my position is Vice President, Human Resources.

Q. Did you previously file testimony in these matters?

A. Yes.

Q. Please describe your duties as Vice President, Human Resources.

A. My team and I oversee daily HR Operations for the US SBU such as employee relations, labor relations, annual compensation; performance; talent cycles, and other various HR Operational items.

Q. What is the purpose of this testimony?

A. The purpose of this testimony is to support and explain the following objections of AES Ohio to the July 26, 2021 Staff Report:

Objection No. 3 - Capitalization of Earnings - Based Incentive Compensation: AES Ohio objects to the recommendation in the Staff Report (p. 10) to exclude from base rates all capitalized earnings-based incentive compensation as shareholders and not ratepayers should fund earnings-based incentives from the Commission's Opinion and Order going forward. That recommendation is unreasonable because the total amount of compensation that AES Ohio pays to its employees is consistent with market rates, the costs are necessary to provide service to customers and the bonuses provide incentives to AES Ohio's employees to provide excellent service at a low cost, which benefits customers.

Objection No. 23 - Short-Term Compensation ("STC") and Long-Term Compensation ("LTC") Expense: AES Ohio objects to the recommendation in the Staff Report to remove 75% of STC and eliminate 100% of LTC for both AES Ohio and AES Services employees. Staff Report, pp. 15-16, 96 (Schedule C-3.13). That recommendation is unreasonable and unlawful because the expenses associated with STC and LTC are prudently incurred, the total amount of compensation is consistent with market rates, the costs are necessary to provide service to customers, such compensation incentivizes employees to reduce expenses, and if the amounts are to be removed, the actual portion of STC based on financial metrics is only 45%.

II. AES OHIO'S EXPENSES AND RATE BASE SHOULD INCLUDE SHORT-TERM AND LONG-TERM COMPENSATION INCENTIVES

Q. Please explain AES Ohio Objection No. 23 to the Staff Report regarding short-term compensation ("STC") incentives.

A. The Staff Report (Pp. 15-16) recommends that AES Ohio not be permitted to include in base rates STC incentives that AES Ohio provides to certain employees. AES disagrees with Staff's recommendation for three reasons:

1. Staff does not dispute that AES Ohio's total compensation (including the STC incentives) was consistent with market rates.

2. The STC incentives align the incentives of AES Ohio's employees with the interests of customers, and are thus reasonable.

3. To the extent STC incentives are going to be excluded, the Staff miscalculated the amount of the STC incentives.

Q. Please explain the first reason that you believe that STC should be recoverable.

A. My initial testimony (pp. 4-11) demonstrated that the total amounts (including base wages and STC) that AES Ohio pays to its employees are consistent with market rates, which is confirmed by market studies conducted for AES Ohio. As also was demonstrated in my initial testimony (pp. 2-4), AES Ohio has to offer competitive wages to attract skilled employees that it needs to allow it to provide safe and reliable service to customers.

Staff does not dispute the fact that the total compensation (including STC) that AES Ohio pays to employees is consistent with market rates. That should be the end of the analysis. If the total compensation paid by AES Ohio is consistent with market rates, then all of that compensation should be recoverable in rates.

In other words, AES Ohio has to offer total compensation to its employees that is competitive with the total compensation that AES Ohio's employees could earn in the market. An STC program that AES Ohio offers is consistent with and competitive with what other employers are offering. The STC program is thus a legitimate cost of providing service, and should be recoverable.

Q. Please explain the second reason that you believe that STC should be recoverable.

A. To the extent that the Commission is going to evaluate whether individual components that make up AES Ohio's total compensation package are reasonable, the Commission should conclude that the STC works to align the interests of AES Ohio's employees with the interests of its customers.

Specifically, the STC incentive is made up of five main components: Safety, Financials, Strategy Execution, Customer Service Initiatives, and Operational Key Performance Indicators. Each of these are associated with a percentage weighting for "at risk" to the employee's compensation. It appears that the two components that Staff is concerned about are Financial and Strategy Execution.

As it relates to the financial goal: By placing a portion of our employees' compensation "at risk" as it relates to financial targets, this provides an incentive for our employees to be cost savvy, and conduct their department budgets and spending as if they own and operate the Utility as their own business. This alignment provides assurance to our customers that spending occurs only when necessary.

As it relates to the strategy execution goal: The goals aligned with strategy execution are developed to help create a culture of innovation in our employees' decision making. Very similar to the reasons discussed in the section for financial goals, this aligns incentives for our employees to provide a solid working utility to the customer. This goal injects innovation decision making into our employees' daily work. As a granular example, if an employee discovers a more cost-effective way to deploy capital, while providing the same or better quality result, this creates a win-win scenario where the Utility saves money, but executes better than expected on the strategy, and creates long-term savings for the customer. It should be noted that some very key customer-focused outcomes are included in incentivizing our employees for this goal, including Transmission CapitalEx Deployment, and Smart Grid Progress.

Q. Please explain the third reason that you believe that STC should be recoverable.

A. Assuming for the sake of argument that the financial portion of STC should not be recoverable in rates, then Staff erred in excluding 75% of the STC. For the test year, only 45% of the STC was dependent upon financial goals.

Q. Please explain AES Ohio's Objection No. 23 to the Staff Report regarding long-term compensation ("LTC").

A. The Staff Report (p. 16) recommends that AES Ohio not be permitted to include LTC in base rates. AES Ohio disagrees with that recommendation for two reasons.

1. Staff does not dispute that AES Ohio's total compensation (including LTC) was consistent with market rates.

2. The LTC aligns the incentives of AES Ohio's employees with the incentives of customers, and are thus reasonable.

Q. Please explain the first reason that you disagree with Staff's recommendation.

A. The first reason is identical to the reason for STC discussed above; *i.e.*, that the total compensation (including LTC) provided by AES Ohio is consistent with market rates, is a cost of doing business, and should be recovered in rates

Q. Please explain the second reason that you disagree with Staff's recommendation.

A. To the extent that the Commission is going to evaluate individual components of AES Ohio's compensation packages, the LTC aligns the interests of AES Ohio's employees with the interests of its customers. Specifically, similar to STC, LTC provides incentives to senior level directors and vice presidents to achieve financial objectives over a longer period of time (three years). The LTC thus provides incentives to those employees to operate AES Ohio in an efficient, cost effective manner. Customers benefit from a utility that is operated efficiently and that is financially healthy (*e.g.*, a financially healthy utility will have access to lower cost debt). The LTC thus reasonably aligns the interests of AES Ohio's employees with the interests of its customers, and should be recoverable.

Q. Please explain AES Ohio Objection No. 3 to the Staff Report, regarding capitalization of bouses.

A. The Staff Report (p. 10) recommends that AES Ohio not be permitted to capitalize earnings-based incentive compensation, which would be the STC and LTC discussed above. The Commission should allow AES Ohio to capitalize those amounts for the same reasons that the Commission should allow recovery of them in rates, namely: (1) AES Ohio's total compensation (including the STC and LTC) to employees is consistent with market rates, is a cost of providing service, and should be capitalized in the same manner as base compensation; and (2) to the extent that the Commission is going to evaluate individual compensation components, the STC and LTC provide incentives to AES Ohio's employees to operate AES Ohio efficiently and at low cost, and thus align the interest of AES Ohio's employees and with the interests of AES Ohio's customers.

Q. Does this conclude your testimony?

A. Yes, it does.

CERTIFICATE OF SERVICE

I certify that a copy of the foregoing supplemental testimony has been served via electronic mail upon the following counsel of record, this 25th day of August, 2021:

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