

Before the Public Service Commission

**THE BROOKLYN UNION GAS COMPANY d/b/a NATIONAL GRID NY
and KEYSpan GAS EAST CORPORATION d/b/a NATIONAL GRID**

Rebuttal Testimony

of

Maureen P. Heaphy

Case 19-G-0309

Case 19-G-0310

September 18, 2019

Rebuttal Testimony of Maureen P. Heaphy

1 **I. Introduction**

2 **Q. Please state your name and business address.**

3 A. My name is Maureen P. Heaphy. My business address is One Metrotech
4 Center, Brooklyn, New York 11201.

5

6 **Q. Are you the same Maureen P. Heaphy who previously submitted direct
7 and corrections and updates testimony in these proceedings?**

8 A. Yes, I am. The terms defined in my direct and corrections and updates
9 testimony have the same definitions here.

10

11 **II. Purpose of the Testimony**

12 **Q. What is the purpose of your rebuttal testimony?**

13 A. The purpose of my rebuttal testimony is to respond to certain
14 recommendations of Department of Public Service Staff (“Staff”) witness
15 Daniel S. Gadomski and the Staff Revenue Requirements Panel (“SRRP”).
16 Specifically, I will address Mr. Gadomski’s recommendation that \$0.270
17 million of operating expenses for KEDNY and \$0.167 million of operating
18 expenses for KEDLI should be disallowed based on his claim that National
19 Grid’s July 1, 2019 management wage increase of 3.35 percent and wage
20 increases in subsequent years of 3.10 percent should be reduced to 3.0

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1 percent. I will also briefly address the SRRP's recommendation that a
2 vacancy rate be applied to the Companies' headcounts.

3

4 **III. Management Wage Increases**

5 **Q. Why is Mr. Gadomski recommending that a portion of the Companies'**
6 **July 1, 2019 management wage increase as well as portions of subsequent**
7 **increases in the Rate Year and Data Years be disallowed?**

8 A. Mr. Gadomski asserts (at 16) that the WorldatWork survey that shows a
9 forecast of "Total Salary Budget Increases" of 3.0 percent for the actual 2019
10 median and projected 2020 median is more reasonable to include in the
11 Companies' revenue requirements than the actual 3.35 percent that was
12 implemented by the Companies on July 2019 and the 3.10 percent annual
13 wage increases projected on July 1st of subsequent years.

14

15 **Q. Do you agree with Mr. Gadomski's recommendation?**

16 A. No, I do not. In my direct testimony, I presented a compensation study that
17 showed that National Grid's management compensation is below the market
18 median of a representative peer group of utility and non-utility companies'
19 total compensation. Mr. Gadomski performed an independent assessment of
20 the results of the study. Although his final calculation slightly differed from
21 what I presented, he concluded (at 11-12) that National Grid's total

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1 compensation was within the reasonable range of plus or minus 10 percent of
2 median total compensation of its similarly situated peers, which Mr.
3 Gadomski acknowledged is the standard for determining whether a company's
4 compensation is market competitive and has been used by Staff to evaluate
5 compensation benchmarking results in numerous prior rate cases (at 9). The
6 3.35 percent increase implemented this past July, which is comprised of a 3.1
7 percent average increase in base pay and a 0.25 percent increase for career
8 path progressions, will not cause National Grid's total management
9 compensation to exceed the median compensation of the peer group. The 3.1
10 percent annual wage increases requested in subsequent years will similarly not
11 cause National Grid's total management compensation to exceed the median
12 compensation of the peer group. For this reason alone, Mr. Gadomski's
13 recommendation should be rejected.

14

15 **Q. Are there additional reasons why you believe that the Companies' wage**
16 **increases are justified and reasonable?**

17 A. Yes. In retroactively applying a 3.0 percent wage increase to the July 1, 2019
18 wage increase already paid by National Grid to its employees, Mr. Gadomski
19 attempts to adjust a known and measurable change reflected in the
20 Companies' filings. Further, Mr. Gadomski's use of a single data point, the
21 WorldatWork survey, is incredibly limited and fails to incorporate a review of

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1 a representative set of data sources. Prior to approving the salary increases,
2 National Grid performed a holistic review of numerous, available market
3 studies, including the WorldatWork survey, and used the average of the
4 median merit increases from those studies for its wage increases, as shown in
5 the following table.

Data Source	Forecast Increase
Aon Hewitt	3.10%
Culpepper	3.09%
Mercer	3.30%
Wordat Work	3.00%
Salary Com	3.00%
CRI	3.00%
ERI	3.20%
Pay Factors	3.10%
Average	3.1%

6
7 Therefore, the Companies' data is more reflective of actual market conditions
8 and is also reasonably conservative when compared to the wage increase
9 spectrum of its market peers. The Companies provided Staff with the
10 comprehensive documents reviewed by senior management prior to approving
11 the salary increases in its response to IR No. DPS-803 (the relevant portions
12 of which are included as Exhibit ___ (MPH-1R)). Finally, as indicated in my
13 direct testimony and shown in Schedule 2 of Exhibit ___ (MPH-3) thereto, the

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1 increases included in the Companies' filings are in line with the prior wage
2 increases paid by National Grid.

3

4 **Q. Do you have any additional comments?**

5 A. Yes. Mr. Gadomski did not address that included within the 3.35 percent
6 increase was a 0.25 percent increase for career path progressions. These costs
7 are a legitimate business expense required to retain high performing
8 employees as they advance to more senior levels across the organization. This
9 is another reason why Mr. Gadomski's proposed adjustment is unreasonable
10 and should be denied.

11

12 **IV. Vacancy Rate**

13 **Q. Please summarize Staff's recommendation to apply a vacancy rate to the**
14 **labor forecast.**

15 A. The SRRP (at 24) applied vacancy rates of 3.16 percent and 8.20 to the
16 forecast of labor expense for KEDNY and KEDLI, respectively, to account
17 for future vacancies that Staff believes will be experienced by the Companies
18 for various reasons "as a normal part of doing business." Application of
19 Staff's recommended vacancy rates reduces KEDNY's labor expense by
20 \$2.759 million and KEDLI's labor expense by \$3.229 million.

21

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1 **Q. Do you agree with this recommendation?**

2 A. No. The Companies' headcounts at the end of December 2018 (the end of the
3 Historic Test Year) used to develop the Companies' labor forecasts only
4 reflected positions actually filled by employees at that time. The Companies'
5 Historic Test Year headcount did not include positions that were vacant at that
6 time. Therefore, the SRRP's proposed adjustment is incorrect. A more
7 detailed description of the Companies' objections to this recommendation is
8 presented in the rebuttal testimony of the Revenue Requirements Panels.

9

10 **Q. Does this conclude your rebuttal testimony?**

11 A. Yes, it does.

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INDEX OF EXHIBITS

Exhibit ____ (MPH-1R): National Grid's Response to IR DPS-803

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Exhibit ____ (MPH-1R)

National Grid's Response to IR DPS-803

Date of Request: July 10, 2019
Due Date: July 22, 2019

Request No. DPS-803
NG Request No. NG-1087

KEYSPAN GAS EAST CORPORATION d/b/a NATIONAL GRID
THE BROOKLYN UNION GAS COMPANY d/b/a NATIONAL GRID NY

Case Nos. 19-G-0309 & 19-G-0310
Gas Utilities Rates

Request for Information

FROM: DPS Staff, Daniel Gadomski
TO: National Grid, Maureen P. Heaphy
SUBJECT: Variable Pay Plan Objectives and Metrics

Request:

Note: In all interrogatories, all requests for workpapers or supporting calculations shall be construed as requesting any Word, Excel or other computer spreadsheet models in original electronic format with all formulae intact and unlocked.

Referring to the following statement on p. 27 of the testimony of Maureen P. Heaphy, “The goals of the Plan have been designed to ensure that they promote safety, reliability, and the delivery of a high level of service to our customers.”

1. Provide the Company’s tracking of employee performance against each of the targeted incentive pay objectives and metrics for each annual period evaluated since 2015.
2. Provide all information that was that reviewed and/or approved regarding the determination of compensation increases, the setting of variable pay performance targets, and the amounts paid out in incentive pay for each annual period since 2015, by the Board of Directors and/or executive management of National Grid or any of its affiliated companies, and or predecessors.
3. Of the total incentive compensation request, provide the incentive dollar amount that is allocated to each goal category (e.g., safety, reliability, customer service, financial, etc.).

Response:

1. Please see Attachments 1-4 for the Company’s tracking of performance against each of the targeted incentive pay objectives and metrics for fiscal years 2016 through 2019.
2. The determination of compensation increases, the setting of variable pay performance targets, and the amounts paid out in incentive pay are reviewed and approved by the Global Executive Committee (National Grid plc) and the US Executive Committee

(National Grid USA) as follows:

Compensation Increases – The level of compensation increases (*i.e.*, merit increases and other salary adjustments), generally, are approved by the Global Executive Committee while career path progressions are approved by the US Executive Committee. Please see Attachments 5-12 for the documents reviewed by the Global Executive Committee and the US Executive Committee during each annual period since 2015.

Annual Performance Plan – The Global Executive Committee reviews and approves the overall plan design and the variable pay component for Bands A-F. In addition, for FY 2016 and 2017, the Committee also approved the setting of the performance metrics, targets, and year-end performance results. Commencing in FY 2018, the US Executive Committee is responsible for reviewing and approving the establishment of the performance metrics and targets and the year-end performance results for the US corporate objectives. Please see Attachments 13-17 for the information reviewed by the committees for each annual period since 2015.

3. As discussed on pages 22-23 of the direct testimony of Maureen P. Heaphy, each goal category (*e.g.*, safety, reliability, etc.) is now part of three key areas of focus: customers, communities, and people. Each of these three areas of focus account for 50% of the variable compensation component for management employees in Bands C-F (and 100% of the variable compensation component for represented employees) with customers, communities, and people being weighted 30%, 30%, and 40%, respectively. Please see Attachment 18 for the calculation of the incentive dollar amounts allocated to each key area of focus in the Rate Year.

Name of Respondent:
Lori Santoro

Date of Reply:
July 19, 2019

EXECUTIVE SUMMARY

CONTEXT

The purpose of this paper is to propose both the 2019 general managerial salary budget for the management population (Bands A - F) and request approval for some additional funds to address specific employees low in compa-ratio range to mitigate retention risks.

The salary budget proposals and additional funding requests (for Band C-F) have been agreed by the respective Business leadership teams: UK Executive Committee; a subset of the US Executive Committee (US CFO, CHRO and US Executive Director); NGV SLT.

This year, for completeness, requests for additional funding for senior leaders are included in this paper for approval by the Committee. For reference, the Band A - F headcount and base salary pay bills by Business are provided in Appendix 1.

There are no requests for additional funds to address salary compression issues between unionised employees and managerial supervisors nor to address any market 'hotspots'.

QUESTIONS

1. What should the general management salary budget be for US, UK and NGV employees?
2. What are the principles and approach for distributing the budgets?
3. Do we need extra funds to address individuals with low compa-ratios despite a strong track record of performance in their current role?

CONCLUSION

The Committee is asked to approve the below salary increase budgets for 2019, detailed over the page:

	UK Business		US Business		NGV			
					UK employees		US employees	
	% of paybill	Cost	% of paybill	Cost	% of paybill	Cost	% of paybill	Cost
General Budget	2.9%	£2,634,884	3.1%	\$21,433,903	2.9%	£311,095	3.1%	\$385,758
Compression	-	-	-	-	-	-	-	-
Compa-ratio Adjustments	0.19%	£175,734	0.01%	\$57,912	0.64%	£68,655	0%	\$0
Mkt Adjstment Hotspots	-	-	-	-	-	-	-	-
Total Increases	3.1%	£2,810,619	3.1%	\$21,491,815	3.5%	£379,750	3.1%	\$385,758

INPUT SOUGHT

Decision

INPUT RECEIVED

UK Executive Committee
US Executive Director, US CHRO and US CFO
NGV Senior Leadership Team

The Report

1. What should the general management salary budget be for US, UK, and NGV Business employees?

Market conditions are a key factor informing salary budget decisions. Inputs include current and predicted pay settlement experience, inflation and hot spots for skills (evidenced by spikes in market pay data). In addition, the internal context including affordability, current pay positioning, retention and attraction challenges, and talent profile for each business will guide the final budget decision and how the salary budget is distributed.

Salary growth predictions for 2019

Management salary growth predictions for 2019 in the UK range from 2.5% to 3.0%, averaging 2.74%. In the US, predictions range from 3.0% – 3.3% (average 3.1%):

	Towers Watson	Hay	Aon Hewitt	Croner	Xpert HR	Culpepper	Mercer	World at Work	Salary Com	CRI	ERI	Pay Factors
UK	3.00% (energy)	2.50%/3.00% (1)		3.00%	2.70% (2)							
US			3.10%			3.09%	3.30%	3.00%	3.00%	3.00%	3.20%	3.10%

Note 1: Hay 2.50% is for energy companies and 3.00% is for all companies

Note 2: Xpert HR 2.7% is gas, electric & water companies

Represented / unionised workforce salary increases

As the Committee is aware, long standing compression issues between represented/ unionised staff and management pay are a key factor in determining the salary budget for Band D managers in the UK and First Line Supervisors (primarily Band E) in the US. A general management salary budget set at or above that for unionised / represented staff will help to mitigate future adjustments.

In the UK, the 5-year Staff Reward Agreement ended on 30 June 2018 and a new 3-year deal has been negotiated effective July 2018. The Staff pay agreement has negotiated away from a formulaic link to RPI and looked at a more rounded approach determined by wider considerations such as reviewing external benchmark pay deals, recruitment and retention issues, actual wage inflation as well as other inflation measures like Consumer Price Index (CPI). The annual pay settlement figure for staff pay award was 3.3% in 2018 and for 2019 and 2020 it will be 2.9% and 2.8% respectively. In each year, additional costs for Competency Step movement and Performance Related reward are factored in and the overall consolidated base pay increase for Staff Reward for the 2018 transition year was 4.24% and is forecasted at 3.1% for 2019.

In the US general wage increases for represented employees will range from 2.0% - 3.0%, averaging 2.6% and is consistent with collective bargaining trends in the US market.

Inflation forecasts

The following table shows current and forecast inflation in each of the UK and US.

	Dec 2018 (actual)	Forecast
UK - RPI all items	2.7% (was 3.2% in Nov)	3.02% Q4 2019 forecast (at Dec 2018)
US - CPI	2.2%	2.2% 2019 full calendar year forecast

We note wage increases have consistently out-tracked CPI in the US for a number of years. The forecast national median total salary budget increase for 2019 is 3.1% and has consistently been at around 3.0% for the past few years (2018 3.04%)

Internal Context

For the UK Business, including UK-based Group Function employees, a strategy to strongly message a unified and integrated approach to workforce pay planning and equality and fairness of treatment between the UK Staff reward framework and the Managerial pay framework is desired. Additionally, a pay budget which is both competitive in keeping pace with the market and also sufficient to continue to address the long-standing compression issues between Staff Level 7/8 and Band Ds on a targeted basis is proposed. A budget at this level will help rebalance base pay positions following a lower end managerial budget of 2.2% in 2018 compared with a staff reward budget of 3.3% in 2018. The average compa-ratio for UK Business (including Group Functions) Band B - F is currently around 100%.

For the US business, including UK-based Group Function employees, the average US compa-ratio is 96% which is consistent with prior years (295% in 2018 and 96% in 2017). A significant number of instances exist whereby individuals with a strong track record and 1-3 years' experience in their role are still not within a 90-100% compa-ratio, which is our base salary principle. Approximately two-thirds of employees have a compa-ratio of less than 100%; 30% of employees are at less than 90% compa-ratio and 13% are at less than 85% compa-ratio.

However, this year, due to affordability, additional funds are not requested to move employees higher in the range nor address any hotspots. The budget level requested will enable the US to keep pace with market movement and provide sufficient flexibility to address deserving cases whereby individuals should be moved higher up in their compa-ratio range.

For NGV, the principle is that the budget should align to the UK and US Business' budgets (including Group Functions) given the primary factor in salary budgets is regional market conditions and economic outlook. However, differences in the internal context such as affordability need to be considered and could potentially result in different salary budgets. A review of these considerations suggests that for 2019 alignment to the US and UK budgets would be appropriate. The average NGV compa-ratio for UK based employees is around 100% and for US based employees is around 101%.

General management salary budget proposals

Given the above commentary, a budget of 2.9% is proposed for the UK Business. The UK planning cycle of quarterly rolling forecasts is using an average RPI assumption of 3.0% for FY20; with pay growth assumptions also at 3.0% for the UK.

In alignment with the external market a 3.1% budget is proposed for the US Business. It is also confirmed this proposal is in line with US budgetary planning assumptions.

As in prior years, for employees working within Group Functions, the appropriate budget of their 'home' country will apply.

For NGV, whilst the UK and US Business budgets are relatively close at 2.9% and 3.1% and a common budget for all NGV employees (e.g. 3%) might be preferable, alignment to the regional budgets and external factors is important.

The salary increase budget proposals are summarised below

	UK Business		US Business		NGV			
	% of paybill	Cost	% of paybill	Cost	UK employees		US employees	
					% of paybill	Cost	% of paybill	Cost
General Budget	2.9%	£2,634,884	3.1%	\$21,433,903	2.9%	£311,095	3.1%	\$385,758

2. What are the principles and approach for distributing the budgets?

By way of reminder, the usage of the budget is in accordance with the following principles:

- Band As must adhere to the overall salary budget for their teams
- Managers should take account of position against the market reference point when awarding pay increases, noting the aim of moving good performers with three years in position to at least 90% of their MRP
- Differentiation is expected. When differentiating base salary increase awards, managers will need to consider sustained performance, competency of the individual in their role, position against the MRP, and retention risk (informed by knowledge of the individual and pension plan participation).
- It may be that employees higher against their MRP will not get a salary increase or will receive a smaller increase so that the budget can be used for those lower against their MRP, all while ensuring that we reward high performers. Budget cannot be 'shared' across regions or businesses.

Over time, base salary increases tend to lessen the negative impact of inflation on an individual's spending power, however there is no requirement to provide a base salary increase that is equal to inflation and if an employee's base salary is already above competitive levels and the employee is not high performing over a sustained period of time, it is not best practice to do so.

This year the UK Business will require managers to continue to significantly differentiate pay awards. With the longer-term cost challenges remaining the pay budget should be targeted to ensure we optimise the reward spend. Managers will continue to be tasked to target reward for those high performers and high potential employees as well as good performers those lower in pay ranges.

The US Business will also require significant differentiation of pay awards. To support that differentiation, the US Reward team will provide leaders with information on which teams require a higher proportion of this budget than others to be more aligned to our aims on base salary positioning. Band As continue to be accountable for ensuring the pay principles are adhered to such that higher levels of salary award will be targeted, as appropriate, towards deserving employees with low compa ratios.

NGV will expect its leaders to distribute the proposed salary budget of 2.9% and 3.1% to UK and US employees respectively, in accordance with the general principles above. There will be no requirement for any additional guidance.

HRBPs will review salary increases in the aggregate to ensure sufficient differentiation and following the annual cycle. Band A leaders will receive reports summarising pay outcomes for their teams by compa-ratio, APP outcome, and gender/ethnicity statistics.

3. Do we need additional funds to address individuals with low compa-ratios despite a strong track record of performance in their current role?

Our salary philosophy is for starting salaries to be at least 80% of the MRP with the expectation that good performers who are fully competent and have exhibited good performance in their role for three years will be paid at least 90% of their MRP. The average and median compa-ratios for employees are provided in the appendix.

Band C-F employees

To accommodate these guidelines, the UK Business requires additional funds for just nine individuals. This request covers five employees in Property related to retention risks on St. William, three in the Pensions team in Strand/Wokingham due to retention risks for specialist skills, and a further individual in London ETO Operations in response to London retention challenges. The total proposed additional funding request is £55,880. The UK Business did not request additional funds last year.

The US Business does not request additional funds to target low compa-ratios this year.

NGV, in line with the US, does not request additional monies for its US-based employees. For its UK employees, NGV requires an additional £68,655 for fourteen individuals. This request addresses concerns around employees being low in compa-ratio range despite a track record of strong performance and/or having critical skills as well as individuals felt to be retention risks. It also reflects the fact that no market adjustment budget has been requested in the past and the relatively low 2018 budget. It is noted that whilst the MRP distribution is broadly around 100% for UK NGV Band C and D populations there is a need to move identified individuals to at least (or higher) than market median in order to mitigate retention risks. A complete review of NGV MRP data / roles is now underway ahead of this year's pay cycle to ensure general salary budget is targeted according to our pay principles.

Senior Leaders

In previous years, Band B market adjustments would have been funded through the region specific requests for additional funds or addressed via ad-hoc out of cycle salary increases. Due to what is now a large number of Senior Leaders with relatively low compa ratio percentages and the desire for additional funds to be visible to and approved by the Group Executive, we are proposing requests for Senior Leader specific funds, including Band As, in this paper.

The proposed market adjustments for Band A and B employees are listed by name and provided in appendix 2, circulated as a separate attachment to Group Executive members.

The sum of all Band A market adjustment proposals is £41,410 (UK-based employees). There are no requests for US-based Band A employees. For Band B market adjustments, a total of £91,024 is requested for UK-based employees and \$57,912 for US-based employees.

CONCLUSION

The Committee is asked to approve the salary increase budgets for 2019 as set out in the table on the front page.

Appendix 1

Band A – F headcount and base salary payroll costs

	Business headcount (Band A-F)			
Employees	UK	US	NGV (UK based)	NGV (US based)
Senior Leaders	102	97	16	9
Band C-F	1176	6200	136	66
Total	1278	6297	152	75

	Business base salary paybill			
	UK	US	NGV (UK based)	NGV (US based)
Senior Leaders	£14,117,138	\$25,361,758	£2,111,961	\$3,044,869
Band C-F	£76,740,946	\$666,054,460	£8,615,440	\$9,398,938
Total	£90,858,084	\$691,416,218	£10,727,401	\$12,443,807

Notes

- (1) UK Business includes UK Core & UK-based Group Function employees
- (2) US Business includes US Core & US-based Group Function employees
- (3) NGV Business is NGV & Corporate Strategy only

Compa – ratio distribution

	Average / Median CR%			
	UK Business	NGV (UK based)	US Business	NGV (US Based)
Band A	91% / 91%	98% / 98%	108% / 104%	128% / 128%
Band B	89% / 87%	92% / 89%	96% / 95%	105% / 106%
Band C	101% / 100%	101% / 103%	95% / 93%	111% / 110%
Band D	100% / 100%	100% / 99%	93% / 93%	92% / 92%
Band E	101% / 100%	98% / 93%	98% / 98%	92% / 92%
Band F	106% / 103%	105% / 103%	96% / 94%	104% / 95%

2019 Salary Increase Budget Recommendations

2019 US Salary Budget for Management Employees	
<u>Budget Approved by Global Executive Committee</u>	
- Merit Increases	3.10%
<u>Additional Budget Approved by the US Executive Committee</u>	
- Career Path Progressions	0.25%
<u>Total 2019 US Salary Budget</u>	3.35%