

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
Central Hudson Gas & Electric Corporation
for Electric Service

Case 23-E-_____

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Proceeding on Motion of the Commission as to the
Rates, Charges, Rules and Regulations of
Central Hudson Gas & Electric Corporation
for Gas Service

Case 23-G-_____

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**DIRECT TESTIMONY OF THE
WORKFORCE, COMPENSATION, AND BENEFITS PANEL**

July 31, 2023

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I. INTRODUCTION

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Q. Please state the names of the members of the Workforce, Compensation and Benefits Panel (“Panel”).

A. Our names are Eileen M. Lomoriello, Lauren M. Lawlor, and Jill Sammon.

Q. Ms. Lomoriello, please state your current employer and business address.

A. I am employed by Central Hudson Gas & Electric Corporation (“Central Hudson” or the “Company”), and my business address is 284 South Avenue, Poughkeepsie, New York 12601.

Q. Ms. Lomoriello, in what capacity are you employed by Central Hudson and what is your scope of responsibilities?

A. I am employed by Central Hudson as Manager, People Strategy. In that capacity, I am responsible for Human Resources strategy, Diversity, Equity and Inclusion (“DEI”) & Engagement, Compensation & Benefits and Talent Planning and Acquisition.

Q. Ms. Lomoriello, what is your educational background and professional experience?

A. I am a 1996 graduate of the University of Pennsylvania with a Master of Government Administration degree (Finance concentration), a 1992 graduate of Barnard College/Columbia University with a Bachelor of Arts degree in Political Science and I have also substantially completed a Bachelor of Science degree in Accounting at SUNY New Paltz. Prior to joining Central Hudson, I held various positions in public accounting,

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1 public sector management and tax and incentives consulting. I joined
2 Central Hudson as an Accountant in the Financial Reporting Group in
3 2006 and held various positions of increasing responsibility within the
4 Accounting organization through 2010. From 2010 through 2015, I ran
5 Central Hudson's Credit and Collections operation within the Customer
6 Service group. In 2015, I moved into the role of Associate Director of
7 Strategic Planning and was promoted to Director in 2016, and then to
8 Manager of Financial Planning and Analysis. In July 2018, I became
9 Manager of Customer Account Services. In July 2022, I transferred to my
10 current role.

11 Q. Ms. Lomoriello, have you previously testified before the New York State
12 Public Service Commission ("PSC" or the "Commission")?

13 A. Yes. I have testified before this Commission in Cases 17-E-0459, 17-G-
14 0460, 20-E-0428 and 20-G-0429.

15 Q. Ms. Lawlor, please state your current employer and business address.

16 A. I am employed by Central Hudson and my business address is 284 South
17 Avenue, Poughkeepsie, New York 12601.

18 Q. Ms. Lawlor, in what capacity are you employed by Central Hudson and
19 what is your scope of responsibilities?

20 A. I am employed by Central Hudson as a Senior Human Resources
21 Program Manager. In that capacity, my responsibilities include overseeing
22 and administering our non-executive, non-union compensation program.

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1 Q. Ms. Lawlor, what is your educational background and professional
2 experience?

3 A. I received an Associate of Science Degree in Business Administration
4 from Ulster County Community College in 2005. In 2007, I graduated from
5 the State University of New York at New Paltz with a Bachelor of Science
6 Degree with a double major in Marketing and Management. I received a
7 Master of Business Administration Degree with a concentration in
8 Management from the State University of New York at New Paltz in May
9 2009. I was employed by Central Hudson in January 2008 as an
10 Assistant Cost and Rate Analyst. I transferred to the Human Resources
11 Department in 2010 as an Associate Benefits Analyst. I have held various
12 positions in Human Resources over the past 13 years in the areas of
13 compensation, benefits, and employment. I have also been involved with
14 the implementation and administration of the Company's Human
15 Resources Information System ("HRIS").

16 Q. Ms. Lawlor, have you previously testified before the Commission?

17 A. Yes. I have testified before this Commission in Cases 09-E-0588 and 09-
18 G-0589.

19 Q. Ms. Sammon, please state your current employer and business address.

20 A. I am employed by Central Hudson and my business address is 284 South
21 Avenue, Poughkeepsie, New York 12601.

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1 Q. Ms. Sammon, in what capacity are you employed by Central Hudson and
2 what is your scope of responsibilities?

3 A. I am employed by Central Hudson as Manager of Talent Development. In
4 that capacity, my responsibilities include overseeing employee training
5 and development, succession planning, employee performance,
6 administration of the Company's HRIS and compliance training platforms.

7 Q. Ms. Sammon, what is your educational background and professional
8 experience?

9 A. I am a 2000 Marist College graduate with a Bachelor of Science degree in
10 Business Administration and Paralegal Studies. I joined Central Hudson
11 in 1990 as a Junior Clerk and held the role of Clerical Assistant from 1991
12 until 2000. In 2000, I joined the Real Property Services Department and in
13 2006 I was promoted to Director of Real Property Services. I remained in
14 that position until 2014, when I assumed the position of Director of
15 Organizational Development and Employee Relations. In March 2020, I
16 was promoted to the role of Manager of Talent Development.

17 Q. Ms. Sammon, have you previously testified before the Commission?

18 A. Yes. I have testified before this Commission in Cases 17-E-0459, 17-G-
19 0460, 20-E-0428 and 20-G-0429.

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Q. What is the purpose of the Panel's testimony in these proceedings?

A. The purpose of the Panel's testimony is to: (1) present the Company's staffing and training needs; (2) propose a workforce development program that will create a hiring pipeline for targeted roles; (3) propose a variable incentive compensation program for management employees to bring compensation in line with market compensation; and (4) present the forecast of medical claims costs as determined by the Company's hired consultant.

Q. Is the Panel sponsoring any exhibits in support of its testimony?

A. Yes. The Panel is sponsoring the following exhibits that were prepared by or under the direction of the Panel or one of its members:

Exhibit __ (WCBP-1) which contains Actual Permanent Employees as of March 31, 2023;

Exhibit __ (WCBP-2) which identifies incremental employees and the business purpose and responsibilities of each employee to be hired throughout the bridge period and the Rate Year;

Exhibit __ (WCBP-3) which contains incremental training programs for the bridge period and Rate Year;

Exhibit __ (WCBP-4) contains two schedules summarizing Mercer's recommendations related to Central Hudson's compensation program.

Schedule A contains Mercer's Assessment of Central Hudson's Non-

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1 executive Non-union Compensation Program and Schedule B contains
2 Mercer's Merit Increase Recommendation;
3 Exhibit __ (WCBP-5) which contains a Confidential Summary of Findings
4 from the Total Remuneration Review;
5 Exhibit __ (WCBP-6) which contains the Benefit Variance Results from the
6 Total Remuneration Review;
7 Exhibit __ (WCBP-7) which contains the Blended Benefits Peer Group
8 used in the Total Remuneration Review;
9 Exhibit __ (WCBP-8) which contains Confidential Census Data and the
10 2023 Competitive Analysis Information from the Total Remuneration
11 Review;
12 Exhibit __ (WCBP-9) which contains the Confidential Benchmark Job
13 Matches data from the Total Remuneration Review;
14 Exhibit __ (WCBP-10) which contains the Confidential Summary of
15 Findings with Incentives from the Total Remuneration Review;
16 Exhibit __ (WCBP-11) which contains a draft plan document of the
17 proposed variable incentive compensation program;
18 Exhibit __ (WCBP-12) which contains the Confidential actuarial study
19 prepared by Mercer to forecast future medical claims costs.

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III. WORKFORCE

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Q. What was the Company's staffing level as of the end of the historic period?

A. As of March 31, 2023, Central Hudson had 1,138 employees, including officers, full-time management employees and full- and part-time union employees. Exhibit __ (WCBP-1) details the actual permanent employees as of March 31, 2023.

Q. How does the staffing level at March 31, 2023 compare to what was approved in Rate Year 3 of the 2021 Rate Plan?

A. The staffing level of 1,138 employees on March 31, 2023, is 26 higher than the 1,112 employees approved through the end of June 30, 2024 as established in the Commission's Order Adopting Terms of Joint Proposal and Establishing Electric and Gas Rate Plan issued on November 18, 2021 in Cases 20-E-0428 and 20-G-0429 ("2021 Rate Plan").

Q. Can you identify with specificity where the additional 26 positions were assigned in the organization?

A. No. The allowed staffing levels included in the revenue requirement in the 2021 Rate Plan reflect a staffing level reached on a global basis through settlement negotiations and projected needs at that time.

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1 Q. Is Central Hudson proposing to add incremental employees throughout
2 the bridge period (i.e., prior to new rates being effective)?

3 A. Yes. Based on the needs of the organization, Central Hudson plans to
4 add 194 incremental employees during that time, raising the staffing level
5 from 1,138 employees at the end of the historic period to 1,332 by June
6 30, 2024. Exhibit __ (WCBP-2) identifies the bridge period positions that
7 the Company has included within its revenue requirements including any
8 positions that have already been filled as of July 15, 2023.

9 Q. Is the Company also proposing to hire incremental employees in the Rate
10 Year?

11 A. Yes, as is also described in Exhibit __ (WCBP-2), the Company is
12 proposing the addition of 49 incremental employees during the period July
13 1, 2024 through June 30, 2025.

14 Q. Why is Central Hudson planning to add 194 incremental employees in the
15 bridge period and 49 incremental employees in the Rate Year?

16 A. As shown in Exhibit __ (WCBP-2), employee additions are being driven
17 primarily by the need to add resources to support and facilitate: 1) projects
18 and programs supportive of the Climate Leadership and Community
19 Protection Act (“CLCPA”); 2) implementation of the capital plan; 3)
20 improving customer experience; 4) execution of the Company’s monthly
21 meter reading plan, which was filed on January 17, 2023 in Case 22-M-
22 0645; 5) continuation of the Company’s measured approach to restarting

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1 collections activity in order to reduce customer arrears; and 6) the
2 Company's efforts to attract, develop and retain a skilled workforce, which
3 is necessary to increase hiring efforts, reduce attrition levels, and mitigate
4 reduced employee tenure and experience levels. All of these factors have
5 placed cumulative hiring pressure on the Company, in addition to creating
6 capacity constraints. The Panel quantified the effect of these incremental
7 employees and provided this information to the Revenue Requirements
8 Panel.

9 Q. Please define the column heading categories in Exhibit __ (WCBP-2),
10 Schedule A.

11 A. Exhibit __ (WCBP-2), Schedule A categorizes the drivers of incremental
12 employee staffing by program focus area and business purpose from the
13 conclusion of the Historic Year through the Rate Year. Specific definitions
14 follow. Employees being hired to support incremental work are necessary
15 to complete new and emerging work, implement new customer or
16 employee programs, or complete existing work that is growing in size and
17 scope, such as the Company's Capital Program. Employees being hired
18 to support business continuity are necessary to maintain required staffing
19 for core functions. Employees being hired for efficiency are replacing third
20 party contractors with skills and expertise the Company desires to develop
21 and maintain internally.

22 Q. Are employee retirements a factor in the Company's staffing plan?

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1 A. Yes. A significant portion of the Company's tenured workforce is reaching
2 retirement age. As employees retire, staffing gaps need to be filled.

3 Q. Do the age demographics of Central Hudson's employees track the
4 demographics of the utility industry in general?

5 A. Yes. According to the 2021 Center for Energy Workforce Development
6 ("CEWD") Survey, more than one fifth, or approximately 20% of utility
7 industry employees are eligible to retire within the next five years.

8 Q. What is the Company's anticipated number of employee retirements over
9 the next five years?

10 A. Central Hudson's demographics are in line with the CEWD survey findings
11 and indicate that approximately 18% of the Company's workforce, or 211
12 employees, will be eligible to retire in the next five years. Assuming that
13 positions vacated by retirees are necessary for business continuity, the
14 Company will also need to attract and retain new employees to fill
15 positions created by these retirements in order to provide the service
16 quality our customers expect and count on.

17 Q. How does the Company plan to attract and support the hiring and
18 retention of these incremental employees?

19 A. First, Central Hudson plans to hire an additional Recruiter during 2023 to
20 support the attraction and onboarding of the additional employees
21 previously discussed. Additionally, during the rate Year, the Company
22 plans to hire a Business Analyst in Human Resources to support

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1 optimization of the hiring and onboarding business processes and to refine
2 employee growth and retention analytics. Finally, as discussed later in
3 testimony, the Company is proposing a new initiative to develop a
4 candidate pipeline.

5 Q. Has the attrition rate experienced by the Company in recent years varied
6 from that historically experienced?

7 A. Yes. In 2021 and 2022 the attrition rate increased to 8.1% and 8.9%,
8 respectively. Prior to that time, the Company's overall attrition rate was
9 approximately 5%. Central Hudson experienced the same pressures that
10 many companies faced following the COVID-19 Pandemic with changes in
11 employee behaviors and preferences, remote work options increasing,
12 and employers competing more aggressively for talent. For Central
13 Hudson, this increase in attrition is a significant and impactful change, as it
14 is occurring coincident with the need to add incremental resources to the
15 Company's workforce. More specifically, while net headcount only
16 increased by 12 in 2021 and 52 in 2022, the Company made external
17 hires for 100 positions in 2021 and over 150 in 2022.

18 Q. What are the reasons for this increase in attrition post-COVID?

19 A. The primary reasons for the increase in attrition can be attributed to: more
20 competitive compensation and benefits being offered by other employers
21 compared to Central Hudson; an increasingly mobile workforce (driven by

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1 remote work and favorable housing and interest rate trends); and
2 employee decisions to change career path or industries.

3 Q. How is the increased rate of attrition impacting Central Hudson?

4 A. The increase in attrition has resulted in an increased demand to hire new
5 employees. In addition, the Company's overall increase in employees
6 with shorter tenure has created an interim gap of knowledge with Central
7 Hudson work practices and has reduced the Company's overall capacity
8 while new employees develop.

9 Q. Is tenure also a factor in Central Hudson's incremental staffing plan?

10 A. Yes, this tenure shift puts pressure on more experienced employees,
11 increases the need for additional training and development and makes it
12 necessary to expand employee retention tools. Unless retiring employees
13 are replaced by employees with similar knowledge and experience, there
14 is also an impact on the Company's operating capacity, while employees
15 are trained and are learning.

16 Q. What is the breakdown of employee tenure across the organization?

17 A. Central Hudson's workforce has been trending towards less tenure with
18 the organization, with 34% of the workforce having five or fewer years with
19 the Company. More specifically, 13% of the organization currently has
20 less than one year of service, 10% has between one and three years of
21 service, 11% has between three and five years of service, 24% has
22 between five and ten years of service, and 42% has ten or more years of

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1 service. As the pace of retirements reaches the estimated 18% noted
2 earlier, the percentage of employees with ten or more years of service and
3 experience, will decline further, placing capacity pressure on our
4 workforce until newer employees are experienced in their roles.

IV. WORKFORCE DEVELOPMENT

5
6 Q. What methods does Central Hudson currently have in place to proactively
7 recruit employees to work at the Company?

8 A. Central Hudson has a summer internship program for professional
9 positions that is available to individuals enrolled in Bachelor's degree
10 programs. The Company performs outreach to targeted educational
11 institutions and local vocational programs and attends community
12 recruiting events. Central Hudson also uses headhunters for hard to fill,
13 highly specialized roles, distributes opportunities to local career centers,
14 and uses digital channels and professional networks and jobsites (such as
15 LinkedIn, Indeed, USAJobs, US National Labor Exchange, etc.) to
16 advertise positions and identify job seekers.

17 Q. Have these programs been effective and are they sufficient to meet the
18 Company's current needs?

19 A. While these efforts have been effective, with increased attrition, loss of
20 knowledge and skills and increased competition for talent, the Company
21 has an interest in identifying and further developing programs and
22 methods to source and develop talent locally.

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1 Q. Has Central Hudson identified other opportunities to recruit employees to
2 work at the Company?

3 A. Yes.

4 Q. What are those opportunities and how will they help meet the Company's
5 future hiring needs?

6 A. One way to meet future hiring needs is to develop programs that
7 showcase and highlight the benefits of entering into a career in the utility
8 industry in general and at Central Hudson in particular. Central Hudson is
9 therefore looking to create a formal workforce development program to
10 help the Company meet the following objectives:

- 11 • Developing skills and increased job opportunities for our community
12 and neighbors;
- 13 • Increasing awareness of careers in Energy and Science,
14 Technology, Engineering and Mathematics ("STEM") fields, and
15 awareness of Central Hudson as an employer in the Hudson
16 Valley;
- 17 • Creating targeted talent pipelines,
- 18 • Diversifying talent pipelines and supporting Central Hudson's DEI
19 strategy, and
- 20 • Creating equitable opportunities by providing training and hands-on
21 experience.

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1 Q. How will this workforce development program work?

2 A. The program will require hiring of two dedicated resources in the Rate
3 Year to have centralized oversight of outreach activities, programs, and
4 partnerships. The program would include the development of a strategy
5 and action plan based on a needs assessment. Identified focus areas
6 would include: partnering with educational institutions on curriculum
7 development, work-based learning opportunities, awareness of careers in
8 energy and STEM fields, as well as potential investment in community
9 programs and institutions that support these objectives such as non-profit
10 organizations in the service territory that focus on school to work
11 readiness.

12 Q. What are the Company's plans to conduct this needs assessment?

13 A. The needs assessment and program start date are contingent on the
14 procurement of dedicated resources as described above. The Company
15 plans to conduct a needs assessment within the first half of the Rate Year.

16 Q. When will the program start?

17 A. Once the needs assessment is complete, a strategy and action plan will
18 be developed. It is expected that initial programming will commence
19 approximately nine months after resources are in place.

20 Q. What outcomes does Central Hudson expect to achieve with this
21 program?

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1 A. The Company expects that over time the organization will have an
2 increased qualified candidate pool and talent pipeline as well as an even
3 higher hiring success rate from within the service territory.

4 Q. Please describe the roles and responsibilities for the two incremental
5 resources needed within Human Resources to meet the program
6 objectives stated above.

7 A. The Company anticipates staffing this effort with two full-time employees.
8 One focused on program administration and one focused on building
9 relationships and partnerships in the community and raising awareness of
10 Central Hudson as an employer.

11 Q. Does Central Hudson anticipate incurring non-labor incremental costs to
12 run this program? If so, what are those costs, and were they included in
13 the development of revenue requirements?

14 A. Yes, the Company anticipates incurring costs associated with marketing
15 and branding development and materials for these objectives. Costs for
16 these efforts are estimated to be \$100,000 in the Rate Year. This
17 estimate was provided to the Revenue Requirements Panel for inclusion
18 in the development of revenue requirements.

19 Q. How would this program support the Company's DEI strategy?

20 A. Diversifying the Company's talent pipeline and employee demographics is
21 a foundational component of the Company's DEI program.

22 Q. Please describe the Company's current DEI program.

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1 A. The Company's current DEI program is led by a Director of Diversity,
2 Equity, and Inclusion with support from an employee DEI Committee. The
3 DEI Committee consists of a diverse group of employees who support the
4 organization's future goals and vision. The DEI Committee members have
5 been trained to be DEI ambassadors and support Central Hudson's goals.
6 The current strategic plan focuses on the development of a companywide
7 employee value proposition inclusive of DEI, supporting committee
8 mentorship and communication, as well as efforts to increase positive
9 perception on how discrimination/harassment/bias is handled and
10 communicated.

11 Q. Are incremental resources needed within Human Resources to meet the
12 program objectives stated above?

13 A. Yes. Incremental resources to be hired in the Rate Year include a Project
14 Manager, a Program Manager, and a Change
15 Management/Communications Lead. The Project Manager position would
16 lead interdepartmental projects outlined in the plan to be completed on
17 time, within budget and to specifications. The Program Manager would
18 lead programs within the project plans from concept to completion
19 including vendor management, training, facilitation, and data analysis.
20 The Change Management/Communications Lead would structure change
21 to mitigate risk, increase change adoption, anticipate resistance, and
22 communicate key messages that align with the business strategy. Further

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1 descriptions for these resources can be found in the resource planning
2 documents included in Central Hudson’s DEI Strategic Plan filed in Case
3 22-M-0314 Proceeding to Review Utilities’ Diversity, Equity, and Inclusion
4 Practices.

5 Q. Does Central Hudson anticipate incurring non-labor incremental costs to
6 run this program and are those costs built into the revenue requirement in
7 this case?

8 A. Yes, \$585,000 has been included in the development of revenue
9 requirement for consulting services and access to an IT platform (the
10 Chronus Mentoring Platform) needed to support the mentoring programs.
11 Consultant supported efforts include executive and employee workshops
12 for culture and Employee Value Proposition (“EVP”) alignment.
13 Development of a diagnostic summary report to support culture change,
14 reinforcement workshops, key performance indicators (“KPI”) development
15 and EVP implementation plans. Implementation of EVP includes culture
16 training for all employees inclusive of diversity, equity, and inclusion. The
17 mentoring platform technology allows for the development, facilitation,
18 scheduling, and tracking of multiple mentoring programs as well as the
19 hosting of training materials within a single software platform.

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V. TRAINING

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Q. Please describe how the Company's evolving workforce impacts the Company's current training program.

A. Current training needs are driven by evolving workforce demographics including 34% of employees having less than five years of service, in conjunction with emerging technologies and best practices that require training prior to adoption. Dedicated resources focused on creating and delivering formalized, scenario-based training programs to improve employee proficiency through enhancement of the quality and quantity of employee training is a priority for the Company. In addition to training and upskilling existing employees in anticipation of retirements, unexpected attrition has resulted in an overall increased demand for technical training and career development programs. As a result, the Company has prioritized technical, professional development and onboarding training programs and continues to enhance these programs to meet employee needs.

Q. Please describe the current state of the Company's training programs.

A. The Company continues to focus on delivering increased training for our workforce. As demonstrated in the graph below, the Company delivered over 67,000 hours of training in 2022, which is a 56% increase compared to 2019.

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The current training programs are geared towards building and sustaining a knowledgeable workforce as well as meeting safety and compliance requirements. The training programs are categorized as follows: 1) safety and compliance; 2) progression; 3) operator qualification (“OQ”); 4) storm restoration; 5) professional and supervisory skills; and 6) employee onboarding training. Administration of job or department specific training programs and on-the-job training remains mostly decentralized with business units managing their specific training needs, apart from the line department, gas operations, operation services, and storm restoration which have dedicated centralized resources to support their training activities.

Q. Please identify the current resources employed at Central Hudson in the Training Department.

A. The Training Department is comprised of six FTEs dedicated to designing, developing, coordinating, and further enhancing Company training and development programs.

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1 Q. Please provide a brief overview of the training programs the current
2 resources oversee.

3 A. The Training Department consists of four Training Specialists focused on
4 progression, OQ, storm restoration, and safety and compliance training for
5 five operational areas: Safety, Electric, Gas, Substation Operations and
6 Storm Response. One Training Specialist is focused on developing and
7 delivering corporate compliance training, professional and supervisory
8 development training, and employee onboarding. Also, one Supervisor of
9 Training and Development is focused on instructional design,
10 administration of the HRIS Learning Management System (“LMS”), and
11 oversight of employee training and development initiatives. These
12 positions partner with Company leaders, subject matter experts, and an
13 operational Training Advisory Group (“TAG”) to develop, facilitate, and
14 coordinate technical, compliance and professional skills development
15 training. Additionally, these positions assist the Manager of Talent
16 Development to evaluate training and development needs across the
17 organization and remain abreast of best practices and industry trends.

18 Q. How would you summarize the current state of the Company’s training
19 programs?

20 A. The current state of training has enabled the Company to meet required
21 safety and compliance requirements while making improvements to the
22 Company’s training programs as a result of two incremental training

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1 resources hired since the last rate filing in Cases 20-E-0428 and 20-G-
2 0429. The utilization of these incremental resources enabled the
3 Company to deliver new and enhanced training programs, as well as shift
4 from computer-based training to formalized instructor-led, hands-on
5 training for some of the Company's safety and technical offerings.
6 Additionally, these internal resources were critical to ensure safe delivery
7 of all compliance and safety related training during the COVID-19
8 Pandemic.

9 Q. Is the planned level of training aligned with historic year expenditures?

10 A. The planned level of training is greater than the historic year expenditures.
11 To align with our training and development program needs for the existing
12 and expanding workforce, and to allow for a full return to travel as industry
13 leaders are offering more in-person training courses post COVID-19
14 Pandemic, the projected expense for the bridge period and Rate Year has
15 been normalized.

16 Q. Please identify specific training programs that were not captured in the
17 historic year.

18 A. Please refer to Exhibit __ (WCBP-3), for the training programs that are
19 incremental to the historic year. These trainings are projected to cost an
20 incremental \$643,600 in the Rate Year.

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1 Q. Please describe the business need for enhanced employee training.

2 A. In addition to the changing needs of our workforce, we need to keep pace
3 with the changes in our business. Technology continues to change how
4 we operate and therefore increases the demand in providing continuous
5 training to equip the workforce with the skills required to work safely and
6 productively as we advance our grid modernization efforts. Additionally,
7 increased penetration of Distributed Energy Resources (“DERs”) to
8 support CLCPA including solar generation and electrification of heating
9 and transportation are accelerating and becoming more prevalent in our
10 service territory. These emerging industry and technological advances
11 are requiring the Company’s workforce to develop new skills as the
12 Company replaces aging infrastructure and integrates new technologies
13 and enhanced communications into our systems. As the technologies that
14 are used in the maintenance and distribution of our system become more
15 advanced, there is a growing need to train and develop both new and
16 experienced employees with specialized technical skills and the hands-on
17 demonstration of these skills to effectively operate modernized technology
18 and specialized tools.

19 Q. Are there other factors that are impacting the Company’s ongoing need to
20 enhance its training activities?

21 A. While improvements have been made to training programs with the
22 addition of dedicated resources, more progress is needed to enhance the

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1 quality and quantity of training to continue to evolve to increased
2 centralized, instructor-led programs. As discussed in the direct testimony
3 of the Common Capital and Operations Panel, both the Indoor Operations
4 Training Area and the training classrooms are designed to provide a
5 space for “hands-on” training in a controlled environment for a wide cross
6 section of our workforce. Centralization of facilities and equipment allows
7 for replication of field specific scenarios in a safe and controlled
8 environment rather than waiting for each scenario to be trained on-the-job.
9 However, due to delays in the construction of a dedicated training facility,
10 much of department specific training remains decentralized. Additionally,
11 as the Company’s customer service operation continues to modernize and
12 expand its digital channels, training programs will need to be created to
13 ensure employees have the knowledge and skills necessary to meet our
14 customers’ changing expectations.

15 Q. What additional dedicated training labor resources does the Company
16 need to support the enhancements?

17 A. Included in Exhibit __ (WCBP-2), are seven incremental FTEs that the
18 Company requires to support its training enhancements through the end of
19 the Rate Year. First, during the bridge period, the Company plans to fill
20 five training roles, including one Logistics Coordinator, one Instructional
21 Designer, and three new union training roles – two Power Line Technician
22 Trainers and one Gas Mechanic Trainer. Second, two additional roles are

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1 needed during the Rate Year, a second Instructional Designer and one
2 Technical Writer.

3 Q. Please describe in more detail the roles of the seven incremental
4 employees that are required to improve the quality and quantity of the
5 Company's training programs.

6 A. The positions and associated responsibilities are as follows.

7 One Logistics Coordinator: This role would perform all logistical,
8 administrative functions supporting all training programs.

9 Two Instructional Designers: Responsible for collaborating with subject
10 matter experts to identify training needs and to develop and design
11 engaging learning content. This includes procedure documentation,
12 maintenance, and organization. These roles will be responsible for
13 developing and maintaining all professional and technical training.

14 One Technical Writer: Responsible for partnering with subject matter
15 experts to document work processes and procedures.

16 Two Power Line Technician Trainers and One Gas Mechanic Trainer:

17 These newly established training roles will be utilizing subject matter
18 experts as dedicated full-time trainers to aid in developing training
19 programs utilizing live scenarios and actual equipment and to focus on the
20 formalized development, delivery and maintenance of progression training
21 for our classified roles. Additionally, they will assist in the development of
22 work methods and procedures and ensuring that employees have strong

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1 knowledge of safe work practices by ensuring all updates and changes
2 are incorporated into policies and procedures and trained and
3 communicated consistently to all affected work groups in a timely manner.

4 Q. Are there any additional roles outside of Human Resources that are
5 needed to support training?

6 A. Yes. During the bridge period, the Company will add a Training
7 Supervisor to the Contact Center to oversee enhanced Contract Center
8 training programs to support new processes and technology and
9 enhanced customer experience.

10 Q. Please provide an overview of corporate safety programs that Central
11 Hudson plans to implement.

12 A. Under the general direction of the Safety Manager, the Company is
13 seeking to implement a Human and Organizational Performance (“HOP”)
14 Program and to bring on an additional resource to provide incremental
15 field safety oversight, which includes further development of our written
16 safety policies, procedures, and safety guidelines.

17 Q. Please describe the additional labor resources required to enhance the
18 corporate safety program.

19 A. The Company is seeking two additional resources, as described below.

20 One Senior Specialist – Human and Organizational Performance:

21 Responsible for creating and instituting the HOP program. HOP is an
22 operating philosophy focused on protecting people, products, and property

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1 from human error. It starts by recognizing that human error is part of the
2 human condition. Performance improvement is pursued through
3 identification of hidden weaknesses and traps associated with the
4 operating systems. Under general direction of the Safety Manager, this
5 employee will apply human performance concepts, policies, procedures,
6 and principles for reducing human error and interface with organizational
7 personnel and HOP practitioners on organizational team
8 activities/investigations and determine methodologies to reduce the
9 seriousness of events and lessen the impact of errors. This position is
10 intended to integrate HOP into the Company's culture, systems, programs
11 and activities, and interface with management, employees, and
12 subcontractors. This employee will also conduct HOP event investigations
13 to identify hidden latent deficiencies.

14 One Senior Safety Specialist: Under the general direction of the Safety
15 Manager, tasked to administer, develop, and implement the Company
16 safety, health, and fire safety programs to ensure compliance with federal,
17 State and local laws, rules and regulations. This employee will also have
18 the following responsibilities:

- 19 • Perform evaluation of major safety projects and programs to
20 assure the quality and efficiency of those services.
- 21 • Conduct worksite reviews for Company and contractor crews to
22 protect customers and members of the public from unsafe

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1 conditions and actions which could lead to accidental
2 occurrences.

- 3 • Analyze the reports of injury, illness and motor vehicle accidents
4 for completeness and accuracy to ensure compliance and
5 produce reports by organization.
- 6 • Identify trends and implement corrective action measures to
7 mitigate risk of future injury and motor vehicle accidents.
- 8 • Review regulatory standards and rules and converts them into
9 Company policies, procedures, and guidelines, as needed.

10 Q. Please explain the need for these incremental labor resources.

11 A. The Company is seeking these resources to provide incremental oversight
12 and further development of our corporate safety program. These
13 resources are needed to develop an increased focus on safety in all
14 departments, contractor safety, contractor field inspections, contractor
15 safety plan review process, and contractor OSHA program compliance.
16 The positions will support the Company's ongoing drive for improvement
17 not only for our Company forces, but our contractor work crews as well.
18 Due to increased capital projects and field construction work being
19 completed by Company and contractor crews, additional staff are needed
20 to inspect Company and contractor construction projects for safe
21 practices. Due to the significant change in the Company's workforce
22 experience, more oversight is needed to ensure employee, contractor, and

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1 public safety. Company safety policies, procedures, and guidelines will be
2 reviewed and updated to ensure adherence with all applicable regulations
3 and industry best practices. Additionally, the implementation of HOP will
4 further enhance our overall safety culture and offer additional tools and
5 support for our employees and contractors to provide enhanced safety to
6 our employees, contractors, and allow for increased public safety.

7 **VI. COMPENSATION**

8 Q. Please describe Central Hudson's overall compensation strategy and
9 philosophy.

10 A. There are several components to Central Hudson's compensation
11 strategy, with each component contributing to the total compensation
12 package. It is this total compensation package (not its individual
13 components in isolation) that is evaluated in the employment market.
14 Therefore, the Commission should evaluate the Company's total
15 compensation package as a whole rather than consider its component
16 parts individually.

17 Q. Why is it important for Central Hudson to maintain a total compensation
18 program that is competitive in the employment market?

19 A. Maintaining a total compensation program that is competitive in the
20 employment market is crucial to Central Hudson's ability to retain the high-
21 quality employees it currently employs and to attract high-quality
22 candidates for existing or new roles. The Company's ability to attract

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1 high-quality candidates is imperative not only to meet the incremental
2 staffing needs as described in the Panels' testimony, but also to fill
3 vacancies. Maintaining the competitiveness of Central Hudson's total
4 compensation program has become even more important as the portion of
5 the workforce without a defined benefit pension and other post-
6 employment benefits continues to grow. Without a market competitive
7 compensation and benefits package, these employees are more mobile
8 and more likely to consider leaving the Company. Remaining market
9 competitive is crucial to maintaining employee retention and addressing
10 the unprecedented rates of attrition that we have recently experienced and
11 previously discussed in this testimony. If Central Hudson is unable to
12 maintain a competitive total compensation program, it may put the
13 Company's ability to perform its core functions at needless risk of
14 deterioration.

15 Q. Please describe Central Hudson's cash compensation program for non-
16 executive, non-union employees and how Central Hudson manages the
17 costs of the program.

18 A. The Company has adopted a strategy to compensate employees with
19 base salaries at the 50th percentile of overall compensation for
20 comparable jobs in the Northeast United States. We employ the services
21 of Mercer, a nationally recognized compensation consultant, to establish
22 the range of those salaries. We believe paying at the median level

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1 provides the Company with the ability to attract new qualified employees
2 and retain its existing quality employees. Targeting compensation at the
3 median level keeps the Company competitive while also managing
4 employee compensation costs in a manner that is reasonable and
5 beneficial for customers.

6 Q. Is the compensation approach applied to Central Hudson’s executives
7 similar to the approach described above for the non-executive, non-
8 unionized employees?

9 A. Yes, it is. Central Hudson uses Frederic W. Cook & Co., Inc. (“Cook”), a
10 nationally recognized executive compensation consultant, to establish the
11 median level of salaries for Central Hudson’s executives. Through the use
12 of this consultant, Central Hudson benchmarks its executive positions to
13 the median of overall compensation for comparable jobs in similarly sized
14 companies. The retention and use of Cook as an executive compensation
15 consultant was within the discretion and responsibility of the Governance
16 and Human Resources Committee, as part of the Board of Directors of the
17 Company, while the Human Resources division determined which
18 compensation consultant the Company would use for the management
19 organization. Both Mercer and Cook are recognized compensation
20 industry experts.

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1 Q. Was a collective bargaining agreement in place between the Company
2 and its union workers during the historic period (twelve months ending
3 March 31, 2023)?

4 A. Yes. An agreement expired April 30, 2022 and a new five-year collective
5 bargaining agreement began May 1, 2022 and is effective through April
6 30, 2026 and covers the vast majority of union employees. There is
7 another collective bargaining agreement for union employees in the
8 System Operations area that is effective from April 1, 2021 through March
9 31, 2024, which was also in effect through the historic period.

10 Q. Will these same collective bargaining agreements be in place for the full
11 forecasted Rate Year period (July 1, 2024 - June 30, 2025)?

12 A. No. The Company and union will begin negotiating a new contract for
13 System Operations in March 2024.

14 Q. What are the negotiated wage increases for union employees beyond the
15 historic year ended March 31, 2023 through the Rate Year?

16 A. The current labor agreement provides for a 2.5% wage increase on May 1,
17 2023, a 2.25% wage increase on May 1, 2024, and a 3% wage increase
18 on May 1, 2025 for the I.B.E.W. contract that represents the majority of
19 Central Hudson's unionized workers. The System Operations agreement
20 provides for a 2.5% wage increase on April 1, 2023, and the agreement
21 expires on March 31, 2024. Subsequent to the expiration of this
22 agreement and absent any more precise forecast assumptions for this

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1 group of employees, a wage increase of 4.5%, which is consistent with the
2 overall wage increase discussed later in this testimony, is assumed to
3 occur on April 1, 2024 and 2025. These approved and assumed wage
4 increases are reflected in the calculation of labor expense included in the
5 development of revenue requirements.

6 Q. What are the projected payroll increases for management employees,
7 excluding executives, beyond the historic year ended March 31, 2023
8 through the Rate Year?

9 A. An assumed overall compensation increase of 4.5% from the March 31,
10 2023 level was employed effective March 1, 2024 and March 1, 2025 to
11 forecast the Rate Year payroll for non-executive, non-union employees.

12 Q. How was the projected payroll increase of 4.5% determined?

13 A. The Company determined the overall compensation increase to be 4.5%
14 based on Mercer's merit increase recommendation in the range of 4% -
15 5% as further described in Mercer's recommendation included as
16 Schedule B of Exhibit __ (WCBP-4).

17 Q. What are the projected base payroll increases for executives beyond the
18 historic year ended March 31, 2023 through the Rate Year?

19 A. Similar to non-executive management employees, an assumed overall
20 compensation increase of 4.5% from the March 31, 2023 level was
21 employed effective January 1, 2024 and January 1, 2025 to forecast the
22 Rate Year base payroll for executive employees.

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1 Q. What elements of employee compensation are reflected in the Company's
2 revenue requirement?

3 A. The Rate Year revenue requirements include all base and overtime
4 compensation for the unionized workforce. Additionally, Rate Year
5 revenue requirements includes the following non-union employee
6 compensation:

7 • For its management Foreman positions, the Company is
8 requesting revenue requirements for base salaries, overtime, and a
9 variable compensation component;

10 • For all other non-Foreman, non-executive management positions,
11 the Company is requesting revenue requirements for base salaries
12 and a variable compensation component; and

13 • For its Executive management positions, the Company is
14 requesting revenue requirements associated with base salaries and
15 a portion of short-term incentive ("STI") pay, which was determined
16 in a manner consistent with that recovered in the Company's
17 current Rate Plan. That is, the Company is continuing to seek
18 recovery for STI pay linked to safety, reliability, customer service
19 and the environment, as well as a limited portion linked to meeting
20 financial metrics.

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1 Q. Describe the compensation program for non-executive, non-union
2 employees.

3 A. The Company employs an annual merit compensation increase for non-
4 executive, non-union employee compensation. The annual merit
5 compensation increase is established utilizing guidance from Mercer and
6 does not include any additional bonus or incentive-based compensation
7 for the non-executive, non-union employees.

8 Q. Is the annual merit compensation increase set within the basic parameters
9 of the general market-based wage increases, excluding compensation for
10 traditional incentive-based compensation?

11 A. Yes.

12 Q. Is the Company considering any future modifications to its cash
13 compensation practices?

14 A. Yes, the Company has evaluated the addition of a variable incentive
15 compensation component for the non-executive, non-union employee
16 population.

17 Q. Does the compensation program for non-executive, non-union employees
18 currently contain any incentive-based compensation?

19 A. No, not at this time.

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1 Q. Why is the Company considering this modification to the non-executive,
2 non-union compensation program?

3 A. A variable incentive compensation component will aid in attracting and
4 retaining qualified employees and better align with market compensation
5 levels and practices. It will also increase the alignment of goals and
6 strategic objectives among customers, employees, and the Company.

7 Q. Is the Company unique in seeking to add a variable incentive
8 compensation component as part of base compensation?

9 A. No. Inclusion of a variable incentive compensation component as part of
10 an employee's overall compensation package is a common practice for
11 utilities.

12 Q. Did any findings or recommendations from a previous Management Audit
13 of the Company discuss the addition of an incentive compensation
14 component?

15 A. Yes, in the July 16, 2018 Order Approving an Implementation Plan in
16 Case 16-M-0001, it was recommended that Central Hudson should
17 expand the use of incentive compensation based upon corporate-wide
18 performance to its non-executive management employees as an
19 alternative to the continuation of the current compensation design in which
20 most pay is fixed.

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1 Q. Did the recommendation from Case 16-M-0001 include proposed criteria
2 for a variable incentive compensation component?

3 A. Yes. The recommendation stated that performance measurements used
4 to determine the level of incentive compensation paid should be designed
5 to appropriately benefit customers, employees, and shareholders at
6 targeted levels which encourage continuous improvement over time.

7 Q. Did the Company retain a compensation consultant to evaluate the
8 addition of a variable incentive compensation component?

9 A. Yes, as recommended in Case 16-M-0001, the Company retained a
10 compensation consultant to assist in this evaluation. The Company went
11 out to bid and selected Mercer to perform the comprehensive
12 compensation assessment and initial Total Remuneration study. The
13 comprehensive compensation assessment was completed in December
14 2019 and the initial Total Remuneration study was completed in February
15 2020 and updated in March 2023.

16 Q. What were the results of Mercer's compensation assessment?

17 A. Exhibit __ (WCBP-4), Schedule A summarizes Mercer's evaluation
18 processes, assessments and recommendations including a proposed
19 salary structure consisting of salary grades and ranges, which the
20 Company subsequently adopted, and a recommendation for the inclusion
21 of a variable incentive compensation component for the non-executive,
22 non-union employee population.

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1 Q. Please summarize Mercer's methodology for completing the assessment.

2 A. Mercer assessed the competitiveness of the Company's salary structure
3 through the use of market data from compensation surveys for a
4 comprehensive sample of non-executive non-union jobs. Mercer reviewed
5 the Company's job responsibilities and met with Human Resources to
6 confirm that the selected survey job matches were appropriate. A
7 geographic differential adjustment was applied to all market data.

8 Q. What were the findings of the base salary structure assessment?

9 A. Mercer determined that Central Hudson's base salary for the benchmark
10 jobs approximates 50th percentile when compared to market base and falls
11 between the 25th and 50th percentiles when compared to target total cash
12 compensation.

13 Q. As part of the competitive compensation assessment, did Mercer
14 recommend the addition of a variable incentive compensation component?

15 A. Yes, based on their evaluation, Mercer recommended the addition of an
16 incentive compensation plan and determined that the combination of the
17 new salary structure and an incentive plan would create a market-
18 competitive compensation program for the Company which is the basis for
19 the Company's incentive compensation plan proposal in this case.

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1 Q. Please summarize how the Company evaluated its compensation and
2 benefits package in comparison to similarly situated companies as part of
3 its total remuneration review (“Review”).

4 A. The Review compared the Company’s total compensation and benefits
5 package to those offered by a peer group of similarly situated companies,
6 which is consistent with Commission policy and market practices. The
7 Company’s evaluation was based on blended market data that included
8 utility, energy, and general industry companies (referred to within this
9 testimony as “Blended Compensation Survey Data” and “Blended Benefits
10 Peer Group,” hereafter referred to as “Blended Competitive Market Data”).

11 Q. What were the Review’s overall findings with respect to the Blended
12 Competitive Market Data analysis?

13 A. Please see Confidential Exhibit __ (WCBP-5) entitled “Summary of
14 Findings” and Exhibit __ (WCBP-6) entitled “Benefit Variance Results.”
15 With respect to the aggregate pay of non-executive, non-union
16 employees, the Blended Competitive Market Data analysis found that the
17 Company’s aggregate total compensation and benefits’ competitiveness
18 was 7% below the 50th percentile with further detail available for each
19 compensation element in Confidential Exhibit __ (WCBP-5). The
20 traditional defined benefit pension is only available to employees hired
21 prior to January 1, 2008 (non-union) and May 1, 2008 (bargaining unit
22 employees), of these employees 50% are expected to retire within the

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1 next five years. Accordingly, the blended aggregate total compensation
2 and benefits competitiveness is projected to decrease to approximately
3 10% below the 50th percentile within the next five years.

4 Q. Please continue discussing the Review by providing an overview of the
5 general approach of the Review.

6 A. The Review compared the value of the Company's non-executive, non-
7 union employees' compensation and benefits package to the Blended
8 Competitive Market Data for compensation and benefits. The following
9 components were valued from either the Survey Data or the Peer Group
10 data to derive the Blended Competitive Market Data: Base salary, annual
11 incentive pay, and benefits (including retirement, pre- and post-retirement
12 medical, dental, life, flexible spending accounts, and short- and long-term
13 disability).

14 Q. Please describe the peer companies used to analyze the competitiveness
15 and reasonableness of the Company's non-executive, non-union
16 employee compensation and benefits package values.

17 A. Mercer used a standard methodology for valuing the competitiveness and
18 reasonableness of the Company's total compensation and benefits
19 including reputable published survey data sources for compensation
20 evaluation and a defined peer group for the benefits evaluation, as
21 relevant published surveys are not available. The surveys selected for the
22 compensation evaluation included similarly situated organizations and

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1 jobs in the utility, energy, and general industry sectors. Utility industry
2 data was utilized for jobs unique to the industry and a blend of industry-
3 specific and general industry data (“Blended Compensation Survey Data”)
4 was used for jobs that are comparable across industries. The
5 compensation data reflects the roles and responsibilities of the jobs that
6 were evaluated for the participants in the survey sources (not a specific
7 peer group). For the benefits evaluation, Mercer evaluated the benefits
8 using their proprietary benefits evaluation tool (Benefits Valuation
9 Analysis™) based on a blended peer group (“Blended Benefits Peer
10 Group”) of organizations that included companies sized similarly to Central
11 Hudson including both utility companies in the U.S. and general industry
12 companies within a radius of approximately 300 miles of the Company’s
13 headquarters.

14 Q. Did the Company review Mercer’s selection of peer companies?

15 A. Yes. The Company worked with Mercer to refine the peer group list such
16 that the Blended Benefits Peer Group consisted of 20 utility companies
17 similar to the Company in their scope of operations (revenue, assets,
18 employee count, and geography) and 20 general industry companies of
19 similar size (revenue, assets, and employee counts) in a reasonable
20 vicinity of the Company. The resulting Blended Benefits Peer Group can
21 be found in Exhibit __ (WCBP-7).

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1 Q. How did the Company benchmark non-executive, non-union jobs against
2 its peers?

3 A. Please refer to Confidential Exhibit __ (WCBP-8) Census Data and 2023
4 Competitive Analysis and Confidential Exhibit __ (WCBP-9) entitled
5 “Benchmark Job Matches”. Confidential Exhibit __ (WCBP-8) lists all non-
6 executive, non-union jobs at the Company, and shows whether the job
7 was benchmarked as indicated with information in the Benchmark Job
8 Title column. Jobs may not be benchmarked for a variety of reasons
9 including: (a) lack of jobs with similar responsibilities, job duties and/or
10 organization level in the survey data (b) lack of job match due to limited
11 sample size of survey participants or (c) jobs that were not included in the
12 compensation review for other reasons, e.g., Mercer may have
13 benchmarked a level 1 and level 3 and determined the level 2 could be
14 slotted in-between the two jobs. Confidential Exhibit __ (WCBP-8) also
15 includes the competitive total compensation and benefits assessment.
16 This Exhibit includes the Salary Grade, Title, Market Data Flag,
17 Benchmark Job Title (assumes the most common title from the various
18 survey sources), Benchmark Role Benchmark Level, the incumbent’s total
19 compensation and benefits, the 50th percentile of the Blended Competitive
20 Market Data, and the variance (a percentage determined by dividing the
21 employee’s total compensation by the Blended Competitive Market Data).
22 Confidential Exhibit __ (WCBP-9) lists the survey matches and job

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1 descriptions for the matches used for each benchmark job referenced in
2 Confidential Exhibit __ (WCBP-8). In most instances, there are multiple
3 lines per benchmark job, as Mercer used multiple survey sources for the
4 competitive compensation analysis. For each job code, this report
5 provides the survey sources, survey job codes, survey job levels, survey
6 job title, the survey job description, and the current grade for the
7 benchmark job. Approximately 64 job titles covering 203 non-executive,
8 non-union employees were compared to the external market data. The
9 results of the external market data were used to test the market
10 competitive salary structure, with 11 grades, to ensure alignment to
11 market. Jobs that were not compared to the external market data were
12 assigned to appropriate grades, based on rigorous comparability of the
13 knowledge, impact, responsibilities, and skills of these jobs as compared
14 to those that were compared to the outside market data. The midpoint of
15 each grade represents the average 50th percentile of those jobs that were
16 compared to the external market jobs and assigned to a particular grade.
17 The 11-grade salary structure was adjusted to align with market
18 movement.

19 Q. What is included in the employee compensation analysis?

20 A. Mercer reviewed the base salary, annual incentive compensation
21 (available in the market), and total cash compensation (sum of base salary
22 and annual incentive compensation) provided at the Company and in the

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1 external market. No long-term incentive compensation was considered in
2 the compensation analysis for any positions in the external market, as the
3 Company does not offer long-term incentive compensation to its non-
4 executive, non-union employees. However, long-term incentive/equity
5 compensation is prevalent within the external market, and is increasingly
6 common at higher base salary levels. Irrespective of the prevalence in the
7 market, the Company chose to be conservative in their view and did not
8 include long-term incentives/equity compensation in its analysis of
9 compensation.

10 Q. Was the compensation survey data adjusted for geography?

11 A. Yes, a geographic differential of 10% was applied to the market
12 compensation data. The geographic differential shows the cost of labor
13 for Central Hudson's headquarters compared to the national average.
14 The differential the Company used also tracked with data from the
15 Economic Research Institute ("ERI"). It is important to note that
16 geographic pay differentials differ from cost-of-living adjustment where the
17 former represents the supply and demand for labor and the latter
18 represents the supply and demand for goods and services.

19 Q. What is included in the employee benefits value analysis?

20 A. The benefits value analysis included, to the extent provided by the
21 respective organizations, retirement/savings (defined benefit, defined
22 contribution, stock purchase); health/welfare (medical, dental, life

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1 insurance, health care and dependent care flexible spending accounts,
2 and post-retirement medical); and disability (short- and long-term disability
3 plans). Mercer reviewed the annualized value of the benefits provided at
4 the peer companies as compared to the annualized value of benefits
5 provided at Central Hudson. To assess benefit design competitiveness,
6 Mercer compared the plan that represented the median (50th percentile) of
7 the peer group to the Company's plans.

8 Q. Please describe the process used to assess the value of the peer
9 company benefits programs.

10 A. For the market levels of benefit programs (Confidential Exhibit __ (WCBP-
11 5), Exhibit __ (WCBP-6) and Confidential Exhibit __ (WCBP-10) Benefit
12 Value results), Mercer used the value that was generated from their
13 proprietary benefits tool, Benefit Valuation Analysis™. Under this tool,
14 non-retirement benefits are valued using the coverage replacement
15 method which assigns the same value to plans of different organizations
16 with the same benefits, irrespective of the costs to the employers. This
17 includes pre- and post-retirement medical, dental, flexible spending
18 accounts, and short- and long-term disability. The values represent the
19 cost to the employee of the employer-provided benefits if the employee
20 left the employer and were to duplicate them in the marketplace, net of
21 any employee contributions. In many instances, these amounts are
22 greater than the cost to the employer because of the greater marketing,

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1 administrative, and underwriting costs associated with an individual plan.
2 A fixed value of \$13,800 for health/welfare benefits, based on the 50th
3 percentile market values for the Blended Peer Group, were used as the
4 value of these benefits for all positions, as they do not vary significantly
5 based on compensation. Long-term and short-term disability benefits
6 were calculated as 1.3% and 0.4% of base salary, respectively, for the
7 same set of generic employee profiles used for health/welfare benefits as
8 were life insurance benefits calculated at 0.3% of base salary. For the
9 market value of retirement benefits, Mercer determined the equivalent
10 annualized percentage of compensation contributed to the retirement
11 plans separately for defined benefit and defined contribution plans for
12 each peer company using the following three profiles representative of the
13 Company's workforce, and used profiles with total cash compensation at
14 \$56,500, \$90,000, and \$122,800. (The respective median retirement
15 percentages are 8.0%, 8.0%, and 7.7% of total cash compensation.) The
16 market value of total benefits for each job was determined by adding the
17 value derived from applying the retirement percentage, adding the value
18 derived from applying the long-term and short-term disability percentages,
19 adding the value derived from applying the life insurance percentages,
20 and then adding \$13,800 for health/welfare.

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1 Q. Please describe the process used to assess the value of the benefits
2 programs of the Company.

3 A. For the Company market value of benefits, since the Company has a
4 grandfathered defined benefit retirement plan only offered to employees
5 hired prior to January 1, 2008, the annualized value of the retirement
6 benefit was evaluated based on the Company formula that applies to the
7 employee, based on their date of hire. The annualized values of
8 retirement benefits were calculated in a similar manner as described
9 above for the peer companies, but using each employee's compensation,
10 age, and date of hire. For those hired after December 31, 2007, Mercer
11 used the formula contribution percentage of base salary established by
12 the defined contribution plans. Health/welfare, long-term and short-term
13 disability, and life insurance benefits were calculated for the Company in
14 the same manner as calculated for the peer companies. Constant dollar
15 amounts of \$12,600 for health/welfare benefits were used as the value of
16 these benefits for those not eligible for the post-retiree medical plan and
17 \$20,600 for those who are eligible for the post-retiree medical plan. Long-
18 term and short-term disability benefits were valued at 0.3% and 1.6% of
19 base salary, respectively. Only employees with ten or more years of
20 service are eligible for the employer-provided long-term disability benefit.
21 Life insurance benefits were valued at 0.5% of base salary.

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1 Q. How did Mercer combine the benefits results with the compensation
2 benchmarking to develop the competitive value of the total compensation
3 and benefits package value?

4 A. To evaluate the competitive total compensation and benefits, the value of
5 the competitive market benefits were added to the value of the market
6 total cash compensation for each position. While the underlying
7 companies in the Blended Compensation Survey Data and the Blended
8 Benefits Peer Group are not a 100% match, the sample sizes in both data
9 sources are sufficiently large so that the differences, if any, are mitigated
10 at the 50th percentile. For the peer companies, the annualized values of
11 benefits at the 50th percentile were added to total cash compensation at
12 the 50th percentile to determine total compensation and benefits for the
13 Blended Peer Group 50th percentile for those jobs that were compared to
14 the external market data ("Benchmark Jobs"). In some instances where
15 the job was not a Benchmark Job, Mercer averaged the median base
16 salary, total cash compensation, and median total remuneration for the
17 benchmark jobs in each respective grade to represent the market median
18 for these non-benchmark jobs. For the Company, annualized benefit
19 values were added to base salary to determine total remuneration. Market
20 and Company results were grouped and averaged by compensation Tier
21 as shown in Confidential Exhibit __ (WCBP-5), Exhibit __ (WCBP-6) and
22 Confidential Exhibit __ (WCBP-10).

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1 Q. What data sources were used for the Review?

2 A. The Company used the following data sources for the Review: Mercer's
3 US Benefits Benchmarking Database, 2022 Mercer Benchmark Database,
4 2022 Mercer Energy MTCS – US, 2022 Mercer Contact Center &
5 Customer Service Survey, WTW General Industry Executive 2022, and
6 WTW General Industry Mid-Management, Professional & Support 2022.
7 All compensation data was aged from the date when the survey was
8 effective to July 1, 2023 using a 4.0% update factor. The update factor
9 represents the 50th percentile percent of payroll projected to be provided
10 as base salary increases among 1,115 companies, and includes merit
11 increases, across the board increases, and cost-of-living increases found
12 in the 2022 Mercer US Compensation Planning Survey – November
13 Edition. The 4% update factor is confirmed in the 2023 Mercer US
14 Compensation Planning Survey - March Edition.

15 Q. What percent of the non-executive, non-union population was used in
16 calculating the total compensation and benefits?

17 A. All non-executive, non-union employees were included. Mercer used a
18 combination of the 64 Benchmark Jobs covering 203 non-executive, non-
19 union employees, and the estimated total cash compensation using the
20 salary grade midpoint plus average incentive compensation of the
21 benchmark jobs for the remaining non-benchmark non-executive, non-
22 union employees. All non-benchmark jobs were slotted into the salary

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1 grades/ranges based on rigorous comparability of the knowledge, impact,
2 responsibilities, and skills as compared to the benchmark jobs.

3 Q. Does Mercer feel that the sample size of benchmarked positions is
4 reasonable?

5 A. Yes, Mercer believes the sample size of the benchmark jobs is reasonable
6 for the following reasons:

7 1. Mercer conducted the initial total compensation and benefits review in
8 2019/2020 to establish the salary structure and competitive positioning.

9 As part of that study, 50.6% of the Company's non-executive, non-
10 union employee population were benchmarked. The most recent
11 Review reflects an update of the previous study. Best practice is to
12 conduct a formal evaluation of job grade assignments, salary levels
13 and range competitiveness within five years, if there are no major
14 organization changes or market changes. The salary structure
15 framework has been adjusted to reflect market trends and is still used
16 by the Company.

17 2. The 64 benchmark jobs covered 203 non-executive, non-union
18 employees out of 498 representing 40.8%. The benchmark jobs were
19 representative of jobs across the various functions and levels within
20 Central Hudson. The sample size of benchmark jobs aligns with best
21 practice range of benchmark jobs of 25% - 50%, since the Company

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1 has not experienced attrition issues that are unusual compared to the
2 labor market. It also has not undergone major organizational changes.

3 3. The benchmark jobs covered many jobs with a large number of
4 incumbents.

5 4. All non-benchmark jobs were slotted into the salary grades/ranges
6 based on rigorous comparability of the knowledge, impact,
7 responsibilities, and skills as compared to the benchmark jobs. For
8 example, Mercer may have benchmarked a level 3 and a level 5 job
9 and determined that the level 2 could be slotted below level 3 and the
10 level 4 could be slotted in between the two jobs at level 3 and level 5.
11 Given the rigorous slotting process, there is not a need to benchmark
12 every job.

13 5. There were some jobs with no similar job match in the survey based on
14 the job responsibilities, job duties and/or organization level or the
15 survey match did not have robust data due to limited sample size of
16 participants. Hence these jobs were excluded from the market study
17 and slotted based on the rigorous slotting comparison process.

18 Q. Please summarize Mercer's findings.

19 A. The Aggregate is 7% below the 50th percentile of the Blended Competitive
20 Market Data. Base Salary is 3% below, total cash compensation is 12%
21 below and benefits is 24% above market median. The value of benefits
22 represents only a small amount (\$6,300) over the market 50th percentile in

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1 comparison to the total cash and benefits, and is driven largely by the pre-
2 2008 grandfathered retirement benefit. Based on the actuarial valuations
3 assumptions used by Mercer, we expect the pre-2008 hire population to
4 decrease and the post-2007 hire population to increase, resulting in an
5 increase to the gap to the 50th percentile Blended Competitive Market
6 Data.

7 Q. Based on these findings, does Mercer recommend that a variable
8 incentive compensation component should be included as part of the
9 Company's compensation package for non-executive, non-union
10 employees?

11 A. Yes. Based on the findings, Mercer believes the Company should have
12 an incentive plan to be competitive with market.

13 Q. Is the Panel proposing incentive targets (as percent of base salary) based
14 on the results of the Review?

15 A. Yes, Mercer recommended and the Company is proposing to implement
16 the following target incentive opportunities (as percent of base salary) for
17 non-executive, non-union employees: Tier 1 (Managers and Controller) =
18 12%, Tier 2 (Non-Tier 1, Grades 6-11) = 10%, and Tier 3 (Non-Tier 1,
19 Grades 1-5) = 8%. With the incentives, the aggregate total cash
20 compensation is 3% below and benefits is 24% above market median.
21 However, when considered as a package, total compensation and benefits

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1 is at market median. Please see Confidential Exhibit __ (WCBP-10)

2 “Summary of Findings with Incentives.”

3 Q. Based on the findings and Mercer’s recommendation, is the Company
4 proposing that a variable pay component be included as part of the
5 compensation package for non-executive, non-union employees?

6 A. Yes. The Company believes that the Commission should evaluate the
7 Company’s total compensation package, including incentive
8 compensation, as a whole. The results of the Review demonstrate that
9 the inclusion of a variable incentive compensation component for the
10 Company’s non-executive, non-union employee population is a
11 reasonable business expense that reasonably aligns compensation with
12 market.

13 Q. Has the Commission provided guidelines for recovery of variable
14 compensation?

15 A. Yes. The Commission’s requirements were set forth starting at page 38 of
16 the June 17, 2011 Order Establishing Rates for Electric Service in Case
17 10-E-0362, “Proceeding on Motion of the Commission as to the Rates,
18 Charges, Rules and Regulations of Orange and Rockland Utilities, Inc. for
19 Electric Service.” The Commission adopted an either/or two-prong test
20 that allows recovery for variable compensation when a utility either: 1)
21 clearly and affirmatively demonstrates that overall compensation, including
22 incentives, is reasonable relative to similarly situated peer companies, or

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1 2) the variable compensation component is designed to return quantifiable
2 or demonstrable benefits to customers in a financial sense or in terms of
3 reliability, environmental impact, or customer service. The Commission
4 has subsequently followed these guidelines in other proceedings.

5 Q. Please provide additional support where the Commission has addressed
6 its standards for recovery of the variable component of non-executive,
7 non-union pay.

8 A. In its Order Denying Petitions for Rehearing and/or Clarification, issued on
9 November 21, 2011, in Case 10-E-0362 (page 6), the Commission stated:

10 “The second point we wanted to emphasize is that it is not
11 necessary to maintain an artificial distinction between
12 compensation in the form of traditional pay and benefits and
13 compensation that is incentive based. As we have stated
14 previously, we recognize that variable compensation and incentive
15 plans are common management tools aimed at encouraging
16 performance improvements that can lead to more competitive
17 operations. Consequently, if a utility can demonstrate that total
18 compensation including incentive compensation for a class of
19 employees is reasonable, with a comparable total compensation
20 study of similarly situated companies being the preferred
21 methodology, our concern about the relationship of incentive plan
22 objectives to ratepayer interests is substantially diminished.”

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1 Q. Is the Panel sponsoring an exhibit that describes the Company's proposed
2 variable incentive compensation plan?

3 A. Yes, please refer to Exhibit __ (WCBP-11) which contains a draft plan
4 document of the proposed variable incentive compensation component.

5 Q. What will be defined as the Plan Year for the program?

6 A. The plan will operate on a calendar year schedule, January 1st -
7 December 31st, and will be referred to as the "Plan Year."

8 Q. Are all non-executive, non-union employees eligible for the program?

9 A. The program will be available to all Central Hudson non-executive, non-
10 union employees. Participants rated as Not Observed or Unsatisfactory in
11 their performance appraisal for the Plan Year will not be eligible for an
12 award. An individual must be employed by September 30th to be eligible to
13 participate for the Plan Year. Individuals moving from Union to
14 Management must have been promoted into their management role by
15 September 30th to be eligible to participate for the Plan Year. The
16 participant must be an active employee as of the award payout date
17 (which is anticipated to be on or about March 15th of the following year) to
18 receive an award.

19 Q. Please explain how the variable incentive compensation component would
20 work?

21 A. Awards will be based off an employee's role, compensation grade, and
22 salary as of December 31st of the Plan Year. Each employee will be

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1 assigned to a tier based off of their role on that date. The tier structure is
2 provided below:

Employee Category
Tier 1: Manager & Controller
Tier 2: Non-Tier 1 & Comp. Grades 6 – 11
Tier 3: Non-Tier 1 & Comp. Grades 1 – 5

3

4 Q. How is the employee’s variable pay target percentage opportunity
5 determined?

6 A. The target percentage opportunity is dependent on the eligible employee’s
7 tier assignment and will be calculated on their base salary as of December
8 31st of the Plan Year. The table below provides the tiers and associated
9 payout opportunities:

10

Employee Category	Payout Opportunity
Tier 1: Manager & Controller	12%
Tier 2: Non-Tier 1 & Comp. Grades 6 - 11	10%
Tier 3: Non-Tier 1 & Comp. Grades 1 - 5	8%

11

12 Q. Please describe the incentive compensation component performance
13 measures.

14 A. Performance measures will fall into the categories of “Individual Overall
15 Performance Rating” and “Corporate Team Performance Goals.”

16 Q. What is the proposed individual overall performance rating and Corporate
17 team performance goal allocation?

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1 A. The allocation of team and individual performance will be determined by
2 tier. See below for the proposed tier assignments and allocation split
3 between individual overall performance rating and Corporate team
4 performance goals:

Employee Category	Corporate Team Performance Goals	Individual Overall Performance Rating
Tier 1: Manager & Controller	75%	25%
Tier 2: Non-Tier 1 & Comp. Grades 6 - 11	50%	50%
Tier 3: Non-Tier 1 & Comp. Grades 1 - 5	25%	75%

5

6 Q. Please describe the individual performance requirements.

7 A. The individual performance awards would be based on the employee's
8 overall performance rating. The Company ratings are as follows:

- 9 • Not Observed: "Employee in role for less than 3 months. Time
10 was not sufficient to evaluate performance."
- 11 • Unsatisfactory Contribution: Does not achieve expected
12 requirements. Significant and immediate corrective action needed.
- 13 • Inconsistent Contribution: Achieves some but not all expected
14 requirements.
- 15 • Consistent Contribution: Consistently achieves expected
16 requirements and demonstrates effective behaviors. May
17 occasionally exceed requirements.
- 18 • Exceptional Contribution: Significantly and consistently exceeds
19 expected requirements and is a model for others.

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1 Q. What are the eligible percent payouts based off of the individual overall
2 rating?

3 A. Employees that receive a “Not Observed” or “Unsatisfactory Contribution”
4 overall rating, will not be eligible to receive any portion of the individual or
5 team performance payout. Employees that receive an “Inconsistent
6 Contribution” overall rating have the opportunity to receive up to a 50%
7 payout (that will be applied to both the individual and team calculation)
8 and will be evaluated on a case-by-case basis. Employees that receive a
9 “Consistent Contribution” overall rating will be eligible to receive a 100%
10 payout. Employees that receive an “Exceptional Contribution” overall
11 rating will be eligible to receive a 125% payout.

12 Q. What are the proposed Corporate Team Performance Goal Categories?

13 A. The proposed Corporate Team Performance Goal Categories would be
14 derived directly from the Company’s Balanced Scorecard included within
15 the Company’s Business Plan.

16 Q. Has the Commission previously provided guidance for the types of goals
17 that would allow variable incentive compensation to be recovered in rates?

18 A. Yes, the Commission addressed this topic on page 6 of its Order Denying
19 Petitions for Rehearing and/or Clarification, issued on November 21, 2011,
20 in Case 10-E-0362 where it stated that, “As long as the plan does not
21 promote employee behavior that would be contrary to ratepayer interests
22 or Commission policies, the fact that it may contain financial, budgetary or

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1 other goals that benefit shareholders as well as ratepayers will not, by
2 itself, be grounds for disallowing funding in rates, even if the relative
3 benefits are unquantified.”

4 Q. Do you believe the proposed goals meet the Commission’s standards?

5 A. Yes. The Team Goals included in the Balanced Scorecard are designed
6 to address safety, reliability, customer experience, environment, and
7 sustainability measures. They are designed to reflect the Company’s
8 focus of delivering safe and reliable service in a cost effective manner.

9 Q. How will each of the Corporate team performance goals be evaluated?

10 A. Results will be evaluated against achievement metrics where attaining
11 “Threshold” = 50%, “Target” = 100%, and “Superior” = 125%. Results will
12 be interpolated. Corporate team performance goals are evaluated
13 annually and will be weighted to align with business priorities.

14 Q. Why is the Company proposing that the Corporate Team Performance
15 Goal portion of the variable incentive compensation component contain
16 the exact team goals as the Company’s Balanced Scorecard?

17 A. In the July 16, 2018 Order Approving an Implementation Plan in Case 16-
18 M-0001, it was recommended that “Central Hudson should implement a
19 balanced scorecard system or an equivalent method as a mechanism to
20 improve corporate performance and to better support recognition of
21 incentive compensation within the executive and management group.” The
22 Company implemented the balanced scorecard with a 3-tiered approach

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1 (Corporate, Group/Departmental, and Individual level.) Once the corporate
2 strategy is completed, the business plan and KPI's are developed. The
3 information is provided to employees as a guide in the development of
4 group/departmental business plans and KPI's. The balanced scorecard is
5 integrated in the departmental business plan development process in
6 order to include departmental KPI's that align with corporate strategy and
7 used to set departmental targets and goals. The departmental business
8 plans are available prior to the individual goal setting process. Individual
9 goals, which are established annually as part of the performance appraisal
10 process, are aligned with corporate strategy by the linking of goals to
11 corporate strategic objectives. In order to achieve complete strategic
12 alignment, the Company proposes that the Corporate Team Performance
13 Goal portion of the variable incentive compensation component will be the
14 same as the Team Goals portion of the Company's Balanced Scorecard.

15 Q. Please provide additional information on how the Company strives to meet
16 its strategic objectives.

17 A. Central Hudson strives to meet its strategic objectives by ensuring that
18 initiatives in the Company's Business Plan align to these objectives. We
19 believe that using the team goals portion of the Company's balanced
20 scorecard as the goals for the team portion of the proposed variable
21 incentive compensation component will achieve proper strategic
22 alignment.

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1 Q. Does the Company anticipate that the Corporate team goals would
2 change each Plan Year?

3 A. The team goal portion of the Company's Balanced Scorecard is evaluated
4 on an annual basis and approved by the Company's Strategic Planning
5 Committee. Although the Company does not anticipate that major
6 changes would be made to the team goal portion of the Company's
7 Balanced Scorecard from year to year, minor adjustments could be made.
8 The adjustments approved by the Strategic Planning Committee would
9 also apply to the Corporate Team Performance Goals portion of the
10 variable compensation component.

11 Q. Would the Company communicate the adjustments of the Corporate Team
12 Performance Goals portion to the eligible employee population?

13 A. Yes, any adjustments to the Corporate Team Performance Goals would
14 be communicated to eligible employees in a reasonable timeframe in
15 order to appropriately set expectations and allow for proper performance
16 to achieve the pre-set team goals. The Company anticipates that
17 communication of any changes would take place on or about March 1st of
18 the Plan Year for which they will be evaluated.

19 Q. Has the Commission allowed utilities to make adjustments to the structure
20 of the performance goals?

21 A. Yes. For example, the 2016 Con Edison rate case Joint Proposal (page
22 43, footnote 53) adopted by the Commission in Cases 16-E-0060, 16-G-

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1 0061, 15-E-0050, 16-E-0196, states that, “The Company maintains
2 flexibility to modify the Management Variable Pay Plan, including the
3 portions related to the Safety and Reliability and Customer Service Index.”

4 Q. Does Central Hudson’s proposed variable incentive compensation
5 component meet the standards for recovery of variable compensation that
6 the Commission has set forth?

7 A. Yes, the Company’s request of evaluating total compensation, including a
8 variable incentive component, is reasonable in relation to similarly situated
9 companies. The total compensation package offered by the Company,
10 including a variable incentive compensation component, aims to be close
11 to the median level of compensation for similarly situated companies.
12 Therefore, the Company’s variable incentive compensation should be a
13 component in the Company’s revenue requirement because it satisfies the
14 Commission’s first standard of the Commission’s two-prong test for
15 recovery of variable compensation.

16 Q. Does the Company’s proposed variable incentive compensation
17 component meet the Commission’s second standard of the two prong test
18 requirements set forth for recovery of variable compensation?

19 A. Yes, the Company’s proposed variable incentive compensation
20 component is “designed to return quantifiable or demonstrable benefits to
21 ratepayers in a financial sense or in terms of reliability, environmental
22 impact, or customer service.” The proposed variable incentive

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1 compensation component is tied to safety, reliability, environmental
2 protection, and customer service metrics designed to better serve
3 ratepayers. Therefore, the Company also satisfies the Commission's
4 second standard of the either/or two prong test, which provides an
5 independent basis for inclusion of variable compensation in the
6 Company's revenue requirement.

7 Q. Were the costs of this incentive program included in the development of
8 revenue requirements?

9 A. Yes. As per Revenue Requirements Panel Exhibit __ (RRP-2), Schedule
10 A for electric and Exhibit __ (RRP-3), Schedule A for gas, \$3.4 million and
11 \$0.8 million was included in revenue requirements in the Rate Year for
12 electric and gas, respectively.

13 Q. Does this reflect the full annual cost of the program?

14 A. No. Given that an Order in these Cases is not anticipated until June 2024,
15 the first Plan Year of this program, which was previously defined as a
16 calendar year, would be January – December 2025. As such, the cost
17 included in the Rate Year represents essentially half of the total program
18 cost.

19 Q. How was the program cost determined?

20 A. Consistent with the parameters of the program outlined above, existing
21 employees were classified by tier and using their salary at March 31, 2023
22 as a base, an estimated incentive payout was determined. Achievement

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1 of team goals was assumed at target (i.e., 100%) and individual
2 performance was based on performance levels achieved and awarded as
3 part of the 2022 performance review cycle (which occurred in Q1 of 2023).
4 Consistent with the salary escalation noted above, the calculated 2023
5 payout was escalated at 4.5% each year to arrive at the cost in the Rate
6 Year.

7 Q. Please continue.

8 A. In order to determine the cost associated with incremental employees, the
9 incremental employees and the corresponding salary assumptions, which
10 are the same as those used in the determination of labor expense, were
11 classified as tier 2 or tier 3 based on an allocation consistent with the
12 actual split that existed at the end of the historic year. It should be noted
13 that incremental employees were not classified as tier 1, as none of the
14 incremental new hires in the bridge period or Rate Year enter the
15 Company at such a level. Then, similar to the calculation for existing
16 employees, team goals were priced out at a target achievement and
17 individual performance was assumed to mimic that achieved and awarded
18 as part of the 2022 performance review cycle. Finally, the calculated
19 payout was escalated at 4.5% each year to arrive at the Rate Year
20 expense. The expense for the program is assumed to follow the
21 Company's common allocation, with 80% attributable to electric and 20%
22 attributable to gas. The calculation of the program expense was provided

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1 to the Revenue Requirement Panel for inclusion in the development of
2 revenue requirements.

3 **VII. BENEFITS**

4 Q. Has the Company adopted any structural changes to its pension, OPEBs,
5 or health plans during the current rate plan?

6 A. No, the Company has not. The Company previously closed its defined
7 benefit pension plan to employees hired on or after January 1, 2008
8 (management employees) and on or after May 1, 2008 (bargaining unit
9 employees). The cost reductions that resulted from closing the plan are
10 reflected in current rates and in the historic period.

11 Q. How has the Company continued to manage OPEB expense?

12 A. The Company continues to control and reduce costs associated with its
13 OPEB program through the following cost control measures: 1) closing the
14 retiree life insurance and retiree health coverage plans to new hires; 2)
15 implementing a maximum amount or “cap” on Company contributions for
16 retirement health insurance plan participants who are eligible for
17 Medicare; 3) implementing cost sharing mechanisms for new and existing
18 retirees for retiree health and prescription drug plans; and 4) reducing the
19 life insurance plan for eligible non-union employees hired before January
20 1, 1984. Since the elimination of retiree life insurance plans and retiree
21 health care plans primarily affect new hires, the Company will continue to
22 experience increasing control and/or reduction in OPEB plan costs as a

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1 growing percentage of OPEB plan participants will become subject to
2 these cost control measures.

3 Q. Has the Company modified its contribution levels for the defined
4 contribution plan during the current rate plan?

5 A. No.

6 Q. Has the Company introduced any new employee benefits during the
7 current rate plan?

8 A. Yes. In 2022, the Company introduced two new benefits: a Supplemental
9 Retirement Plan and a Health Reimbursement Account. Employee's hired
10 on or after January 1, 2008 (management employees) and on or after May
11 1, 2008 (bargaining unit employees) are eligible to participant in the new
12 plans. The Supplemental Retirement Plan provides an annual 1% (2022)
13 and 1.25% (2023 and beyond) contribution to employees not eligible for
14 the Company's defined pension benefit. The Health Reimbursement
15 Account provides a fixed annual allowance to be used to cover qualified
16 medical expenses.

17 Q. Are these incremental benefits included in the determination of revenue
18 requirements?

19 A. Yes. The cost of the Supplemental Retirement Plan is included in
20 Employee Benefits on Revenue Requirements Panel Exhibit __ (RRP-2),
21 Schedule A and Exhibit __ (RRP-3), Schedule A for electric and gas,

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1 respectively. The cost for the Health Reimbursement Account is included
2 on the aforementioned exhibits in the determination of OPEB expense.

3 Q. Was the cost of the health benefits plan determined in a manner
4 consistent with the Company's last case?

5 A. No. As explained further below, based on escalating claims experienced
6 by the Company over the last several years, the medical component of the
7 total health benefit plan was examined and projected by an expert
8 witness.

9 Q. What has the gross cost of the Company's medical claims been in each of
10 the calendar years 2019, 2020, 2021 and 2022?

11 A. Gross medical costs for these years were \$12.0 million, \$9.2 million, \$12.5
12 million, and \$15.0 million, respectively.

13 Q. How does the Company explain the significant decrease in costs in 2020?

14 A. The significant decrease in costs in 2020 is in part attributable to the
15 public health concerns at the height of the COVID-19 Pandemic. In
16 2021, costs increased to a level comparable to pre-pandemic costs, but
17 did not flatten and have been subsequently increasing year-over-year.
18 Excluding 2020, the three-year average historic cost for medical claims is
19 \$13.2 million and the three-year average expense growth rate is 12%.

20 Q. What is this significant growth attributable to?

21 A. The increase in cost year-over-year is attributable to a growing workforce
22 and ensuing increase in the average number of medical subscribers, to an

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1 increase in the number of high cost claims (claims greater than \$75,000)
2 and to unit cost inflation in the cost of services provided to plan
3 subscribers.

4 Q. Does the Company expect this trend to continue and why?

5 A. Yes. The trend is expected to continue due to the nature of the high cost
6 claims and subscribers' chronic health conditions, the projected increase
7 in the Company's staffing level and ensuing number of subscribers in the
8 Company's medical benefit plan, and higher than historic inflationary
9 pressures.

10 Q. At what level is the total cost being projected for the Rate Year?

11 A. Based on the results of the study conducted by Mercer, the Company's
12 expert witness, costs are being projected at \$24.2 million for the Rate
13 Year. This study is provided as Confidential Exhibit __ (WCBP-12).

14 Q. What key assumptions did Mercer make in preparing this projection?

15 A. Please see page 11 of Confidential Exhibit __ (WCBP-12) for the detailed
16 key assumptions utilized in preparing the Company's medical cost
17 projections.

18 Q. Please describe the methodology Mercer used to develop their medical
19 projections.

20 A. Mercer used a process that is widely accepted in the insurance market as
21 the standard to establish budget and premium levels that are appropriate
22 to cover future liabilities. Using the experience of subscribers in Central

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1 Hudson's plan, Mercer calculated a per capita cost on a paid basis and
2 applied trend factors to project future costs. The trend factors used in the
3 projections are within the acceptable trend ranges published by Mercer's
4 Actuarial and Financial Group. Please see page 3 of Confidential Exhibit
5 __ (WCBP-12) for a complete description of the methodology used by
6 Mercer.

7 **VIII. SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN**

8 Q. Would you please provide an overview of Central Hudson's Supplemental
9 Executive Retirement Plan ("SERP")?

10 A. The SERP is designed to preserve a prior benefit formula for a closed
11 group of eligible executives. The SERP provides the executives who have
12 a minimum of 30 years of service at the age of 61 with 57% of their
13 pension-eligible earnings (defined as the highest three consecutive
14 calendar years during the ten consecutive calendar years immediately
15 preceding termination of employment), less the amounts received under
16 the Retirement Income Plan and Benefit Restoration Plan. Individuals
17 having less service or retiring prior to age 61 have their benefits reduced
18 according to provisions in the SERP.

19 Q. Are you seeking rate recovery of costs associated with the SERP?

20 A. Yes. The Company believes this program is a key component of the
21 executive compensation program and delivery rates should be designed to
22 allow for recovery of this cost. Preserving prior benefit formulas for a

**DIRECT TESTIMONY OF THE WORKFORCE, COMPENSATION
AND BENEFITS PANEL**

1 closed group of executives is a typical transition method and is an
2 accepted practice in the employment market and consistent with treatment
3 of this issue in past Central Hudson rate cases. Costs associated with
4 SERP were approved by the Commission in Cases 14-E-0318, 14-G-
5 0319, 17-E-0459, 17-G-0460, 20-E-0428 and 20-G-0429.

6 Q. Have any remedial actions been taken to reduce the costs of this
7 program?

8 A. Yes. In 2008, the Company closed the Retirement Income Plan and
9 SERP to new entrants. There are currently three active employees, and
10 15 retired participants and/or surviving spouses in the SERP.

11 Q. Does this conclude your direct testimony at this time?

12 A. Yes, it does.