DUKE ENERGY OHIO EXHIBIT______

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Duke Energy Ohio, Inc., for an Increase in Electric Distribution Rates.	)))	Case No. 21-887-EL-AIR
In the Matter of the Application of Duke Energy Ohio, Inc., for Tariff Approval.	)))	Case No. 21-888-EL-ATA
In the Matter of the Application of Duke Energy Ohio, Inc., for Approval to Change Accounting Methods.	)))	Case No. 21-889-EL-AAM

SUPPLEMENTAL DIRECT TESTIMONY OF

JACOB J. STEWART

ON BEHALF OF

DUKE ENERGY OHIO, INC.

___________ Management policies, practices, and organization
___________ Operating income
___________ Rate base
___________ Allocations
___________ Rate of return
___________ Rates and tariffs
____X_____ Other: Human Resources

August 18, 2022

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I. INTRODUCTION AND PURPOSE

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Jacob J. Stewart. My business address is currently 550 South Tryon Street, Charlotte, North Carolina 28202. Effective November 1, 2021, that address will change to 526 South Church 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 Ohio, Inc., (Duke Energy Ohio or Company) and other affiliated companies of Duke Energy Corporation (Duke Energy).

Q. ARE YOU THE SAME JAKE STEWART THAT FILED DIRECT TESTIMONY IN THESE PROCEEDINGS?

A. Yes.

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

A. My Supplemental Direct Testimony describes and supports the Company's objections to certain findings and recommendations contained in the Report by the Staff of the Public Utilities Commission of Ohio (Staff) issued in these proceedings on May 19, 2022 (Staff Report). The Company filed its Objections to the Staff Report of Investigation and Summary of Major Issues on June 17, 2022.

II. OBJECTIONS SPONSORED BY WITNESS

Q. PLEASE EXPLAIN THE COMPANY'S OBJECTION NUMBER 11(a).

A. Duke Energy Ohio objects to Staff's recommendation to adjust the Company's test year expenses to reflect the removal of approximately $7 million in incentive compensation.

Q. PLEASE DESCRIBE STAFF'S RECOMMENDED ADJUSTMENT RELATED TO THE COMPANY'S INCENTIVE COMPENSATION EXPENSE.

A. Staff's adjustment removes short-term incentive (STI) compensation expense related to Earnings per Share (EPS) and Customer Satisfaction (CSAT) metrics, 100 percent of executive STI and 100% of long-term incentive compensation expense, including both restricted stock units (RSUs) and performance shares.

Q. DID STAFF PROVIDE ANY BASIS OR SUPPORT FOR MAKING THIS ADJUSTMENT?

A. No. Staff provides little explanation for its adjustment, other than to state they "adjusted test year operating income by removing certain incentive compensation based on financial metrics such as earnings per share, advertising for new business, and limited availability to a few highly compensated individuals". There is nothing in the Staff Report that indicates the Company's submitted amount for incentive recovery was unreasonable or improper.

Q. PLEASE EXPLAIN WHY DUKE ENERGY OHIO OBJECTS TO THIS ADJUSTMENT.

A. First, as I discussed in my direct testimony, the Company believes all incentive expense should be recoverable in base rates as it is a prudently incurred cost of doing business. The Company's incentive compensation plans do not result in excessive pay levels, nor is it beyond what is reasonably necessary for the Company to attract a talented workforce. Rather, Duke Energy's overall compensation philosophy is to target total compensation, consisting of base pay and short- and long-term incentives, at the median of the market when compared to peer companies. Whether it is through base pay or a combination of base pay and incentives, Duke Energy must keep its overall compensation package competitive in order to attract and retain a competent workforce. Incentive pay is similar to the other costs related to providing electric service. It is a necessary cost to provide customers safe and reliable service.

Staff has not challenged that the compensation and benefit programs provided to employees of Duke Energy, including those who work on behalf of Duke Energy Ohio, are necessary and critical in their entirety for attracting, engaging, retaining and directing the efforts of employees with the skills and experience necessary to provide electric services to Duke Energy Ohio customers. Instead, the Staff wants to have the benefit of the Company employing qualified and well-managed employees productively engaged in providing safe, reliable, and affordable electric service to our customers today and tomorrow, but not to reflect the business share of that cost of service.

Further, the annual short-term incentive pay opportunity that employees have as part of their total compensation promotes a corporate culture that is performance-oriented in order to provide the greatest benefit to the customer. By motivating employees to excel at such goals as financial stewardship, customer satisfaction, safety, and reliability, the Company can deliver the highest value at a reasonable cost. Having a portion of employees' total compensation "at risk" allows the Company to tie specific performance measures to employees' pay, and focuses their efforts on performing the right work, the right way. Employee compensation and incentives tied to the STI metrics benefit customers because those metrics reflect how employees' contributions translate into overall more efficient financial and operational performance.

In addition, the costs of the incentive plans are allocated to both customers and shareholders, as shareholders would cover any amounts above the target levels proposed to be included in base rates. For purposes of calculating the appropriate level of test year expense, the Company included incentives based upon the achievement of target levels, which the Company expects to average over time and thus considers a normal level of expense.

Q. DOES HAVING INCENTIVES TIED TO ACHIEVING FINANCIAL TARGETS BENEFIT CUSTOMERS?

A. Yes. Inherent in achieving financial targets is the ability to control costs. Lower costs equate to lower rates for customers. To achieve strong incentive results we must operate reliably and we must operate safely and we must deliver strong customer service and we must control our costs and we must grow our company.

Including goals for financial performance in our incentive programs ensures that employees pursue cost effective ways to deliver on the other measures. Using this balanced scorecard approach benefits customers by delivering critical services at competitive rates. EPS and Total Shareholder Return (TSR) measure overall financial performance, and overall financial performance in turn can reflect how employees take action on a routine basis to support the efficient delivery of safe and reliable energy to customers. In addition, finding sustainable cost savings is an important part of achieving our financial targets and those sustainable cost savings benefit our customers. Incentivizing employees to work diligently to ensure costs are responsibly and prudently incurred is critical to ensuring costs remain as low as reasonably possible. These actions provide benefits to customers through competitive rates. Achieving financial success benefits customers by reducing the cost of capital as Duke Energy continues to invest in aging infrastructure, conducts necessary maintenance of the system and transforms the customer experience by providing customers with more billing options, additional energy usage information, and new tools to help manage and reduce energy costs. Divorcing employee performance from such an important measure of a regulated company's overall health is counterproductive.

Q. DOES THE CUSTOMER SATISFACTION (CSAT) METRIC IN THE SHORT-TERM INCENTIVE PLAN CORRELATE TO ADVERTISING FOR NEW BUSINESS?

A. No. Based on Staff's report, they misinterpret the CSAT metric as being tied to advertising for new business. In reality, the CSAT metric is a measure of customer satisfaction based on a composite of Duke Energy's enterprise-wide Net Promoter Score (NPS). NPS is standard widely accepted customer experience metric and is used by millions of businesses to measure customer perception. Duke Energy fosters a customer-centric culture, and the customer satisfaction goal is intended to keep customers central to all that Duke Energy does across the company, regardless of where its employees work.

Duke Energy uses our own proprietary survey, CX Monitor, to survey customers to measure sentiment and satisfaction. As described in the direct testimony of Duke Energy Ohio witness Amy B. Spiller, CX Monitor enables understanding of customer sentiment based on overall experience as well as key experiences that customers may have had with Duke Energy, including Duke Energy Ohio, in the past twelve months, including 'Billing & Payment,' 'Power Quality & Reliability,' 'Communications,' 'Call,' and 'Web.'

Q. DO EXECUTIVES PARTICIPATE IN THE SAME SHORT TERM INCENTIVE PLAN AS OTHER EMPLOYEES?

A. Yes. As described in my direct testimony, the annual cash incentive plan is available to all employees at Duke Energy, including executives. This is not a form of additional compensation solely for executive leadership. For 2021, the STI goals for all employees, weightings and payout opportunities are reflected in the table below:

TABLE 1: SUMMARY 2021 STI PLAN

	Leadership Weight	Non-Leadership Weight	Payout range
EPS	50%	50%	0-200%
O&M Expense	10%	5%	0-175%
Operational Excellence	10%	10%	0-175%
CSAT	10%	10%	0-175%
Team	N/A	25%	0-175%
Individual	20%	N/A	0-175%

Staff's adjustment to remove 100 percent of incentives recorded under Resource Type 1E002 with a description of Exec Short Term Incent is illogical as executives participate in the same STI plan as the majority of other employees (represented employees, including those in Duke Energy Ohio, participate in the UEIP sub-plan per their union agreement).

Q. WHY ARE THE LONG-TERM INCENTIVE PROGRAMS (LTI) ONLY AVAILABLE TO HIGHLY COMPENSATED EMPLOYEES IN LEADERSHIP POSITIONS?

A. The LTI programs allow Duke Energy, including Duke Energy Ohio, to attract and retain high-performing leaders who can carry out our vision of leading the way to cleaner, smarter energy solutions that are valued by customers. It is very common for public companies (including utility operating companies) of Duke Energy's size and complexity to have similar programs. As with the short-term cash incentive portion of the compensation package, the LTI opportunities are a necessary component of a market-competitive total compensation for leadership positions. These components, in the aggregate, are targeted to deliver total compensation that is competitive with Duke Energy's peers and consistent with performance. If Duke Energy did not incorporate LTI as a part of the total compensation for these leadership positions, it would require higher base salaries in order to provide the same level of market-based total compensation. If an increase to base pay was not provided in place of the LTI component and the overall level of total compensation was reduced, Duke Energy would not be able to effectively attract or retain the experienced leaders necessary to direct the efforts of its employees and make the best strategic decisions on behalf of the Company.

Q. HOW DO THE PERFORMANCE SHARES AWARDED UNDER THE LTI BENEFIT CUSTOMERS?

A. The Performance Award portion of the LTI incorporates three performance metrics as shown below:

Performance Award Portion of Exec LTI	Weighting
Safety	25%
(TSR) Total Shareholder Return	25%
(EPS) Earnings Per Share	50%
Total	**100%**

These metrics are measured over a three-year period which focuses executives on long-term performance and enhances retention.

The EPS and TSR measures tie a substantial portion of compensation for executive employees to both internal and external measures of Duke Energy's long-term performance. This encourages eligible employees to reduce expense, operate efficiently, and conserve financial resources, which directly benefits customers by keeping rates low.

The safety goal is based on Total Incident Case Rate (TICR), which measures the number of occupational injuries and illnesses per 100 employees, including staff augmentation workers. Including injury performance as a metric demonstrates our commitment to protecting the employees that provide superior service to our customers every day.

Q. IS THE RESTRICTED STOCK UNIT (RSU) COMPONENT AWARDED UNDER THE LTI TIED IN ANY WAY TO THE FINANCIAL PERFORMANCE OF THE COMPANY?

A. No. Whether RSUs are awarded through the Executive Incentive Plan or the RSU Program, vesting of RSUs is solely tied to the participants' continued employment through vesting dates over a three-year vesting period and is not dependent upon the financial performance of Duke Energy.

Employees eligible for RSUs receive a fixed percentage of their base salary paid in the form of RSUs. Although other dollar magnitude of incentives paid to employees can vary with Duke Energy's financial performance, the number of RSUs that actually vest is fixed…whether Duke Energy has a good year financially or a bad year, the expense for RSU payments to eligible employees is unaffected. The primary incentive associated with RSUs is employee retention insofar as an employee must remain employed with Duke Energy for at least the next three years to receive the full amount of the RSUs he or she was awarded during a cycle. Excluding the cost of RSUs from the Company's revenue requirement would deprive it of the ability to recover the cost of incentivizing employees to remain with Duke Energy. The Company has a legitimate interest in attracting and retaining a skilled workforce as this directly benefits customers through the accumulation of experience and knowledge. The RSU program is one way to accomplish this objective at a reasonable cost. Staff's recommendation to exclude this necessary expense appears to arise from the fact that the retention bonus is paid in the form of stock and not as cash. If employees were simply paid a cash bonus for remaining with Duke Energy, it is unlikely that the RSUs would have ever become an issue in any rate case.

If this portion of the employee's total compensation were to be eliminated, eligible employee overall base compensation would fall below market competitive levels and Duke Energy, including Duke Energy Ohio, would not be able to retain talent. Duke Energy would be compelled to add the same value to employee base pay in order to maintain the same overall competitive level of total compensation necessary to attract and retain the individuals necessary to run the business.

Q. PLEASE EXPLAIN HOW AN RSU, AS A STOCK UNIT, IS NOT TIED TO THE OVERALL FINANCIAL PERFORMANCE OF THE COMPANY.

A. Assume an employee earns \$100,000 and that his compensation package includes a provision that he receives RSUs amounting to 30 percent of his base salary. The expense recorded on the Company's books for this RSU payment is \$30,000, which would be accrued over the duration of the vesting period. Although the RSU provided to the employee is in the form of stock that may appreciate or depreciate in value, the "expense" to the Company is and will always be \$30,000. Even though it is true that the financial performance of the Company may increase or decrease the value of that stock to the employee, once the RSU is given to the employee, the <u>only</u> expense to the Company is $30,000. Consequently, the Company is only asking that the Commission recognize that this RSU expense is independent of the Company's financial performance.

Q. WHAT IS YOUR RECOMMENDATION REGARDING STAFF'S ADJUSTMENT TO INCENTIVE COMPENSATION EXPENSE?

A. Based on my testimony above, the Company's recommendation is to reject Staff's adjustment to remove approximately $7 million of incentive expense from the Company's cost of service.

Q. PLEASE EXPLAIN THE COMPANY'S OBJECTION NUMBER 2(b).

A. Duke Energy Ohio objects to Staff's recommendation to adjust the Company's base distribution rate base to reflect the removal of approximately $2 million in capitalized incentive.

Q. PLEASE DESCRIBE STAFF'S RECOMMENDED ADJUSTMENTS RELATED TO THE COMPANY'S CAPITALIZED INCENTIVE COMPENSATION.

A. Staff's adjustment removes from the base distribution rate base the amount of incentive compensation attributable to the achievement of financial metrics that was capitalized from June 1, 2016, through the date certain.

Q. DID STAFF PROVIDE ANY BASIS OR SUPPORT FOR MAKING THIS ADJUSTMENT?

A. Yes. Staff bases its adjustment on part of the Stipulation in the previous electric rate case where the Company agreed to include a credit in the DCI Rider for the estimated revenue requirement impact of capitalizing the portion of employee incentive compensation related to financial metrics.

Q. PLEASE EXPLAIN WHY DUKE ENERGY OHIO OBJECTS TO THIS ADJUSTMENT.

A. For the same reasons the Company objects to the removal of any portion of incentive compensation expense from recovery applies to capitalized incentive compensation, the Company also objects to the removal of approximately $2 million in capitalized incentive. Staff's adjustment ignores the fact that the total amount of incentive pay is part of a <u>total</u> compensation package that is used to recruit and retain its workforce. As previously stated, incentive pay is similar to the other costs related to providing electric service. It is a necessary cost to provide customers safe and reliable service. If this portion of the employee's total compensation were to be eliminated, their overall base compensation would fall below market competitive levels and the Company would not be able to retain talent. The Company would be compelled to add the same value to its' employees' base pay in order to maintain the same overall competitive level of total compensation necessary to attract and retain the individuals necessary to run the business.

Q. WHAT IS YOUR RECOMMENDATION REGARDING STAFF'S ADJUSTMENT TO CAPITALIZED INCENTIVE COMPENSATION?

A. Based on my testimony above, the Company's recommendation is to reject Staff's adjustment to remove approximately $2 million of capitalized incentive from rate base.

Q. PLEASE EXPLAIN THE COMPANY'S OBJECTION NUMBER 11(c).

A. Duke Energy Ohio objects to Staff's recommendation to adjust the Company's test year expenses to reflect the removal of approximately $230 thousand in executive benefits.

Q. PLEASE EXPLAIN STAFF'S PROPOSED REDUCTION IN SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN (SERP) EXPENSE AND OTHER EXECUTIVE BENEFITS?

A. Staff's adjustment removes executive benefit expense that includes SERP expense as well as other benefits for executives.

Q. DID STAFF PROVIDE ANY EXPLANATION FOR EXCLUDING THESE COSTS?

A. No. Staff simply states that SERP expense is a form of nonqualified retirement plan that is only available to highly compensated executives in addition to their participation in normal, qualified pension and retirement plans.

Q. PLEASE EXPLAIN WHY THE COMMISSION SHOULD DISREGARD STAFF'S PROPOSED ELIMINATION OF SERP AND OTHER EXECUTIVE BENEFITS?

A. SERP and other executive benefits such as executive physicals and financial planning are standard programs offered to executive leadership that are part of a competitive total rewards package. SERP plans are offered to employees whose eligible pay exceeds the IRS tax code annual compensation limit and who would not otherwise be able to contribute the same proportional amounts to their tax-deferred retirement savings as other employees or, for employees participating in the retirement cash balance plan, receive the same cash balance pay credits. These non-qualified plans are offered to supplement the company's 401(k) plan and retirement cash balance plan by taking all eligible pay into consideration, including eligible employee earnings above annual IRS caps.

Q. WHAT IS YOUR RECOMMENDATION REGARDING STAFF'S ADJUSTMENT TO ELIMINATE SERP AND EXECUTIVE BENEFIT EXPENSE?

A. Based on my testimony above, the Company's recommendation is to reject Staff's adjustment to remove approximately $230 thousand of SERP and executive benefit expense.

III. CONCLUSION

Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?

A. Yes.