

BEFORE THE  
NEW YORK STATE  
PUBLIC SERVICE COMMISSION

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Proceeding on Motion of the Commission as to the  
Rates, Charges, Rules and Regulations of  
National Fuel Gas Distribution Corporation  
For Gas Service

Case 23-G-\_\_\_\_\_

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**DIRECT TESTIMONY OF  
HUMAN RESOURCES PANEL**

**Marissa A. Garrison  
Valerie L. Hawthorn Wagner  
Scott J. Payne  
Michael P. Weidner**

October 31, 2023

**DIRECT TESTIMONY OF HUMAN RESOURCES PANEL**

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**DIRECT TESTIMONY OF HUMAN RESOURCES PANEL**

**I. INTRODUCTION**

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**Q. Please introduce the members of the Human Resources Panel (the “Panel”).**

A. We are Marissa A. Garrison, Valerie L. Hawthorn Wagner, Scott J. Payne and Michael P. Weidner. We are employed by National Fuel Gas Distribution Corporation (“NFGDC”). We are providing testimony on behalf of NFGDC’s New York Division (“National Fuel” or the “Company”). Our business address is 6363 Main Street, Williamsville, New York 14221.

**Q. Ms. Garrison, please state your title.**

A. I am a Manager in NFGDC’s Human Resources department.

**Q. Please summarize your educational background and work experience.**

A. I received a Bachelor of Business Administration degree with a Human Resources Concentration from Niagara University in 2006. I have maintained a Professional in Human Resources certification since 2010. In June of 2006, I joined Synacor (a start-up technology company in Buffalo, New York) as a Human Resources Generalist/Analyst focused on Benefits and Compensation. In November of 2009, I began my employment with NFGDC as a Human Resources Coordinator in the Human Resources department. Over the last 13 years, I have focused primarily on total rewards programs. In my current capacity as Manager I am overseeing our benefits programs, compensation administration, and workers’ compensation/leave of absence administration. In addition, I am on the labor negotiations team as the benefits/compensation resource.

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1 **Q. Have you previously testified in other proceedings before the New York**  
2 **Public Service Commission (“PSC” or the “Commission”) or any other state**  
3 **or federal agency?**

4 A. No.

5 **Q. Ms. Hawthorn Wagner, please state your title.**

6 A. I am the General Manager of Human Resources.

7 **Q. Please summarize your educational background and work experience.**

8 A. I possess a BS degree in Business Administration and an MBA, both from the  
9 State University of New York at Buffalo. I began my employment with NFGDC  
10 in January 2005, as an Intern in the Human Resources department. Upon  
11 completion of this internship, I joined the Human Resources department as an HR  
12 Specialist in July 2005, focusing on recruitment and employment. Over the last  
13 17 years, I have assumed roles of increasing responsibility in the Human  
14 Resources department, including becoming the Manager of Employment in 2013.  
15 Since February 2022, I have held the role of General Manager of Human  
16 Resources. In my current capacity, I am responsible for the employment, benefits  
17 and payroll functions for active employees and retirees of NFGDC and its  
18 affiliates.

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1 **Q. Have you previously testified in other proceedings before the Commission or**  
2 **any other state or federal agency?**

3 A. Yes, I provided testimony before the PSC on behalf of the Company in Case 16-  
4 G-0257 (“2016 Rate Case”) and before the Pennsylvania Public Utility  
5 Commission (“PAPUC”) in Docket No. R-2022-3035730.

6 **Q. Mr. Payne, please state your title.**

7 A. I am a Senior Manager in NFGDC’s Human Resources department.

8 **Q. Please summarize your educational background and work experience.**

9 A. I graduated from Canisius College in 2005 with a Bachelor of Business  
10 Administration degree, concentrating in Accounting and Accounting Information  
11 Systems. In September 2005, I joined Dopkins & Company, LLP, as a Staff  
12 Accountant and was promoted to Senior Accountant in 2008. In June 2009, I  
13 joined AirSep Corporation as a Senior Accountant. I began my employment with  
14 NFGDC in April 2014 as a General Accountant I in the Financial Accounting  
15 department. I worked in that department for over seven years and was promoted  
16 twice, with my most recent promotion to Manager in February of 2021. In  
17 October of 2021 I transferred to the Human Resources department as a Senior  
18 Manager. I have been a Certified Public Accountant since 2007. My main  
19 responsibilities at NFGDC currently include the Tax Deferred Savings Plan  
20 (401(k) Plan), Retirement Plan, executive compensation, department budgeting  
21 and accounting, various internal/external audit support and annual proxy  
22 statement work.

**DIRECT TESTIMONY OF HUMAN RESOURCES PANEL**

1 **Q. Have you previously testified in other proceedings before the Commission**  
2 **any other state or federal agency?**

3 A. No.

4 **Q. Mr. Weidner, please state your title.**

5 A. I am an Assistant General Manager within NFGDC's Human Resources  
6 department.

7 **Q. Please summarize your educational background and work experience.**

8 A. I graduated from St. Bonaventure University in May 1998 with a Bachelor of  
9 Business Administration degree, concentrating in Accounting and Finance, and an  
10 MBA. In September 1998, I joined Ernst & Young, LLP, as a Staff Accountant.  
11 I was promoted to Senior Accountant in 2000. I have been a Certified Public  
12 Accountant since December 1999. I began my employment with NFGDC in  
13 October 2000 in the Audit Services department. In July 2005, I transferred to the  
14 Financial Accounting department where I became Manager in September 2013.  
15 In February 2018, I was promoted to my current position.

16 **Q. Have you previously testified in other proceedings before the Commission or**  
17 **any other state or federal agency?**

18 A. Yes, I testified before the PSC in the 2016 Rate Case. I also testified before the  
19 PAPUC in Docket Nos. R-2021-3027406, C-2021-3028654, R-2022-3035730.  
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**II. PURPOSE OF TESTIMONY**

**Q. Please describe the purpose of the Panel’s testimony.**

A. The Panel’s testimony discusses National Fuel’s workforce composition, including planned additions to its employee complement, as well as the significant challenges related to retention and staffing faced by the Company. The testimony also addresses employee total rewards, which includes compensation and benefits packages and the critical need to offer competitive total rewards both to retain qualified employees and attract new employees to ensure the safe and reliable operation of the Company’s gas delivery system. The Panel also discusses the overall labor and benefit costs for National Fuel’s employee complement.

**III. IDENTIFICATION AND SUMMARY OF EXHIBITS**

**Q. Is this Panel sponsoring any exhibits?**

A. Yes. This Panel sponsors the following exhibits:

- 1) Confidential Exhibit\_\_\_(HR-1), Schedule 1, which provides cost detail for 401(k) (Tax Deferred Savings Plans);
- 2) Exhibit\_\_\_(HR-1), Schedule 2, which provides cost detail for employee Health Care Benefits;
- 3) Exhibit\_\_\_(HR-1), Schedule 3, which provides employee benefit costs per incremental employee;
- 4) Exhibit\_\_\_(HR-2), Schedules 1 and 2, which provide cost detail for Defined Benefit and Defined Contribution Pensions (also known as Retirement

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1 Savings Account (“RSA”)) and Other Postretirement Employee Benefits

2 (“OPEBs”);

3 5) Confidential Exhibit \_\_\_(HR-2), Schedule 3, which provides additional cost  
4 detail for RSA;

5 6) Confidential Exhibit \_\_\_(HR-3), which provides wage rate projections;

6 7) Confidential Exhibit \_\_\_(HR-4), which provides the plan document for the  
7 Annual Cash Bonus Program, which is available to salaried employees; and

8 8) Confidential Exhibit \_\_\_(HR-5), which provides the Target Total Rewards  
9 Competitive Assessment prepared by Willis Towers Watson.

10  
11 **IV. EMPLOYEE COMPLEMENT**

12 **Q. What is National Fuel’s current employee headcount?**

13 A. As of June 30, 2023, National Fuel employed 1,047 employees. These employees  
14 are geographically spread among 15 different locations within our Western New  
15 York service territory.

16 **Q. Are there additional employees who contribute to National Fuel’s  
17 operations?**

18 A. National Fuel and its affiliates utilize a model of loaned and borrowed labor,  
19 where appropriate, to eliminate the need for duplicate functions to be performed  
20 across subsidiaries. This approach has the effect of reducing the overall cost  
21 structure for the Company via meaningful operating efficiencies. For example,  
22 administrative support areas like Human Resources, Information Technology,



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1 Accounting, Tax, and Finance act as shared service departments where labor is  
2 allocated across National Fuel and its affiliates. In addition, certain field  
3 operations employees may provide service for multiple affiliates and the costs of  
4 doing so are accurately allocated to the specific affiliate for which work is being  
5 provided. Controls are in place surrounding how labor is charged to and from  
6 these other subsidiaries.

7 **Q. How does National Fuel group or define its employee population?**

8 A. National Fuel employs two groups of Fair Labor Standards Act (“FLSA”) non-  
9 exempt employees: unionized employees who are members of a collective  
10 bargaining unit (“hourly”), and those who are not affiliated with a collective  
11 bargaining unit (“non-union hourly”). Additionally, National Fuel employs two  
12 groups of FLSA exempt employees: salaried, non-executives (“salaried”) and  
13 salaried executives (“executives”). See Table 1 for employee counts within each  
14 of these groups.

15 Table 1: Employee Counts as of June 30, 2023

<b>Employee Type</b>	<b>Count</b>
Hourly	620
Non-Union Hourly	14
Salaried	400
Executive	13
TOTAL	1,047

16 **Q. What bargaining units are represented within National Fuel?**

17 A. Approximately 59% of National Fuel’s total employee complement (99% of the  
18 FLSA non-exempt workforce) are represented by a bargaining unit. Unionized

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1 employees of National Fuel are members of either the International Brotherhood  
2 of Electrical Workers (“IBEW Local 2154” or “IBEW Local 2199”) or the  
3 National Conference of Firemen and Oilers District of 32BJ/SEIU, Chapter  
4 22/22S (“F&O”).

5 **Q. Does National Fuel’s revenue requirement include any incremental positions**  
6 **that are forecast to be filled prior to or during the Rate Year?**

7 A. Yes, National Fuel’s Rate Year revenue requirement includes 115 positions that  
8 are incremental to the June 30, 2023 headcount. Of these positions, 82 are  
9 referenced in Exhibit \_\_\_ (RRP-9), Schedule 1 and 33 are referenced in  
10 Exhibit \_\_\_ (IT-7), Schedule 2. The forecasted incremental positions are  
11 comprised of filling existing vacancies as of June 30, 2023 to replace headcount  
12 lost to attrition, as well as new positions. See Table 2 for the primary drivers  
13 behind the 115 positions forecasted to be filled prior to or during the Rate Year.

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Table 2: Headcount Needs

<b>Functional Area</b>	<b>Primary Driver</b>	<b>Positions Needed</b>	<b>Less: Vacancy Adjustment</b>	<b>Included in Revenue Requirement</b>
Gas Planning/ Energy Transition	CLCPA State Requirements	15	0	15
IT Service Desk	Contractor Cost Savings	16	0	16
IT Security Operations Center	Safety/Cyber Risk Management	11	0	11
Operations	Regulatory Compliance, Damage Prevention, Field Supervision, Clerical Mgt.	19	10	9
Engineering	Permitting/Surveying	8	6	2
Rotating Engineer & MBA	Leadership Development Programs	2	0	2
Rates and Regulatory Affairs	Energy Efficiency Programs, Rate Case Support	2	0	2
Safety	Safety Assurance Programs	1	0	1
Finance	Financial Analysis/Investor Relations	4	3	1
Customer Service	Replacement	22	11	11
Emergency Dispatcher	Replacement	5	0	5
Meter Readers	Replacement	15	0	15
Equipment Operators (GMA)	Replacement	13	0	13
Materials/ Warehouse	Replacement	3	0	3
Information Technology	Replacement	6	0	6
Rates and Regulatory Affairs	Replacement	1	0	1
Legal	Replacement	2	0	2
Human Resources	Recruitment	3	3	0
Accounting	Regulatory Requirements/ ERP Transformation	2	2	0
<b>Total</b>		<b>150</b>	<b>35</b>	<b>115</b>

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1 The need for additional employees (those that are not vacancy replacements) is  
2 more specifically addressed by each of the functional areas in which additions are  
3 being pursued. See Table 3 for forecasted employee counts at the start of the Rate  
4 Year. As of October 25, 2023, National Fuel’s headcount is 1,068.

5 Table 3. Employee Counts as of October 1, 2024

<b>Employee Type</b>	<b>Employee Count (Start of Rate Year)</b>
Hourly	668
Non-Union Hourly	14
Salaried	467
Executive	13
TOTAL	1,162

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**Q. Please describe the broad drivers of the projected increase in headcount.**

A. The expected increase in National Fuel’s headcount is a function of two major factors. The first is the competitive labor market and the resulting impact on employee attrition and lag in replacing employees. The second factor is the significant change in the composition of the workforce. For many decades, National Fuel’s workforce remained relatively stable as it was primarily comprised of employees who traditionally stayed with the organization for extended periods of time, in most cases for their entire career. These employees generally were defined benefit pension plan participants. Given closure of the defined benefit pension plans in 2003, the number of active employees subject to those plans have decreased, largely due to retirement. Table 4 below compares

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1 the historical trend of declining defined benefit pension plan participants as a  
 2 percentage of employee type.

3 Table 4: Defined Benefit Pension Plan Participants by Employee Type

<b>Employee Type</b>	<b>As of January 1, 2008</b>	<b>As of January 1, 2016</b>	<b>As of June 30, 2023</b>
Hourly	71.36%	24.96%	8.71%
Non-Union Hourly	95%	44.44%	14.29%
Salaried	80.76%	42.24%	15.75%
Executive	100%	100%	46.15%
<b>TOTAL</b>	<b>75.17%</b>	<b>32.02%</b>	<b>11.94%</b>

4

5 With the significant decrease in employees that receive defined benefit  
 6 pensions we have experienced higher employee turnover. This turnover is  
 7 facilitated by the fact that the Company’s current defined contribution benefit  
 8 plans are much more portable than the previous defined benefit pension plans.  
 9 The combination of significant retirements over the past 15 years and the  
 10 increased portability of retirement benefits has driven the average tenure of  
 11 National Fuel’s workforce down meaningfully, as we discuss later in our  
 12 testimony. We have also seen increased employee turnover caused by the  
 13 competitive labor market as competitors from the utility industry and general  
 14 industry aggressively increase their compensation packages to attract employees.  
 15 Our employee base has not been immune to this development. In fact, this  
 16 dynamic has increased vacancies and is pushing National Fuel to pursue a larger  
 17 headcount to ensure continuity of coverage in certain key areas where the greater  
 18 likelihood of potential vacancies could be detrimental to system operations.

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1 Overall, average tenure has decreased from nearly 20 years of service to just  
 2 slightly more than 10 years of service over the past 15 years. Table 5 below  
 3 compares the historical trend of declining average years of service by employee  
 4 type.

5 Table 5: Average Years of Service by Employee Type

<b>Employee Type</b>	<b>As of January 1, 2008</b>	<b>As of January 1, 2016</b>	<b>As of June 30, 2023</b>
Hourly	20.12	10.57	9.26
Non-Union Hourly	26.78	18.21	11.42
Salaried	18.73	13.89	11.42
Executive	23.72	30.14	20.06
<b>TOTAL</b>	<b>19.87</b>	<b>12.06</b>	<b>10.25</b>

6  
 7 Additionally, incremental staff are often required to comply with evolving  
 8 performance expectations and responsibilities requiring enhanced training to  
 9 maintain applicable safety, efficiency and reliability standards necessary to  
 10 operate a natural gas system. For example, the introduction of the New York  
 11 Operator Qualification Rule, which changed the definition of a covered task, has  
 12 resulted in enhanced testing requirements for various job classifications within  
 13 Operations. The majority of covered tasks now require additional testing  
 14 components which lengthens the amount of time it takes employees to become  
 15 fully qualified and also causes pressure on internal training resources who have to  
 16 administer these tests. The Company's employee counts also need to take into  
 17 account the growing recruiting lag that exists when filling replacement positions  
 18 and incremental additions. Over the last few years, the Company has needed to

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1 supplement its internal recruiting staff to keep pace with the volume of openings  
2 and the time required to find quality candidates to hire.

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4 **V. EMPLOYEE RETENTION AND RECRUITMENT**

5 **Q. How important is employee retention to National Fuel?**

6 A. It is extremely important to retain existing employees. The Company needs to  
7 retain its current talented and knowledgeable employees who perform essential  
8 tasks needed to operate the system today and successfully build upon their  
9 knowledge to ensure continued safe operation of National Fuel's system into the  
10 future.

11 **Q. What are a few of the key components needed to successfully retain current  
12 employees?**

13 A. Retaining current employees first and foremost requires National Fuel to offer a  
14 competitive employment package, including compensation, benefits, and  
15 work/life considerations to ensure qualified and talented employees remain with  
16 the Company. If the Company fails to remain competitive in both retention and  
17 new hiring, it will place increasing pressure/burnout on the remaining workforce,  
18 possibly creating an undesirable attrition cycle. Only by focusing on the dual  
19 needs of retention and new hiring can the Company maintain a supportive and  
20 productive work environment.

21 **Q. What specific actions has National Fuel taken to address employee retention?**

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1 A. Over the past two years, National Fuel has had to significantly increase its total  
2 rewards package, while also addressing work/life considerations, to stay  
3 competitive in both retaining existing employees and attracting new hires. For  
4 example, National Fuel has established a variable pay program that creates  
5 incentive compensation tied to key safety and customer service metrics.  
6 Additionally, there have been several market-based adjustments for salaried  
7 employees and other adjustments to the hourly workforce, including targeted  
8 adjustments to address increased competition for certain job functions.

9 **Q. Can the Panel please provide an example of a recent market-based**  
10 **adjustment?**

11 A. In September 2023, the Company invested \$682,718 to increase wages for two  
12 specific job classifications in IBEW Local 2154. Employees in the roles of Gas  
13 Mechanic A (“GMA”) and Regulator/Measurement Tech A (“M&R Tech”)  
14 received an increase to their hourly rate of pay in response to local utility  
15 competitors’ direct recruitment of these highly skilled individuals. The Company  
16 sought to proactively limit further attrition by making pay rate changes to affected  
17 job classifications mid-contract. As a result of this retention initiative, the  
18 Company is now able to advertise a higher rate of pay to external candidates  
19 needed to fill the vacancies in these skilled roles. Following the Company’s pay  
20 rate changes for GMAs and M&R Techs, National Fuel also adjusted salaries for  
21 numerous Operations Supervisors who have operational oversight for these  
22 functions in the field, including those supervisors who had previously performed



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1 GMA or M&R Tech work but were promoted into supervision. The financial  
2 impact of those salaried employee adjustments was \$180,554 which went into  
3 effect on October 1, 2023. While this specific retention threat was created by a  
4 utility company, National Fuel regularly competes for talent within both the utility  
5 and general industry segments and must monitor and be responsive to changing  
6 labor market conditions within both industry segments.

7 **Q. Does National Fuel have a frequent need to engage in the recruitment and**  
8 **hiring process?**

9 A. Yes. In today's highly competitive labor market, recruiting new hires to National  
10 Fuel is an integral component of the Human Resources department's  
11 responsibilities. In fact, as noted earlier, National Fuel's need to fill positions  
12 from the external labor market has been progressively growing. For example,  
13 between June 2021 and October 2023, National Fuel has hired 377 employees due  
14 to the dynamics described earlier. Yet, of those 377 hires, only 70% remain  
15 actively employed with National Fuel, which is reflective of current hiring  
16 conditions.

17 **Q. What recruiting challenges does National Fuel currently face?**

18 A. National Fuel is competing in an unprecedented tight labor market where a  
19 combination of pressures has made recruitment extremely challenging. During  
20 and after the COVID-19 pandemic, there were dramatic shifts in the labor market,  
21 with historically low unemployment rates and heightened competition among  
22 employers that continues to drive significant increases in compensation and

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1 benefits packages. In addition, changing attitudes towards work, including the  
2 need to provide increased workplace flexibility, have created broader competition  
3 for employees. For example, the fact that companies have offered 100% remote  
4 work positions have allowed local candidates to consider jobs with employers that  
5 lack a presence in our service territory. In addition, the attraction of working for a  
6 traditional natural gas utility company seems to have declined over time,  
7 particularly in the face of negative media coverage and recent legislation and  
8 regulations impacting the natural gas industry, both in New York and on a  
9 national level.

10 **Q. Has recruiting gotten more difficult recently?**

11 A. Yes, the recruitment process has become far more difficult, leading to increased  
12 recruiter headcount and in certain situations third-party costs to attract potential  
13 applicants. Finding candidates to fit a given role is difficult, resulting in the need  
14 to invest more time to identify appropriate candidates. Recruiters must screen  
15 more candidates to ensure there are viable options for the hiring manager to  
16 evaluate. Second, additional costs are incurred to advertise job posting (often  
17 multiple times) and for payment of staffing agency fees due upon placement of a  
18 successful candidate. It is not uncommon for candidates to voluntarily remove  
19 themselves from an ongoing recruitment process because they have secured other  
20 employment or accepted a counteroffer. Despite the Company's attempt to offer  
21 competitive yet reasonable total rewards packages, the number of job offers  
22 declined by job candidates has more than doubled in this fiscal year ("FY") when

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1 compared to the number in the prior two fiscal years and are at the highest levels  
2 since the Company started tracking decline rates in 2012. Each time a job offer is  
3 declined, there is a high probability that the entire recruitment process will need to  
4 be re-started.

5 **Q. What other approaches has National Fuel taken to meet recruiting**  
6 **challenges?**

7 A. The recruiting team has continued to work with community organizations to bring  
8 awareness to available job opportunities at the Company. Direct contact with  
9 community-based organizations can result in beneficial referrals for job openings.  
10 Similarly, continued activity with colleges within the Company's geographic  
11 footprint, including offering internships to expose prospective employees to the  
12 industry and culture of National Fuel, remain an important tool to increase  
13 awareness of job opportunities at the Company. The Human Resources  
14 department has also partnered with various functional areas of the organization to  
15 participate at events within the community where prospective candidates can be  
16 reached.

17 **Q. Has the Company established any programs to reach high school students**  
18 **who may be considering careers in the industry?**

19 A. The Operations and Human Resources departments created a Meter Reader Intern  
20 in Training Program to expose high school students to careers in Operations,  
21 showing them the foundations required to be successful in roles that directly  
22 impact National Fuel's customers in the field. This Meter Reader Intern in

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1 Training Program resulted in multiple job offers to students who will begin their  
2 career with National Fuel following their high school graduation in June 2024.  
3 National Fuel must continue to invest in these programs and partnerships to  
4 ensure we can continue to attract a qualified and diverse group of individuals to  
5 the variety of employment opportunities available.

6 **Q. Does the Company leverage its current employee base to recruit new**  
7 **candidates?**

8 A. Yes, the Company has created and implemented an Employee Referral Program.  
9 This program provides financial incentives to current employees to refer external  
10 candidates to job openings. Employees receive a lump sum payment if their  
11 referral is hired and remains in National Fuel's employ for a minimum of six  
12 months.

13 **Q. To support both retention and recruitment has the Company altered its**  
14 **working conditions including options for hybrid work?**

15 A. In addition to compensation and benefits, National Fuel now offers hybrid work  
16 options, where feasible, although it has stopped short of adopting a fully remote  
17 work model based on the local nature of the Company's work. While hybrid  
18 work schedules have provided employees with a much-desired element of  
19 flexibility, the lack of the ability to offer 100% remote work restricts the talent  
20 pool the Company can recruit from to those that currently reside in or are willing  
21 to relocate to our service territory. National Fuel remains committed to hiring  
22 employees who are invested in the service territory in which we operate.



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1 rewards are determined based upon competitive market dynamics, balanced with  
2 the need maintain a cost-efficient operation.

3 **Q. For salaried employees, how does National Fuel ensure it is providing**  
4 **competitive total rewards?**

5 A. National Fuel previously engaged the services of an external consultant, Willis  
6 Towers Watson, to provide benchmarking data for salaried positions across  
7 National Fuel's affiliates. The confidential results provided by this external  
8 consultant, in conjunction with further analysis conducted by the Human  
9 Resources department, determine the appropriate level and combination of total  
10 rewards.

11 **Q. What did the external expert consultant say about the Company's base**  
12 **salaries for supervisory employees?**

13 A. Based upon the information provided by Willis Towers Watson, National Fuel  
14 determined that it needed to make several adjustments to base salaries. First, in  
15 April 2022, the Company made base salary adjustments for 25% of National  
16 Fuel's salaried workforce – with an average increase of 9.3% – so that they would  
17 be within a competitive range of the market data. These adjustments had a 3.8%  
18 impact on total payroll. Following this market adjustment for the salaried  
19 employee group, a 4.5% annual base salary increase budget along with a 1.5%  
20 promotion budget was utilized for calendar year 2023, to remain competitive in  
21 the labor market. This increase was recommended by the Human Resources  
22 department based on the results of salary budget survey responses which are

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1 reported by individual organizations and consolidated by compensation specialists  
2 like WorldatWork and Culpepper. Additional information regarding projections  
3 for future salary budgets are contained in Confidential Exhibit \_\_\_(HR-3).

4 **Q. Did the Company's external consultant identify any components of a**  
5 **competitive compensation program missing from the Company's total**  
6 **rewards package?**

7 A. Yes. Based on feedback from Willis Towers Watson and data from compensation  
8 surveys in which National Fuel participates and utilizes for comparison purposes,  
9 incentive (variable) compensation was notably absent from National Fuel's  
10 salaried compensation package. This absence was also highlighted in exit  
11 interview information which indicated that competitors, both within the utility and  
12 general industry segments, to whom National Fuel is losing talent to, offer  
13 incentive-based compensation in addition to base salary compensation.  
14 Additionally, incentive-based compensation is a known tool to motivate and  
15 reward employees to perform their best, which serves the best interests of  
16 customers, stakeholders and the Company. In addition, the absence of a variable  
17 pay program previously resulted in National Fuel's compensation for salaried  
18 employees being below market. As a result, National Fuel initiated a variable pay  
19 program designed to reward employees for performance measures that are directly  
20 related to customer service, emissions reduction, safety, and diversity and  
21 inclusion.

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1 **Q. Please describe the incentive-based compensation program for salaried**  
2 **employees that was implemented by National Fuel.**

3 A. Effective October 1, 2022, National Fuel established an Annual Cash Bonus  
4 Program. This Annual Cash Bonus Program is intended to provide greater  
5 incentive to the Company's salaried employees to work toward the achievement  
6 of the Company's business goals and objectives and enable the Company to  
7 attract, retain and motivate valuable employees. National Fuel's Annual Cash  
8 Bonus Program is described in Confidential Exhibit \_\_\_(HR-4). The first full-year  
9 Annual Cash Bonus Program payment will be considered following evaluation of  
10 FY23 performance results on customer service, emissions reduction, safety and  
11 diversity and inclusion metrics.

12 **Q. What impact does this incentive-based compensation program have in the**  
13 **Rate Year?**

14 A. On October 31, 2022, during the Historic Test Year, 373 (98%) of National Fuel's  
15 salaried employees received a cash bonus, in response to competitive and  
16 inflationary pressures and based on National Fuel's FY22 performance, the  
17 impact of which was \$1,056,000 on National Fuel's expense. The October 31,  
18 2022 bonus payment was not equivalent to a full annualized payout. Rather, it  
19 was a smaller amount as an initial step, in advance of the formal annual program.  
20 At the beginning of each FY, specific goals will be defined, and are focused on  
21 metrics that provide customer benefits. The goals established for FY23 include  
22 customer service/satisfaction rates, operational safety measures, methane



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1 emissions reductions, employee safety (injury) rates, and diversity and inclusion  
2 initiatives. In order to calculate the bonus payment, employee base salaries will  
3 be multiplied by the eligibility percentage for their grade level (level of  
4 experience or responsibility) in the organization. National Fuel’s full-year  
5 expense projected to be incurred and recorded in the Rate Year is \$2,400,000.

6 **Q. Has National Fuel engaged Willis Towers Watson more recently to assess the**  
7 **competitiveness of its total rewards package for this rate filing?**

8 A. Yes. To evaluate the reasonableness of the current total rewards package for  
9 salaried employees, National Fuel has engaged Willis Towers Watson to assess  
10 the competitiveness of the Company’s package, relative to general and utility  
11 industry peer groups. This study was finalized by Willis Towers Watson in  
12 October 2023 and is attached as Confidential Exhibit\_\_\_\_(HR-5).

13 **Q. Did Willis Towers Watson provide information on the prevalence of**  
14 **incentive-based compensation programs within the market?**

15 A. Yes, Willis Towers Watson stated short-term at-risk compensation plans are  
16 predominant among National Fuel’s peer group.

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1 **Q. Did Willis Towers Watson indicate whether the predominance of short-term**  
2 **at-risk compensation plans among National Fuel’s peers justifies National**  
3 **Fuel’s adoption of an incentive-based compensation program for salaried**  
4 **employees?**

5 A. Yes, Willis Towers Watson stated National Fuel’s adoption of a short-term at-risk  
6 compensation program is justified to better align with competitive market  
7 practices.

8 **Q. Has the Commission provided guidelines for recovery of incentive**  
9 **compensation?**

10 A. Yes. In the June 17, 2011 Order Establishing Rates for Electric Service in Case  
11 10-E-0362, at pages 38-39, the Commission adopted a two-prong test that allows  
12 recovery for variable/incentive compensation where a utility either: 1) clearly and  
13 affirmatively demonstrates that the incentive compensation costs are designed to  
14 return quantifiable or demonstrable benefits to customers in a financial sense or in  
15 terms of reliability, environmental impact, or customer service; or 2) demonstrates  
16 that the overall compensation provided to those employees, including incentives,  
17 is reasonable relative to similarly situated companies. The Commission has  
18 subsequently followed these guidelines in other proceedings.

19 **Q. Has the Company satisfied the Commission’s either/or two-prong test for**  
20 **incentive compensation rate recovery?**

21 A. Yes. The Company’s Annual Cash Bonus Program includes performance  
22 measures that are designed to return quantifiable or demonstrable benefits to

**DIRECT TESTIMONY OF HUMAN RESOURCES PANEL**

1 customers, such as measures directly related to customer service, emissions  
2 reduction, safety, and diversity and inclusion. Each of these goals are weighted  
3 equally and are designed to reflect corporate priorities by closely mirroring  
4 certain goals established for National Fuel’s executives. These performance  
5 measures satisfy the first prong of the Commission’s two-prong test identified  
6 above. Further, the Willis Towers Watson study establishes that the Company’s  
7 overall compensation provided to employees, including incentive pay, is  
8 reasonable relative to similarly situated companies. As a result, the Company  
9 satisfies the second prong of the Commission’s test.

10 **Q. What other findings were part of Willis Towers Watson’s analysis of the**  
11 **competitiveness of National Fuel’s total rewards?**

12 A. It was determined that National Fuel’s base salaries and target total cash  
13 compensation, on average, fall within a competitive market range (+/-10%) of the  
14 50<sup>th</sup> percentile, but towards the lower end of the range. Willis Towers Watson  
15 also determined National Fuel’s target total direct compensation and target total  
16 rewards (including benefits), on average, fall just below the low end of the  
17 competitive range of the market 50<sup>th</sup> percentile at 89% of market.

18 **Q. What does the result of this external evaluation of the competitiveness of**  
19 **total rewards package mean for National Fuel?**

20 A. These results reinforce the need for National Fuel to focus on investing in total  
21 rewards for employees. If National Fuel continues to fall behind a competitive  
22 range of market with its total rewards, it will amplify existing challenges with

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1 retention and attraction, both of which are critical to having a highly qualified  
2 workforce operating National Fuel’s system. National Fuel must find ways to  
3 address the competitiveness of its total rewards through annual base salary  
4 increases, market adjustments or supplemental benefit offerings/enhancements to  
5 existing benefits packages.

6 **Q. Are there other benefits or rewards utilized in the attraction or retention of**  
7 **salaried employees?**

8 A. In addition to base salaries, stock-based compensation, in the form of time-vested  
9 restricted stock, is provided as a retention tool to certain salaried employees.  
10 These shares vest over three equal annual installments as an employee’s service is  
11 provided to National Fuel. This reward is used as a component of the overall  
12 compensation package to retain high-caliber salaried employees while  
13 encouraging their investment in National Fuel and providing additional incentive  
14 for them to remain employees over the vesting period. Given the increasing  
15 operational complexities and regulatory requirements experienced by utilities  
16 such as the Company and the expanded efforts to modernize pipeline and  
17 distribution systems, a competitive compensation package supporting retention  
18 and longevity via the use of time-vested restricted stock, is critical to the  
19 continued success of National Fuel and aligns with the interests of all stakeholders  
20 (including customers, local communities, employees, retirees, and shareholders).

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1 **Q. What terms of total rewards (compensation and benefits) resulted from**  
2 **collective bargaining?**

3 A. Following negotiations with IBEW Local 2199, the current contract for  
4 employees represented by that bargaining unit went into effect on February 15,  
5 2021. Negotiated changes included an average hourly wage increase of 2.5%  
6 across all members for 2021 and annual wage increases for 2022, 2023 and 2024.  
7 Additionally, negotiations resulted in a new vision plan offering, an enhanced  
8 dental plan option, increased shift differential/premium and an enhanced time off  
9 schedule. The terms of this labor contract are in effect through February 14,  
10 2025. Following negotiations with IBEW Local 2154, the current contract for  
11 employees represented by that bargaining unit went into effect on March 5, 2021.  
12 Negotiated changes included an average hourly wage increase of 12.8% across all  
13 members for 2021 and annual wage increases for 2022, 2023 and 2024.  
14 Additionally, negotiations resulted in an enhanced employer match to the 401(k),  
15 increased shift differential and an enhanced time off schedule. The terms of this  
16 labor contract are in effect through February 14, 2025. Negotiations with F&O  
17 also recently took place for the employees represented by that collective  
18 bargaining unit. The resulting contract, which went into effect on May 1, 2022,  
19 included an average hourly increase of 4.3% across all members for 2022 and  
20 annual wage increases for 2023, 2024 and 2025. Additionally, negotiations  
21 resulted in an enhanced employer match to the 401(k), increased shift differential  
22 and an enhanced time off schedule. The terms of this labor contract are in effect

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1 through April 30, 2026. Contract negotiations for both IBEW Local 2199 and  
2 IBEW Local 2154 are set to begin in 2024. The current state of labor activity  
3 throughout the United States suggests the upcoming negotiation process may look  
4 very different than what National Fuel has experienced in the past and poses the  
5 possibility that costs resulting from negotiations could be of a greater magnitude  
6 than in prior years. Additional information regarding projections relating to the  
7 future contract negotiations are contained in Confidential Exhibit\_\_(HR-3).

8 **Q. What total rewards (compensation and benefits) are used to remain**  
9 **competitive for non-union hourly talent?**

10 A. Only 1% of National Fuel’s employee complement is comprised of individuals  
11 performing administrative roles, in a non-union hourly capacity. These  
12 individuals work in the Human Resources department and the Legal department,  
13 providing support for the executive employees. The Company must provide  
14 competitive wages and benefits, on par with those offered to organized labor, to  
15 retain and attract these critical employees. In March 2022, after the IBEW Local  
16 2199 contract was ratified, a wage adjustment for seven of the 12 non-union  
17 hourly employees was implemented to competitively align their wages to wages  
18 within the collective bargaining unit. The average wage increase for impacted  
19 employees was 8.1%. Following this market adjustment for the non-union hourly  
20 employee group, annual salary increases must remain competitive to attract and  
21 retain the best talent. Additional information regarding projections for future  
22 salary budgets are contained in Confidential Exhibit\_\_(HR-3).

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1 **Q. What total rewards (compensation and benefits) are used to remain**  
2 **competitive for executive talent?**

3 A. Given the high number of operational complexities and regulatory requirements  
4 experienced by utilities and energy companies, it is critical for National Fuel to  
5 remain competitive in its executive compensation package. National Fuel Gas  
6 Company (“NFG”), National Fuel’s parent company, utilizes outside consultants  
7 to review executive compensation packages on an annual basis. Executive  
8 compensation packages include salaries, short-term incentives (cash bonus), and  
9 long-term incentives (stock-based compensation), provided to executives to retain  
10 quality and experience among the executive team for the benefit of all  
11 stakeholders (including customers, local communities, employees, retirees, and  
12 shareholders). In addition, the pay practices for named executives are subject to  
13 an annual extensive review and approval process as outlined in NFG’s proxy  
14 statement. At this time, we are not seeking rate recovery for executive short-term  
15 or long-term incentives. Given the criticality of incentive compensation as a  
16 component of a competitive compensation package, the Company reserves the  
17 right to reevaluate these compensation components for rate recovery in future rate  
18 proceedings.

**DIRECT TESTIMONY OF HUMAN RESOURCES PANEL****VII. EMPLOYEE RETIREMENT BENEFITS**

1  
2 **Q. Please provide a summary of the Company’s retirement related benefits and**  
3 **the eligibility for those benefits.**

4 A. National Fuel has defined benefit pension and OPEBs, which were closed to new  
5 participants in 2003. National Fuel also has Tax Deferred Savings Plans  
6 (“TDSP”) (i.e., 401(k)), and contributions to RSAs, which are accounts set up  
7 within the TDSP for those employees that were hired after defined benefit  
8 pensions were no longer offered to new entrants. The RSA is a defined  
9 contribution pension benefit. See Table 5 below for the number of the National  
10 Fuel’s participants in the defined benefit pensions, TDSPs, RSAs, and OPEBs.

11 **Q. Please provide a summary of the participants in National Fuel’s retirement**  
12 **related benefits.**

13 A. See Table 5 for a summary of National Fuel participation across various  
14 retirement focused benefit offerings.

15 Table 5: Participation by Retirement Benefit Offering

	<b>Defined Benefit Pensions</b>	<b>TDSP (401(k))</b>	<b>RSA (Defined Contribution Pensions)</b>	<b>OPEBs</b>
Normalized Number of Eligible Active Participants – 2023	133	805	899	133
Normalized Number of Inactive Participants – 2023	1,668	359	203	1,198
Total Number of Participants	1,801	1,164	1,102	1,331



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1 **Q. How does National Fuel account for defined benefit pension and OPEB**  
2 **costs?**

3 A. National Fuel accounts for defined benefit (pension and OPEB) and defined  
4 contribution costs in accordance with the Commission’s Statement of Policy on  
5 Pensions and Other Postretirement Benefits Other Than Pensions issued  
6 September 7, 1993, in Case 91-M-0890 (“Policy Statement”). Under the Policy  
7 Statement, National Fuel reconciles the rate allowances with the actual defined  
8 benefit pension and OPEB expenses it records in accordance with Generally  
9 Accepted Accounting Principles (“GAAP”) Statement of Accounting Standard  
10 Codification (“ASC”) No. 715 (formerly and herein referred to as “FAS 87” for  
11 defined benefit pension and “FAS 106” for OPEBs) and defers under or over  
12 recoveries. It also reconciles actual defined contribution pension rate allowances  
13 with actual contributions.

14 **Q. What is National Fuel’s current defined benefit (pension and OPEB) rate**  
15 **recovery?**

16 A. In accordance with its tariff filing in connection with Case 22-G-0364, effective  
17 October 1, 2022, National Fuel is currently recovering \$0 for defined benefit  
18 pension and OPEBs. Prior to this, National Fuel was recovering \$13,544,000 for  
19 pension (both defined benefit and RSA) and \$2,588,000 for OPEBs as determined  
20 in the 2016 Rate Case. National Fuel funded the relevant defined benefit pension  
21 and OPEB trusts with these rate recovery dollars, plus the pension and OPEB  
22 costs charged to capital and affiliates, which is in accordance with Policy

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1 Statement. The amounts funded were invested to generate returns necessary to  
2 meet the long-term obligations associated with these benefits. As a result of these  
3 contributions, along with the Company’s prudent management of its defined  
4 pension benefits and OPEBs, the trusts are fully funded based on current actuarial  
5 assumptions.

6 **Q. Is National Fuel proposing to leave defined benefit pension and OPEB rate**  
7 **recovery at \$0 in this case?**

8 A. Yes, consistent with its tariff filing in 2022, National Fuel is proposing to leave  
9 defined benefit pension and OPEB rate recovery at \$0 for the Rate Year.

10 **Q. Will any deferred over- or under-recoveries associated with these long-term**  
11 **benefits continue to be accounted for in accordance with the Policy**  
12 **Statement?**

13 A. National Fuel is proposing to continue to defer over and under recoveries in  
14 accordance with the Policy Statement to the extent that those actual expenses are  
15 positive, which reflects two important considerations. First, negative FAS 87  
16 and/or FAS106 expense (or FAS 87/106 income) is the result of the expected  
17 return on trust assets exceeding the growth in the benefit obligations due to the  
18 accretion of interest and the accrual of service cost. The resulting FAS 87/106  
19 income does not actually result in an increase in operating cash flows, as these are  
20 merely accrual entries (i.e., the accrual of FAS 87/106 income did not increase the  
21 ability to fund operations, invest in capital projects, service debt obligations, pay  
22 shareholder dividends, etc.). Second, the assets in the defined benefit pension and

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1 OPEB trusts cannot be withdrawn (except to pay benefits and related  
2 administrative costs) without penalty under the Internal Revenue Code. As a  
3 result, the deferral of over and under recoveries should compare defined benefit  
4 pension and OPEB rate recovery (which is zero) to actual FAS 87/106 expense,  
5 and if such FAS 87/106 expense is negative, then there would be no deferral  
6 recorded.

7 **Q. Has National Fuel historically excluded actual negative FAS 87/106 expenses**  
8 **from the calculation of its deferral?**

9 A. No. From April 1, 2017 (the effective date of rates under the 2016 Rate Case)  
10 through September 30, 2022 (the end of the last FY), it experienced actual  
11 negative FAS 87/106 expense (excluding amounts charged to affiliates) of  
12 \$23,683,000, which increased the OPEB deferral liability. The cumulative  
13 defined benefit pension and OPEB deferral liability was \$66,177,000 as of  
14 September 30, 2022 (defined benefit pension liability of (\$33,059,000) plus  
15 OPEB liability (\$33,118,000)).

16 **Q. Since defined benefit pension and OPEB trust assets cannot be withdrawn**  
17 **without a penalty, does National Fuel propose removing the \$23,683,000**  
18 **from the deferral liability that was accrued up to the prior FY-end**  
19 **(September 30, 2022) as well as the impact of any future negative FAS 87/106**  
20 **expense on the deferral?**

21 A. Yes. National Fuel proposes that this adjustment and any future adjustments be  
22 recorded, which will be reflected in charges to affiliates since the negative FAS

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1 87/106 expense was generated from non-service cost (i.e., return on assets in  
2 excess of interest accruals), which, in accordance with Case 17-M-0363, cannot  
3 be charged to capital.

4 **Q. After the proposed removal of negative FAS 87/106 expense from past and**  
5 **future deferral liabilities, how does National Fuel propose to address the**  
6 **remaining (\$33,059,000) defined benefit pension deferral liability, and OPEB**  
7 **deferral liability (\$9,435,000) as of the beginning of the Rate Year, which are**  
8 **shown on Exhibit \_\_\_(HR-2), Schedule 1, Sheets 1 and 2?**

9 A. Assets in the defined benefit pension and OPEB trusts cannot be withdrawn  
10 (except to pay benefits and related administrative costs) without penalty under the  
11 Internal Revenue Code. Simply put, any previous rate recovery is embedded  
12 within the trusts, which are used to meet pension and OPEB long-term  
13 obligations, and these funds are not currently available to National Fuel or its  
14 customers. Since National Fuel is proposing to leave defined benefit pension and  
15 OPEB rate recovery at zero in this rate case, there are no funds available to pass  
16 back to customers. Any such pass back requirement would adversely impact  
17 operating cash flows and credit profiles. National Fuel plans to ultimately dispose  
18 of over recoveries, if any, remaining in the pension and OPEB trusts to customers  
19 when these long-term benefits have ultimately been paid to all eligible  
20 participants and the trusts are closed.

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1 **Q. Does National Fuel offer any retirement benefits to its employees who were**  
2 **hired after the defined benefit pension and OPEBs were closed in 2003?**

3 A. Yes, National Fuel makes monthly contributions into the RSA, which are  
4 accounts set up within the participants' 401(k) accounts (3% of base  
5 compensation for participants with fewer than six years of service and 4% of base  
6 compensation for participant with six or more years of service).

7 **Q. Have RSA costs previously received rate recovery?**

8 A. Yes, RSA costs were included in the overall pension rate recovery as defined  
9 contribution pension and were accounted for in accordance with the Policy  
10 Statement.

11 **Q. What are the forecasted contributions into the RSAs, and what is the**  
12 **requested rate recovery?**

13 A. As shown in Confidential Exhibit \_\_\_\_ (HR-2), Schedule 3, the forecasted  
14 contributions for the Rate Year are \$2,984,000. As shown in Exhibit \_\_\_\_ (HR-2),  
15 Schedule 1, Sheet 1, these amounts are multiplied by the projected percentage of  
16 labor charged to National Fuel's Operation & Maintenance expense of 61.75% to  
17 calculate the requested rate recovery for defined contribution pension of  
18 \$1,843,000 for the Rate Year. In addition, in accordance with the Policy  
19 Statement, differences between actual contributions to the RSA and what was  
20 recovered in rates for RSA were deferred. Per Exhibit \_\_\_\_ (HR-2), Schedule 1, the  
21 deferred under recovery of RSA costs are estimated to be \$5,200,000 as of the  
22 beginning of the Rate Year. Given the long-term nature of retirement related

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1 benefits in general, a 20-year amortization period is reasonable, which results in  
2 \$260,000 of annual requested rate recovery for the amortization of the under  
3 recovered deferral, as shown in Exhibit\_\_\_\_(HR-2), Schedule 1, Sheet 1.

4 Additionally, to support potential settlement discussions, the Panel has provided  
5 information for the twelve months ended September 30, 2026 (“RY2”) and  
6 September 30, 2027 (“RY3”).

7 **Q. Please explain Confidential Exhibit\_\_\_\_(HR-1), Schedule 1, which is related to**  
8 **401(K) matching contributions.**

9 A. The forecasted 12 months ended September 30, 2024 amount of 401(k) matching  
10 contributions (\$3,650,000) was estimated using the current participant matching  
11 contribution percentages adjusted for estimated compensation increases. This  
12 figure is reasonable in comparison to the June 2023 annualized 401(k) matching  
13 contributions (\$3,619,000). To determine the 401(k) matching contributions for  
14 the Rate Year, estimated compensation increase percentages were applied to the  
15 twelve months ended September 30, 2024 amount, which resulted in forecasted  
16 Rate Year contributions of \$3,875,000. The 61.75% of labor charged to  
17 Operation & Maintenance expense was applied to these amounts to determine the  
18 Rate Year 401(k) expense of \$2,393,000. Additionally, to support potential  
19 multi-year settlement discussions, the Panel has provided information for RY2  
20 and RY3.

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**VIII. OTHER EMPLOYEE BENEFITS**

**Q. What is shown on Exhibit \_\_ (HR-1), Schedule 2 related to Health Care costs?**

A. National Fuel utilizes Highmark Blue Cross Blue Shield of Western New York to administer its self-insured medical claims (and prescription drug program for those participants enrolled in the comprehensive medical with prescription drug) and CVS Caremark to administer its self-insured prescription drug claims. In addition, National Fuel offers fully insured medical coverage through Independent Health. This schedule starts with a review of claims (and premiums for those enrolled in Independent Health), administrative costs, participating employee count, employee contributions, and prescription drug rebates from CVS Caremark for the Historic Test Year. Trend rates, which were provided by National Fuel’s actuary, are applied to the claims/premiums to estimate the future costs to National Fuel, which are then multiplied by National Fuel’s Operation & Maintenance expense of 61.75% to calculate the amounts shown on Exhibit \_\_ (HR-1), Schedule 2.

**Q. How are the costs for other benefits (such as, Life Insurance, Dental, Vision, Disability, etc.) reflected in the revenue requirement in this case?**

A. Please see Exhibit \_\_ (RRP-2), Schedule 3. The requested rate recovery for these benefits is reflected in Schedule 3 and is increased as part of the inflation pool.

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1 **Q. Please explain Exhibit \_\_\_\_(HR-1), Schedule 3.**

2 A. This summarizes the costs associated with Health Care (Medical and Drug),  
3 Dental, Vision, Disability (Short Term and Long Term), 401(k) Match, and  
4 Defined Contribution Pension (i.e., RSA) of participating employees and  
5 calculates the additional benefit costs for new employees. As shown in this  
6 schedule, the benefit costs and assumed salary, which utilize information from  
7 various exhibits, are used to determine the benefit cost per incremental employee.  
8 These employee benefit cost figures are then multiplied by an estimated 115  
9 incremental employees, presented in Exhibit \_\_\_\_(RRP-9), Schedule 1 and  
10 Exhibit \_\_\_\_(IT-7), Schedule 2 to calculate the incremental benefit cost of  
11 \$2,176,000, for the Rate Year. This cost is multiplied by the estimated Operation  
12 & Maintenance expense percentages associated with departments in which these  
13 positions will be filled of 69.72%, in order to calculate the \$1,517,000 the Rate  
14 Year. Additionally, to support potential settlement discussions, the Panel has  
15 provided information for RY2 and RY3.

16 **Q. Does this conclude your direct testimony at this time?**

17 A. Yes, it does.