

**BEFORE THE**

**FLORIDA PUBLIC SERVICE COMMISSION**

**DOCKET NO. 20230023-GU**

**IN RE: PETITION FOR RATE INCREASE**

**BY PEOPLES GAS SYSTEM, INC.**

**PREPARED DIRECT TESTIMONY AND EXHIBIT**

**OF**

**DONNA L. BLUESTONE**

**FILED: 04/04/2023**

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**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

**PREPARED DIRECT TESTIMONY**

**OF**

**DONNA L. BLUESTONE**

**POSITION, QUALIFICATIONS, PURPOSE**

**Q.** Please state your name, address, occupation and employer.

**A.** My name is Donna L. Bluestone. My business address is 702 North Franklin Street, Tampa, Florida 33602. I am the Vice President of Human Resources, and I am employed by Peoples Gas System, Inc. (“Peoples” or the “company”).

**Q.** Please describe your duties and responsibilities in that position.

**A.** I am responsible for the leadership and strategic direction of the Human Resources (“HR”) functions for Peoples. My duties include (1) talent acquisition; (2) HR operations; and (3) leadership and organizational development. I am also responsible for coordinating the HR functions provided to Peoples by Tampa Electric Company (“Tampa Electric”) via shared services. These include HR technology, compensation, payroll, and benefits.

**Q**. Please provide a brief outline of your educational background and business experience.

**A.** I received a Bachelor of Science degree in Psychology from Longwood College in Farmville, Virginia and a Master of Business Administration from the University of Florida in Gainesville, Florida.

I joined Peoples in September 2022 as the Vice President of Human Resources. Prior to joining Peoples, I served as the Vice President of HR and Shared Services for Bloomin’ Brands, Inc., where I was responsible for talent acquisition, leadership development, and shared services. I also provided strategic HR support to the Executive Leadership team. My background includes other HR leadership roles with varying level of responsibilities.

**Q.** What are the purposes of your prepared direct testimony in this proceeding?

**A.** The purposes of my direct testimony are to: (1) explain the company’s team member compensation system; (2) show that the company’s proposed levels of operations and maintenance (“O&M”) expenses related to HR for the 2024 projected test year are reasonable and prudent; and (3) demonstrate that Peoples’ payroll and benefits costs for the 2024 projected test year are reasonable.

**Q.** Did you prepare any exhibits in support of your prepared direct testimony?

**A.** Yes. Exhibit No. DLB-1 entitled “Exhibit of Donna L. Bluestone” was prepared under my direction and supervision. The contents of my exhibit were derived from the business records of the company and are true and correct to the best of my information and belief. It consists of nine documents, as follows:

Document No. 1 List of Minimum Filing Requirement Schedules Sponsored or Co-Sponsored by Donna L. Bluestone.

Document No. 2 IBEW 108, IBEW 2072, UFCW, OPEIU Historical Base Wage Adjustment (2020-2022)

Document No. 3 Cost of Living and Cost of Labor Analysis

Document No. 4 Average Base Salary Compa-Ratio

Document No. 5 Salary Budget History 2019-2023

Document No. 6 Benefits Plan Summary (2023)

Document No. 7 Mercer BENVAL Study

Document No. 8 Mercer – Average Health Benefits Costs Per Employee for 2011 – 2021

Document No. 9 Mercer – National Survey of Employer-Sponsored Health Plans 2022

**HUMAN RESOURCES**

**Q.** Describe how the HR function has changed since 2020.

**A.** Until 2021, Peoples’ HR function was fully supported by Peoples’ affiliate, Tampa Electric. In 2021, Peoples began establishing its own HR team starting with the Business Partner function as its foundation. In 2022, Peoples continued to build the HR function and hired two HR operations team members, four talent acquisition team members and a manager who will focus on organizational development.

**Q.** Why did Peoples establish its own dedicated HR function?

**A.** Peoples established its own dedicated HR team to support the hiring and development of its team members to keep up with significant customer growth and because Peoples’ service areas extend across Florida and well beyond Tampa Electric’s service area. Unlike Tampa Electric, whose territory is limited to the Tampa Bay area, Peoples serves customers in 39 of Florida’s 67 counties. Having a dedicated HR team that understands the gas market within Peoples’ diverse service areas is important so the company can successfully attract the right candidates and strengthen the company’s internal pipeline of candidates. Peoples’ dedicated HR team also allows the company to better serve team members in ongoing HR matters.

**Q.** Do any HR functions remain shared with Tampa Electric?

**A.** Yes. A few HR functions remain shared with Tampa Electric due to the transactional nature of the service. These shared functions include: (1) HR Technology and Systems; (2) payroll; (3) benefits plan design and administration; and (4) compensation design. Peoples pays a shared services allocation to Tampa Electric for these functions. Company witness Rachel B. Parsons addresses this shared service allocation in her direct testimony.

**Q.** Please describe the value these dedicated HR functions deliver to Peoples’ team members and customers?

**A.** Peoples’ dedicated HR function benefits customers by recruiting team members with technical experience in the natural gas industry from design and engineering to construction and operational maintenance functions. These experienced team members help the company safely and reliably serve Peoples’ customers. Additionally, the company’s attention to team member development through the HR function mitigates turnover and employment transitions, resulting in engaged team members and increased customer satisfaction.

**Q.** What specific HR functions are dedicated to Peoples?

**A.** Peoples’ dedicated HR function provides support to the business in the areas of (1) talent acquisition; (2) HR operations; and (3) leadership and organizational development.

**Q.** What is the outlook for Peoples’ HR needs in 2023 and 2024?

**A.** Peoples will continue to strengthen its HR function in 2023 and 2024 with a focus on: (1) reviewing internal processes and systems to ensure they appropriately support the company’s growth; (2) assisting the company’s team members with career advancement goals; and (3) providing company leaders with tools to keep Peoples’ team members engaged. To achieve these goals, Peoples has budgeted three additional positions for 2023, which will increase the company’s existing HR headcount to twelve. For 2024, the HR team does not project adding any new positions.

**ABOUT PEOPLES**

**Q.** How many team members are employed by Peoples?

**A.** As of December 31, 2022,Peoples employed 708 team members.

**Q.** Does Peoples have team members that are members of a collective bargaining unit?

**A.** Yes. Approximately 13.1 percent, or 93 of Peoples’ team members are part of a collective bargaining unit. The company has Collective Bargaining Agreements (“CBAs”) with four unions: (1) International Brotherhood of Electrical Workers 108 (“IBEW”); (2) United Food and Commercial Workers International Union Local 1625 (“UFCW”); (3) International Brotherhood of Electrical Workers 2072 (“IBEW”); and (4) Office and Professional Employees International Union (“OPEIU”).

**Q.** What other team member categories does Peoples have beyond those described above in the collective bargaining units?

**A**. Peoples also has exempt, non-exempt, part-time and co-op student team members in addition to the company’s “covered” team members.

**Q.** What do “exempt” and “non-exempt” mean?

**A.** The terms “exempt” and “non-exempt” refer to a team member’s status under the Fair Labor Standards Act. Exempt team members are not subject to certain requirements of wage and hour laws, such as provisions governing when overtime must be paid. There are additional wage and hour laws that are applicable to non-exempt team members that the company must follow for such employees.

**Q.** How many company team members are non-exempt?

**A.** As of December 31, 2022, 329 of the company’s team members are non-covered, non-exempt, and are paid on an hourly basis.

**Q.** How many team members are exempt?

**A.** As of December 31, 2022, 286 of the company’s team members are professionals, supervisors, managers, department directors, and officers who are non-covered, exempt, and are paid on a salaried basis.

**Q.** Please describe the company’s commitment to its team members.

**A.** Peoples’ philosophy with respect to our team members is based on the understanding that team members drive the company’s value to customers and the communities we serve. It is essential for the company’s team members to be focused on meeting the needs of our current and future customers.

Peoples is committed to hiring and retaining skilled team members who: (1) are dedicated to collaboration and innovation; (2) can adapt to the company’s changing industry needs; and (3) embrace innovations that help the company safely deliver clean, affordable, and reliable energy. The company offers multiple programs to help retain skilled team members beyond the compensation and benefits package such as leadership development, tuition reimbursement, and flexible work options for certain positions. Additionally, apprentices are eligible to earn up to 30 credit hours of college credit towards an associate degree should they choose to do so.

**Q.** Does the company use surveys or other means to get feedback from its team members?

**A.** Yes. The company conducts a team member engagement survey every other year with a shorter “pulse” survey in the off years. Both surveys allow the company to get feedback from team members on many subjects, including satisfaction with leadership, compensation, benefits, retention, opportunities for growth, and communication. The company benchmarks these survey results both internally and externally. Additionally, the company uses town halls, roadshows, and leadership meetings to collect feedback from team members. These events are well attended and allow for open two-way communication.

**Q.** What feedback did the company receive in the most recent “pulse” survey?

**A.** The most recent pulse survey was conducted in October 2022 and had a participation rate of 84 percent. The results indicate that team members are engaged and highlighted categories where the company rated higher than other companies in the industry including: (1) communications; (2) teamwork and collaboration; and (3) career development. The results also showed compensation as an area for opportunity. The company scored lower in this area than other companies in the industry and as compared to the previous pulse survey results.

**Q.** What are Peoples’ core principles in the way the company conducts business?

**A.** Peoples’ core principles, as articulated in its Code of Conduct are:

1. Safety, health, and the environment;

2. Customers;

3. Integrity;

4. Respect and collaboration; and

5. Excellence.

**Q.** What leadership competencies does the company seek to develop in its team members?

**A.** The company defines seven leadership competencies that guide the behaviors of all team members and build upon Peoples’ Code of Conduct:

1. Speaks up on Safety, Health, and the Environment;

2. Takes Ownership and Acts with Integrity;

3. Drives Operational Excellence for Customers;

4. Builds Strong, Collaborative Relationships;

5. Develops People and Teams;

6. Cultivates Innovation and Embraces Change; and

7. Thinks Strategically and Exercises Sound Judgment.

**Q.** What are the objectives of Peoples’ total compensation and benefits programs?

**A.** Peoples believes that a fair and market-based compensation and benefits package is critical to attract and retain skilled and experienced team members. The company’s total compensation and benefits programs include: (1) base salary; (2) short-term incentive; (3) long-term incentive (where applicable); (4) pension/401k; (5) paid time off programs; (6) Employee Common Share Purchase Plan; and (7) medical, dental and vision insurance plans. Team members are eligible to participate in the company’s benefits programs. Certain co-op/student and part-time team members are the only exception for certain of the benefits programs. I will discuss Peoples’ compensation system in more detail later in my direct testimony.

**TALENT MARKET CHALLENGES**

**Q.** Describe changes in Florida’s labor market during 2021 and 2022, and how this impacted Peoples’ talent acquisition.

**A.** During 2021 and 2022, Florida’s labor market experienced a very low unemployment rate and an influx of high-wage talent moving into the state. This created a very challenging environment. Candidates were seeking higher wages and more flexible work arrangements which made it more difficult to attract qualified workers for roles within the company.

This competitive environment led Peoples to target talent outside the state of Florida and to selectively engage contractors to meet the company’s workforce needs. To encourage candidates to consider the company’s open positions, Peoples needed to provide competitive compensation and offer market-driven enticements, such as a flexible work environment and/or monetary relocation assistance, as appropriate. Additionally, the company engaged contractors to help maintain the safety and reliability of its system. Company witness Timothy O’Connor further describes Peoples’ need for contractors within Gas Operations in his direct testimony.

**Q.** Is the company experiencing any other challenge that impacts talent acquisition?

**A.** Yes. The company is currently focused on succession planning to ensure Peoples has the right people in the right roles long-term. Succession or resource planning is prudent for the company as almost 32 percent of Peoples’ team member population is eligible to retire. Thus, the company must proactively invest in replacing a significant number of skilled team members in the near future. This process will ensure the company does not experience a talent and industry knowledge gap and can continue to provide safe and reliable gas service to its customers.

**COMPENSATION**

**Q.** What is Peoples’ overall compensation philosophy?

**A.** The company understands that a competitive pay program is a critical component of a team member’s total compensation. To attract and retain skilled team members, the company must have a reasonable and competitive compensation program.

The company considers three factors to determine the appropriate compensation for positions and team members: (1) market evaluations; (2) base pay; and (3) total direct compensation (“TDC”).

**Q.** How are market evaluations conducted?

**A.** The company benchmarks positions against the national labor market using data from the U.S. Mercer Benchmark database and the Willis Tower Watson MMPS Survey. This data helps us determine the appropriate compensation range for the position.

Peoples, like many other companies, has two pay scales, one for all positions except engineering roles and a separate pay scale for all engineering positions. Having a separate range of salaries for positions that require a higher pay range allows Peoples to compete in the market.

**Q.** What is base compensation?

**A.** Base compensation (or base pay) is the pay team members regularly receive bi-weekly and is either paid as hourly wages or salary. Base compensation is used in determining a compensation ratio (“compa-ratio”).

**Q.** What is compa-ratio?

**A.** Compa-ratio is a measurement of pay that compares a team member’s base compensation to the median compensation for similar positions within the target market. For example, a compa-ratio of 100 percent or 1.0 would mean that a team member’s base compensation was considered “at market" because it is the midpoint.

**Q.** What is total direct compensation or TDC?

**A.** Total direct compensation is the relationship between the market and the total compensation package: (1) base pay (which includes base pay plus commissions); (2) short-term incentive plan (“STIP”); and (3) long-term incentive plan (“LTIP”), where applicable.

**Q.** Please describe Peoples’ general system for compensating its team members?

**A.** Peoples compensates its team members with a combination of direct compensation (base pay), and short-term and long-term incentives. In addition, the company’s benefits include different types of health insurance plans and retirement. I will explain each of these compensation and benefits components later in my direct testimony.

Team members, whether hourly or salaried, are eligible to participate in the company’s STIP. Certain co-op/student and part-time team members are the only exception. Department directors and officers, in general, are also eligible to participate in Peoples LTIP.

The company’s compensation system uses a pay for performance model to align Peoples’ team members’ behavior with the company’s strategy and to generate better performance, which benefits Peoples’ team members and customers. The company keeps its compensation packages competitive by making an appropriate portion of a team member’s total compensation “variable” or “at risk” through incentive compensation programs that incentivize good performance. Peoples’ incentive compensation programs encourage the company’s team members to focus on Safety, People, Customer Experience, Asset Management, and Financial targets.

**Q.** Did the company recently shift to using national market data as a way of evaluating its compensation?

**A.** Yes. In 2019, Peoples conducted a comprehensive compensation study to refresh the company’s compensation structure and ensure the company was competitive. In 2021, prompted by the study results, Peoples moved to using national, rather than southeastern market data to evaluate the company’s compensation levels. By aligning with the national market, the company is better able to provide a fair, balanced and competitive compensation structure to support effective hiring and retention efforts, which benefits Peoples’ customers.

When Peoples moved to the national market in 2021, the company’s compa-ratio for team members significantly dropped. The company targeted a compa-ratio of 0.90 for offering employment for new team members. As the labor market became more challenging and recruitment and hiring more difficult, the company decided it needed to target closer to 0.95 and 1.0 for compa-ratio to compete for talent.

**Q.** Do non-covered team members automatically get a base pay increase each year?

**A.** No. Non-covered team members are eligible for an annual merit increase based on the company’s talent management process which reviews team member performance annually.

**Q.** Are covered team members eligible for merit increases?

**A.** No. Team members covered by a CBA do not participate in the company’s annual merit process. The company negotiates with each union during each contract cycle, and an annual base wage adjustment is normally included in the final overall agreement. Document No. 2 of my exhibit summarizes the base wage adjustments for each union during the period 2020 to 2022 along with the agreed upon increases through 2024.

**Q.** Please explain Peoples’ process for making merit pay increases.

**A.** The company uses an annual merit review process. This process is designed to provide team members an opportunity to earn an increase in their base pay that recognizes performance. This merit process is closely tied to the talent management process which includes an annual team member performance review. Each team member has a performance coach who is typically his or her supervisor. The performance coach provides day to day management and oversees the performance review process.

A team member’s overall annual performance rating directly influences the percentage of their merit increase. Following the year-end performance review, a team member’s performance coach recommends an appropriate merit adjustment for each non-covered team member based on the performance rating, TDC and defined budget. These recommendations are approved by each area or department leadership and final approval by the executive team.

**Q.** How is the compensation set for those team members that participate in these collective bargaining units?

**A.** Compensation for team members who are covered under a CBA is determined by the terms of the contract between the company and the labor union, which governs the working conditions. Specifically, the CBA addresses wage scales, working hours, training, health and safety, overtime, grievance mechanisms, and rights to participate in workplace or company affairs. Most of the company’s “covered” team members are non-exempt, are paid by the hour, and are eligible for overtime or shift differential pay. The same market and benchmark comparable data is used during the collective bargaining process to ensure alignment on reasonable demands.

**Q.** What is the annual performance review process?

**A.** The annual performance review process involves the evaluation of a team member’s performance against established goals by the performance coach. At the outset of each year, team members establish goals with their performance coach. The team member’s designated goals are aligned with the company’s annual objectives set forth within Peoples Balanced Scorecard (“BSC”). I will explain the BSC later in my direct testimony.

The company evaluates a team member’s performance against established goals at least twice a year, once at mid-year and again at the end of the year. Team members and performance coaches also discuss leadership competencies during the annual review process. A team member’s overall performance review is rated on a five-point scale: Significantly Exceeds Expectations = 5; Exceeds Many Expectations = 4; Fully Meets Expectations = 3; Meets Most Expectations = 2; and Does Not Meet Expectations = 1.

**Q.** Please describe the company’s short-term incentive plan, or STIP.

**A.** The company’s STIP is a variable compensation system based on annual performance and is in addition to base pay. It is an annual payment that is directly tied to organizational and individual performance. The objectives for STIP are in the areas of Safety, People, Customer, Asset Management, and Financial and are tied to the BSC. The STIP payment is calculated using four components:

1. Eligible Earnings (base pay, sales commission, and overtime, if applicable).

2. Incentive Target Level (a pre-defined percentage based on the job level and is standardized across the organization).

3. Balanced Scorecard Result Percentage Achieved (annual goals achieved for the organization).

4. Performance Multiplier (calculation to differentiate each eligible team member’s level of performance).

The STIP links the company’s success to financial incentives for Peoples' team members for achieving the company’s annual goals and objectives. Team members who score higher on the annual performance review are entitled to a higher STIP as a percentage of base pay.

**Q.** How is the STIP applied to team members?

**A.** All eligible team members receive STIP payment based on company performance - the BSC and their individual performance multiplier. Team members that have underperformed and received positive discipline (the name of the company’s discipline process) and/or a performance rating of “1 - Does Not Meet Expectations” are not eligible to receive a STIP payment.

**Q.** Please describe the Balanced Scorecard, or BSC.

**A.** The company develops its BSC annually to define the organization’s goals. The BSC includes threshold, target, and stretch goals across the five previously identified categories: Safety, People, Customer, Asset Management, and Financial Goals. The company compensates team members based on how the company performs against the BSC goals, with a range of payouts from 50 percent to 150 percent depending on the achieved results. The BSC is a key component of the STIP, linking the company’s success to financial incentives for the team members who achieve or exceed their annual goals.

**Q.** Please describe the company’s long-term incentive plan, or LTIP.

**A.** The company’s LTIP is a compensation and retention program for team members in key leadership positions.

The LTIP encourages team members to focus on long-term value for customers, and aligns the long-term incentive pay for senior leaders with corporate and shareholder goals. This kind of compensation is commonly offered by companies who compete for leadership talent. The company’s LTIP is an important part of Peoples competitive total compensation program for vice-presidents, directors and certain grandfathered team members. Together with base pay and STIP, the company’s LTIP allows Peoples to attract and retain skilled leaders.

LTIP is administered through the Emera Performance Share Unit (“PSU”) Plan. A PSU refers to a grant of a performance share unit which has a value tied to the value of Emera Inc.’s common stock. Each grant has a vesting performance period of three calendar years. Each year, eligible team members are awarded PSUs based on a percentage of base pay (predetermined by position level). The annual vested PSU payout is affected by the Emera share price and achievement of pre-determined financial objectives. The LTIP aligns leaders’ long-term incentive pay with Emera’s corporate goals.

**Q.** What is Peoples’ “target” for Total Direct Compensation, or TDC?

**A.** The company structures its compensation program to be aligned with the median (middle) of the market and assesses its compensation programs against the market. Using the market median is a compensation best practice and is better than using the mean or average because the median is less sensitive to outliers in the market data. Targeting the median balances the company’s desire to hire and retain quality team members and to maintain reasonable customer rates.

The company’s compensation ranges allow us to set a team member’s salary within the applicable range based on the team member’s mastery of their role, critical skills, and performance.

**Q**. What market challenges have impacted total direct compensation since the company’s last general base rate proceeding?

**A.** As discussed earlier in my direct testimony, market challenges during 2021 and 2022 required the company to hire at a higher rate of compensation in order to be competitive.

Since 2020, compensation across the state of Florida has increased due to low unemployment, inflation, and increased demand for talent in the Florida market. In January 2022, the company conducted a cost of living and cost of labor analysis which showed that the cost of living in the state of Florida was higher than the national cost of living. This study is reflected in Document No. 3 of my exhibit.

This study prompted Peoples to evaluate team members compensation and the company found that many team members were low in the range, at a compa-ratio of 0.80. Peoples increased wages, where appropriate, to be competitive and move compensation closer to the median TDC of 1.0. Additionally, the study showed a significant cost of living and cost of labor increases in the Miami, Ft. Myers, Jupiter, and Ft. Lauderdale areas. Thus, the company decided to add a premium to wages in these markets to stay competitive and reduce attrition.

**Q.** Describe the tools the company uses to align TDC with the market.

**A.** To align TDC with the market, the company first benchmarks positions against the labor market using data from the U.S. Mercer Benchmark database and the Willis Tower Watson MMPS Survey. This determines the appropriate compensation range for specific positions. TDC, as previously explained, comprises base salary (or base pay), STIP, and LTIP. All three elements are important to ensure the company’s team members receive competitive compensation and that the company attracts and retains talented people. Peoples then calculates the TDC and measure it against the market to determine where the team members’ compensation falls. This is a standard HR practice that looks at the placement of an individual’s salary within a defined compensation range.

**Q.** How does Peoples’ compa-ratio compare to the market?

**A.** The company’s team members were at an average 0.97 compa-ratio in January 2023.

**Q**. What evidence do you have to support this statement?

**A.** Document No. 4 of my exhibit shows the company’s average base salary compa-ratio since 2021 for both engineering and non-engineering team members. The compa-ratio for non-engineering team members dropped in 2022 to 0.92 from a 1.05 compa-ratio in 2021 as the company transitioned to the national market compensation analysis. In 2022, the company made compensation adjustments to assist with moving the compa-ratio for non-engineering roles closer to the 1.0 compa-ratio.

**Q.** Do you have any analyses showing how Peoples’ salary levels compare to the market over time?

**A.** Yes. Document No. 5 of my exhibit shows the company’s average salary increases compared to the market since 2019. This document shows that Peoples’ budgeted salary increases are aligned with market data from 2019 to 2021. Peoples’ budgeted increases for 2022 and 2023 are a percent higher than the market salary data. This reflects the company’s need to adjust current team members’ compa-ratios to retain skilled talent following the 2021 shift to national market data. The company decided to make this adjustment over a two-year period.

**Q.** Are the company’s compensation systems and levels for 2024 reasonable?

**A.** Yes. The company benchmarks its total compensation against applicable markets using relevant and competitive benchmarks for compensation.

**HEALTH AND WELFARE BENEFITS**

**Q.** Please describe the company’s health and welfare benefits package.

**A.** As described above, Peoples benefits are administered as a shared service through Tampa Electric. The benefit plans are held at the parent company (TECO Energy, Inc.) level. For the purposes of this direct testimony regarding benefits, references to the “company” include this structure.The company’s benefits package is designed to maintain a competitive position within the market to attract and retain competent and qualified team members. These comprehensive benefits include consumer driven health plans, pharmacy plans, team member family assistance plans, dental and vision plans, flexible benefits plans (Healthcare FSA, Dependent Care FSA and Transportation and Parking FSA), life insurance (basic, supplemental, spousal and child), disability insurance (short-term and long-term), long-term care insurance, and group retirement plans. Document No. 6 of my exhibit includes a more detailed description of these plans.

**Q.** How does Peoples manage the design and cost of its benefit programs?

**A.** Peoples uses the Mercer Benefits Valuation Analysis (BENVAL) study. The BENVAL study is a nationally recognized and accepted actuarial tool that compares the relative value of a company’s overall benefit plan and its various components with other companies’ plans contained within the Benefits Data Source – United States database. The most recent group used for the comparison included 25 utility companies in addition to Peoples.

BEBVAL uses consistent actuarial methods applied to a fixed population to determine a relative value index for each plan component. As a result, the differences in value among employer plans are exclusively a function of differences in the plan provisions.

The BENVAL study includes a relative value index score for each company’s benefit plan components. The index score is calculated by analyzing and determining the value of each company’s benefit plan component and then dividing each company’s value by the average benefit plan value for each component among all the companies in the benchmark group. A relative index of 100 represents an average company value.

The company’s BENVAL index score for each benefit plan component is shown in Document No. 7 of my exhibit. The company’s index score is slightly above the market for retirement, medical, dental, and short-term and long-term disability. These components of the company’s benefit plan allow it to be competitive in the marketplace and attract skilled team members.

**HEALTHCARE BENEFITS**

**Q.** How does the company evaluate the design and cost of its health care programs?

**A.** The company operates its health plans with appropriate due diligence. The company retained Mercer Health Benefits, who uses underwriting techniques, based on actuarial guidelines, to project future plan costs for the self-funded plans. The key factor in projecting future results is the prior experience of the group. The process of forecasting past claims experience into the future considers plan designs, member demographics, trends and group credibility. These processes are widely accepted within the insurance market as the standard to establishing budget and premium levels that are appropriate to cover future risks.

**Q.** Whatfactors are influencing healthcare costs in the United States?

**A.** The main factors influencing medical costs in the U.S. are inflation, increased use of services (primarily due to population aging and the overall deterioration of the health of U.S. citizens), and advances in technology/treatment protocols causing a rise in the frequency and cost level of high costs claimants. The cost drivers for prescription drugs are similar, with specialty drugs representing a disproportionally higher percentage of the cost increase than non-specialty drugs.

**Q.** How does the company’s healthcare plan compare to industry standards?

**A.** Document No. 8 of my exhibit, entitled “Mercer – Average Annual Health Benefit Cost Per Employee 2011-2021” demonstrates that Peoples’ costs during this period are lower than industry experience, except in 2018 and 2021. During 2018 and 2021, the company’s costs were slightly higher, 0.3 percent and 0.5 percent, respectively. These increases were due to more claims and more high-cost claims in comparison to the other years.

Peoples’ healthcare plan is similar to the company’s peer group in that both medical plans are consumer driven plans and require that a deductible be met before the plan begins to payout.

Overall, the company’s healthcare plan is aligned with the median based on this most recent BENVAL from Mercer.

**Q.** What specific actions has Peoples taken to ensure its healthcare costs are reasonable?

**A.** The company**,** in partnership with industry experts such as Mercer, Blue Cross Blue Shield (“BCBS”) and others, has implemented the below initiatives to ensure its healthcare cost are reasonable.

1. A customized, comprehensive, best-in-market clinical care management program;

2. Directing members to efficient, in-network, high quality doctors and hospitals;

3. Improved member engagement via industry leading techniques, member-centric concierge services and clinical oversight;

4. Purchased stop-loss coverage through a coalition which includes: (a) the opportunity to participate in profit-sharing agreements; (b) multi-year rate cap and no new laser provision; (c) enhanced policy agreements; (d) pricing discounts; (e) cost control and avoidance through complex case clinical oversight;

5. Implemented wellness initiatives; and

6. Implemented a pharmacy program that includes utilization oversight.

**Q.** How does Peoples’ gross healthcare costs per team member for 2021 and 2022 compare to the average national healthcare costs for those years?

**A.** For 2021 and 2022, Peoples’ healthcare cost was $14,312 and $10,663 per team member, respectfully. As shown in Document No. 9 of my exhibit, the average national healthcare cost per team member for 2021 was $16,506, and for 2022 was $17,107.

**PENSION AND RETIREMENT SAVINGS BENEFITS**

**Q.** Please describe the pension and retirement savings plans offered by the company.

**A.** Peoples is a participating employer in the following retirement plans:

1. TECO Energy Group Retirement Plan (a qualified defined benefit pension plan);

2. TECO Energy Group Retirement Savings Plan (a qualified defined contribution 401(k) plan);

3. TECO Energy Group Benefit Restoration Plan (a non-qualified defined benefit pension plan for applicable employees); and

4. TECO Energy Group Postretirement Health and Welfare Plan (a retiree medical plan).

**Q.** How does the company evaluate these plans for reasonableness?

**A.** The company uses an independent consultant, Mercer, to provide actuarial assumptions and methods used for the pension valuation. These are reasonable both individually and in aggregate.

**Q.** Is it common to use an independent actuarial firm to compute pension and post-retirement benefit costs?

**A.** Yes. Based on the benefits provided and team member demographics, an actuary for a defined benefit plan estimates the value of employer obligations. The calculation of liabilities considered several complex variables including expected future compensation increases, asset returns, rates of retirement, disability, death, and other reasons for termination. Actuaries use historical data and future expectations to make assumptions for these variables. Actuaries for defined benefit plans also ensure the employer is following laws and regulations regarding pension plans. This includes the timely certification of minimum contributions and the funded status under the Employee Retirement Income Security Act of 1974 (“ERISA”). As there are extensive variables and regulations to consider, it is common and often necessary for companies to engage actuarial firms to compute pension and post-retirement benefit costs.

**Q.** Do the actuarial assumptions and methods provide a reasonable basis for determining the level of pension costs to be included in the company’s operating cost?

**A.** Yes, the actuarial assumptions used for the pension valuation are reasonable both individually and in the aggregate. The actuarial assumptions and methods are reasonable and consistent with Financial Accounting Standards Board standards and industry practice and provide a reasonable basis for determining the level of pension cost included in Peoples cost of service studies. The company’s pension costs are reflected in FERC Account 926 on MFR Schedule G-2, page 18.

**Q.** How does the company’s pension plan and retirement savings plan compare to industry standards?

**A.** The BENVAL study, Document No. 7 of my exhibit, shows Peoples’ retirement savings plansand pension plans are above the median plan compared to the company’s peer group, which includes a total of 25 utilities. This position is a result of providing higher total employer contributions through both the Defined Contribution and Defined Benefit plans. Only 11 of the 25 utilities provide an active Defined Benefit Plan (including Peoples).

Together the company’s total employer contribution of about 14 percent (Defined Contribution and Defined Benefit combined) is higher when compared to the peer group median of about 9 percent and the general market at 7 percent. Peoples believes these contribution levels are reasonable to maintain its status as a competitive employer and support long-term development of team members.

**2024 PROJECTED TEST YEAR PAYROLL COSTS**

**Q.** HasPeoples’ added team members since 2020?

**A.** Yes. Peoples has added 85 team members since December 2020, with 84 team members joining the company in 2022. The majority of the additional headcount went to support the company’s system and customer growth, with 23 new team members joining the Engineering, Construction and Technology (“Engineering”) team and 32 joining Gas Operations, Sustainability and External Affairs (“Operations”) team.

**Q.** How did the company project its human resource needs in 2023 and 2024?

**A.** Peoples determined the need for additional human resources by evaluating factors including customer growth, expansion of the company’s distribution system, introduction of new technologies, changing expectations of Peoples customers and skills needed for the company’s business requirements and practices.

**Q.** What is Peoples’ projected headcount for 2023 and 2024?

**A.** The company projects to add 90 team members in 2023, and approximately 64 team members in 2024. The projected O&M expense impact from adding team members in 2022 and 2023 is shown on MFR Schedule G-2, pages 19c – 19e.

The total headcount numbers provided above incorporate a budgeted 5.0 percent vacancy allowance for Field Operations and Pipeline Safety and Operations Support. Including the overall budgeted vacancy allowances for Operations and Pipeline Safety and Operations Support, the net headcount is expected to be 777 and 840 at the end of 2023 and 2024, respectively.

**Q.** Why are the number of team members increasing in 2023 and 2024?

**A.** The increase is a result of the company strengthening its workforce to operate the company’s growing system safely and reliably. The majority of new team members will be joining Operations or Engineering. For calendar year 2023, Operations projects to add 38 new team members and in 2024, 33 additions are expected. Many of these additions will start as apprentices and be trained with the required skills to operate the company’s system. The Engineering team projects to add 25 new team members in 2023 and 8 in 2024. The company also anticipates hiring 6 additional team members in Pipeline Safety and Operations Support across both 2023 and 2024.

**Q.** Is the company projecting to reduce its use of outside services in 2024?

**A.** Yes. Some of the anticipated additional hires in Gas Operations are planned to replace the use of external contractors (outside services). For 2024, the company anticipates a decrease in the company’s use of outside services/contractors as described by company witness O’Connor in his direct testimony.

**Q.** Is the company increasing its number of team members in 2023 and 2024 for other reasons?

**A.** Yes. The increase in the number of team members employed by Peoples is driven by the work requirements. Additionally, as discussed above, the company recently had to rely on contractors due to hiring challenges. Thus, the increase in team members reflects the company’s efforts to rebalance Peoples’ headcount and reduce contractor reliance.

The company wants to ensure it has the right resources, with the right skills, in the right positions to ensure the company provides safe, reliable affordable natural gas service. Company witnesses Christian C. Richard and O’Connor discuss the need for hiring skilled team members in their direct testimony.

**Q.** What actions has Peoples taken since its last general base rate proceeding in 2020 to manage team member headcount?

**A.** Staffing levels and headcount budgets are one area of constant scrutiny given the significant contribution of payroll and benefits to the company’s overall costs. As noted by company witness Helen j. Wesley in her direct testimony, Peoples monitors team member Headcount and contractor usage but focuses on and manages its overall O&M expense levels to efficiently provide safe and reliable service to its customers.

With this in mind, department leaders must justify the need for a new position or to fill a vacancy when one occurs. To ensure the company’s continued focus on managing staffing levels, officer approval is required for headcount replacements or additions.

As previously discussed, since the last general base rate proceeding, the company has relied on contract labor for some tasks that Peoples would prefer to handle using the company’s own team members. This shift to contract labor was mostly because of the labor market and the company’s inability to hire and train team members fast enough to keep up with the increase in work. Peoples’ strategy for 2023 and 2024 is to transition contract work to company team members to reduce expenses as described by company witness O’Connor.

**Q.** What is the projected gross average total compensation per active team member for 2024 as compared to 2020?

**A.** Peoples’ 2024 budgeted gross average total compensation per active team member is $99,153 as compared to $84,723 in 2020. This represents a compound average growth rate (“CAGR”) of 4.0 percent since 2020. These increases are reasonable based on the market comparisons previously described in my direct testimony.

**Q.** What is the projected gross average compensation, benefits, and payroll tax cost per team member for 2024 as compared to 2020?

**A.** The projected gross average compensation, benefits, and payroll tax cost per team member for 2024 is $125,948 as compared to $109,965 in 2020. This represents a CAGR of 3.5 percent since 2020. This increase is related to the labor market challenges and the company’s shift to the national market as a way of measuring compensation, as discussed earlier in my direct testimony. These increases are reasonable based on the market comparisons previously described in my direct testimony.

**Q.** What level of merit increases is the company projecting for 2023 and 2024?

**A.** As shown on MFR Schedule G-2, pages 12-19, the company has budgeted 5.0 percent for merit increases for 2023 and 2024.

**Q.** What is the amount of O&M expenses for FERC Account 920: Administrative & General Salaries for 2024 and how does it compare to the 2022 historic base year?

**A.** The total O&M expenses for FERC Account 920 for 2024 is $22.7 million, which is $5.6 million higher than 2022. Approximately $1.1 million of this increase is administrative salaries that were budgeted on a trended basis using the 5.0 percent merit increase. About $3.2 million of this increase is not trended labor cost consisting of headcount additions for 2023 and 2024, as shown on MFR Schedule G-2, page 19e. This not trended labor cost is addressed by witnesses O’Connor, Rutkin, Parsons, and Richard. The remaining portion, or $1.4 million, of the increase is related to STIP.

**Q.** What is the company’s projected STIP cost for 2024 and how does that amount compare to the 2022 historic base year?

**A.** Peoples projected STIP costs for 2024 is $8.1 million, which is shown as a not trended item on MFR Schedule G-2, page 19b. This increase of $1.4 million is due to the projected increase of headcount in 2023 and 2024.

**Q.** What is the company’s projected LTIP cost for the 2024 projected test year as compared to the 2022 historic base year?

**A.** The company’s projected LTIP expenses for the 2024 projected test year is approximately $2.3 million. This compares to the 2022 historical base of $1.5 million. This represents a 56 percent increase in expense. This increase is caused by added positions at the director level and above that are eligible for LTIP.

**Q.** Are the2024projected amounts for LTIP and STIP reasonable?

**A**. Yes. Based on the projected increase in headcount these amounts are reasonable.

**Q.** Is the 2024 projected amount of base compensation reasonable?

**A.** Yes. As previously indicated, company’s team members were at an average 0.97 compa-ratio in January 2023, which implies that the company is paying just below the market median. The company increased the base compensation by a reasonable 5 percent. Thus the 2024 projected amount of base compensation for 2024 is reasonable.

**Q.** What level of payroll cost increases for covered team members were included in projected payroll costs for 2024?

**A.** The company used the negotiated increases included in the current CBA to calculate payroll increases for covered team members. These negotiated increases are reflected in Document No. 2 of my exhibit.

**Q.** What is the company’s gross benefits cost for the 2024 projected test year as compared to 2022?

**A.** Peoples’ total gross benefits cost for 2024 is projected to be approximately $20.1 million, as compared to approximately $16.7 million in 2022. The $3.4 million increase is primarily due to projected headcount additions. Peoples’ overall ability to control benefit costs has contributed to total Administrative & General costs in the 2022 historic base year falling below the benchmark, as outlined in MFR Schedule C-34: O&M Benchmark Comparison by Function.

**Q.** How do the gross benefits costs compare with the amounts the company has included in O&M FERC Account 926 Pension and Benefits?

**A.** Peoples’ pension and benefits costs in O&M FERC Account 926 are projected to be approximately $12.3 million in 2024 as compared to $10.2 million in 2022. A portion of benefits costs are capitalized with labor or are clause recoverable; therefore, the amount in FERC Account 926 is lower than the gross benefits costs.

**Q.** What is the company’s projected healthcare cost for the 2024 projected test year?

**A.** The company’s projected 2024 budgeted healthcare costs is $11.3 million.

**Q.** What is the appropriate amount of pensions and post-retirement benefits expense to include in the 2024 projected test year?

**A.** The total retirement expense for pension in the 2024 projected test year is approximately $700,000. The post-retirement benefits in the 2024 projected test year is approximately $900,000. These projected expenses are included within the “Other Not Trended” portion of FERC Account 926 on MFR Schedule G-2, page 18.

**Q.** What is the appropriate amount of salaries and benefits to include in base rate O&M expense for the 2024 projected test year?

**A.** Peoples’ projected total compensation and benefits for the 2024 projected test year (including total payroll on page 19a, FERC Account 926 on 18a and STIP on page 19b) is $77.2 million as shown on MFR Schedule G-2, pages 18a – 19b.

**Q**. Are the company’s total compensation and benefits costs for 2024 reasonable?

**A.** Yes. As noted above, the company benchmarks its total compensation and benefits against applicable markets using relevant utility benchmarks for both compensation and benefits and those costs come in at the median of the market. The company also has salaries that are at the median of the market and in support of Peoples compensation philosophy that attracts, retains, develops and incentivizes talent. In addition, Peoples monitors its pay practices to ensure they conform with policy guidelines.

**SUMMARY**

**Q.** Please summarize your prepared direct testimony.

**A.** Peoples’ total compensation package is reasonable and benefits customers by ensuring the company attracts and retains skilled, talented, and customer-focused team members that can safely and reliably serve the company’s customers. Peoples’ pay program is structured to be at the market median and is based on total direct compensation. The company’s O&M expenses related to Human Resources in the company’s 2024 projected test year are reasonable and prudent. Additionally, the company’s benefits and retirement programs are reasonable and competitive and allow the company to retain and attract high quality team members who are committed to safely and reliably serving Peoples’ customers.

**Q.** Does this conclude your prepared direct testimony?

**A.** Yes.

# EXHIBIT

**OF**

**DONNA L. BLUESTONE**

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