Cause No. 46038

On Behalf of Petitioner,
DUKE ENERGY INDIANA, LLC

VERIFIED DIRECT TESTIMONY OF SHANNON A. CALDWELL

Petitioner's Exhibit 16

April 4, 2024

DIRECT TESTIMONY OF SHANNON A. CALDWELL
DIRECTOR, COMPENSATION
DUKE ENERGY BUSINESS SERVICES LLC
ON BEHALF OF DUKE ENERGY INDIANA, LLC
BEFORE THE INDIANA UTILITY REGULATORY COMMISSION

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Shannon A. Caldwell, and my business address is 525 South Tryon, Charlotte, North Carolina.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed as Director, Compensation by Duke Energy Business Services LLC, a service company subsidiary of Duke Energy Corporation ("Duke Energy"), and a non-utility affiliate of Duke Energy Indiana, LLC ("Duke Energy Indiana" or "Company").

Q. PLEASE DESCRIBE YOUR DUTIES AS DIRECTOR, COMPENSATION.

A. I am responsible for all broad-based compensation, including compensation design and strategy, management of key vendor relationships, and compensation administration for Duke Energy, including all of Duke Energy's affiliated regulated and non-regulated companies, including Duke Energy Indiana (collectively the "Companies").

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I graduated from the University of North Carolina with a Bachelor of Science degree in Business Administration and the University of South Carolina with a

Master's Degree in Human Resources. I also hold various certifications including a Certified Compensation Professional designation.

I have 11 years of human resource experience, primarily working with compensation programs. I joined Duke Energy in 2013 and have held various positions in human resources. In addition, I have served in key roles on several projects, including the integration of Progress Energy and Piedmont Natural Gas employees into Duke Energy compensation programs.

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

A. The purpose of my testimony is to demonstrate that the compensation and benefits programs provided to the Companies' employees, including Duke Energy Indiana employees, are necessary to attract, engage, and retain the skilled and experienced workforce the Company needs to provide reliable electric service to its customers. I explain how these programs are market competitive and comparable to programs offered by other utilities, as well as other companies outside of the utility industry. My testimony discusses why being market competitive is critical, namely because Duke Energy competes with other utilities and companies in the labor market for talent.

I also outline the design and function of our compensation programs and explain how they are in line with the industry, are market competitive and how the performance metrics directly benefit Duke Energy Indiana customers through safe and reliable service, customer service quality, and low energy costs. As described in greater detail in my testimony, incentive pay is a key component of Duke Energy's compensation program. In the competitive market for talent, employees consider the total rewards package, including base pay, incentive pay, and benefits as a key determinant in deciding whether to work for a particular employer. Accordingly, whether it is through base pay or a combination of base pay and incentives, Duke Energy must keep its overall compensation package competitive to attract and retain a competent workforce. Incentive pay is therefore similar to other costs necessary to provide customers safe and reliable service. As such, in my opinion, the program expenditures by the Company in connection with these programs are reasonable and prudently incurred costs of service to our customers.

The factors that underpin the importance of full cost recovery have not diminished since the last rate case filed in 2019 – to the contrary, many employers and industries have experienced greater workforce turnover as a result of the "Great Resignation," and the electric utility industry is no exception. Employee turnover is expensive, particularly in specialized industries – such as ours – which utilize a highly skilled labor force that requires lengthy and intensive periods of apprenticeship and training. Accordingly, as my testimony demonstrates, the Company's allocated compensation expense, including incentive compensation, is reasonable and prudent, and should be recovered in rates in the manner approved by the Commission in the Company's previous rate case.

The benefits and compensation programs provided to Duke Energy employees, as described in my testimony, were used in developing the 2025 forecast. I will also discuss the actuarial study conducted by WTW (Confidential Attachment 16-C (SAC)).

II. WORKFORCE OVERVIEW

Q. WHAT TYPE OF SPECIAL SKILLS OR KNOWLEDGE IS REQUIRED IN ORDER TO OPERATE A UTILITY SUCH AS DUKE ENERGY INDIANA?

A. Generation, transmission, and distribution of electric power are complex undertakings requiring a highly skilled workforce. A few examples serve to illustrate this point:

- Engineering professionals help to design, build, operate, and maintain our generation plants and the transmission and distribution systems that provide power to our customers.
- Plant operators are responsible for generating the electricity that powers our customers' homes and businesses.
- Lineworkers must work quickly and efficiently, especially under adverse weather conditions, to maintain, improve, and if necessary, restore our transmission and delivery infrastructure to keep electricity flowing to our customers.

- Field service and call center employees must understand the services provided by the Company, including the metering, billing, and collection processes, plus various other customer service matters.
- At the corporate level, highly skilled managers, engineers, accountants, cyber security analysts, and other professionals are needed to support the employees who are directly responsible for generating, procuring, and delivering electricity to the Company's customers.

Q. HOW IMPORTANT IS THE RECRUITMENT AND RETENTION OF SUCH EMPLOYEES TO THE COMPANY'S ABILITY TO PROVIDE SERVICE TO ITS CUSTOMERS?

A. The ability to attract and retain employees with the required technical skills is critical to the success of the Company, and very important to our ability to provide safe, reliable, and high-quality electric utility service to our customers. A fundamental factor with respect to the ability of any employer to attract and recruit skilled and qualified employees is the employer's compensation and benefits programs – potential employees will simply look elsewhere if the employer's total rewards package fails to achieve market competitiveness.

As such, compensation and benefits are highly important to the Company's ability to attract, engage, and retain a diverse, qualified workforce. One of the keys to providing a desirable workplace where employees want to continue working is to ensure that employees have the opportunity to participate in competitive pay and benefits programs.

Q. IN RECENT YEARS HAS DUKE ENERGY EXPERIENCED CHALLENGES ATTRACTING AND RETAINING A HIGHLY TRAINED AND SKILLED WORKFORCE?

A. Yes, Duke Energy has experienced challenges in retaining a highly trained and technical workforce across its enterprise. Duke Energy strives to provide a competitive compensation and benefits package and has a robust training program; however, we face competition from local and national electric companies and contractors that target their recruiting efforts at employees trained by Duke Energy. It would be imprudent for Duke Energy to not take measures to prevent potential losses of employees in all of its service territories.

Q. WHAT ARE THE IMPLICATIONS OF THE CHALLENGES THAT DUKE ENERGY HAS EXPERIENCED IN ATTRACTING AND RETAINING EMPLOYEES?

A. Our employees deliver critical services to our customers every day, and the energy industry is a knowledge and experience-intensive industry where the tenure of employees matters. Maintaining a competitive compensation and benefits package is instrumental in meeting Duke Energy and Duke Energy Indiana's shared goals of providing safe, adequate, reliable, and reasonably priced utility service to customers.

III. COMPENSATION OVERVIEW: PHILOSOPHY, COMPONENTS, AND CUSTOMER BENEFIT

Q. WHAT IS DUKE ENERGY'S COMPENSATION PHILOSOPHY?

A. Duke Energy's overall compensation philosophy is to target total compensation of base pay and incentives, including both short- and long-term, at the median of the market when compared to peer companies, with the opportunity to earn more or less relative to the market median based on actual performance. We have an obligation to be responsive to the market for talent and assure the competitiveness of the total compensation package, consisting of base salary, cash-based incentives, and, for some employees, long-term incentive compensation. Duke Energy's compensation philosophy has three major parts:

First, Duke Energy wants its compensation to be market-based, meaning it is competitive with the external labor market, allowing it to remain attractive against competition in order to attract and retain qualified and diverse employees. Duke Energy employs a compensation strategy that combines base pay and variable incentive opportunities for all levels of positions. This approach fosters efficiency, safety, and a focus on the customer by aligning our employees' pay to quality service for customers.

Second, Duke Energy is performance oriented. It believes that linking compensation to performance is one way it can engage employees, set high expectations for employees, and reward results that benefit customers. Duke Energy's compensation program is designed to provide total compensation that is consistent with performance.

Third, Duke Energy is fair and flexible. Its well-managed policies and pay administration guidelines ensure that it pays employees consistently and fairly across departments, but it is also flexible when it needs to align its policies with business needs as they grow and change.

Q. IS DUKE ENERGY'S COMPENSATION PHILOSOPHY FOR EXECUTIVES SIMILAR TO THE PHILOSOPHY APPLICABLE TO NON-EXECUTIVE EMPLOYEES?

A. Yes. The compensation philosophy is similar for both executive employees and for employees below the executive level. The compensation package for executives consists of a combination of fixed and variable pay using base salary, short-term incentives, and long-term incentives. These components, taken together, are targeted to deliver total compensation that is competitive with Duke Energy's peers and consistent with performance. Duke Energy adopted this executive compensation strategy in order to attract and retain the executive talent required to deliver superior service. The strategy emphasizes performance-based compensation that balances rewards for both short-term and long-term results and that aligns the executives' interests with the long-term success of Duke Energy, including Duke Energy Indiana, and its customers.

Q. PLEASE PROVIDE AN OVERVIEW OF THE COMPENSATION PROGRAMS PROVIDED BY DUKE ENERGY.

A. Duke Energy's compensation programs consist of a base pay component and incentive pay components that together provide a market-competitive, total compensation package for all employees. The base pay component is a set amount, reviewed by management at least annually, and established at a level that: (1) provides compensation based on the nature and responsibilities of the employee's position; (2) is fair relative to the pay for other similarly situated positions in the organization; and (3) when combined with incentive pay opportunities, is market competitive.

The short-term incentive ("STI") pay component is variable based on performance and is "at risk" pay - that is, employees are "at risk" of not receiving this component of their compensation package. All employees are eligible for the STI as a component of their total pay. Carving out a portion of employees' total compensation and delivering it through variable incentive pay serves the following multiple purposes: (1) encourages employees to accomplish specific objectives intended to ensure safe, reliable, and economical utility service for our customers; (2) fosters the success of business units and Duke Energy's overall success; and (3) aligns with competitors' pay structures.

The long-term incentive ("LTI") plans round out a competitive total compensation package for certain employees in leadership positions. Including LTI programs as a portion of total compensation for leadership positions is market competitive and necessary to attract and retain the high-caliber leaders needed to serve our customers and communities, lead the way to a safe, secure, and responsible energy future, while providing reasonably priced utility service for our customers. Simply put, competent management benefits customers.

For illustrative purposes, Duke Energy's total compensation concept is depicted below in Figures 1 and 2.

Figure 1

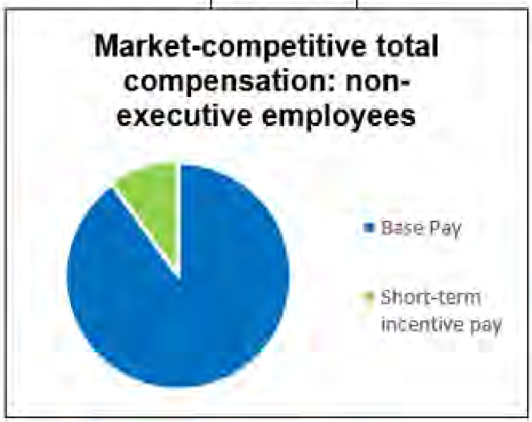

Figure 2

As Figures 1 and 2 make clear, base pay alone does ***not*** equate to market-competitive total compensation – rather, base pay ***in combination with*** incentive pay equates to market-competitive total compensation.

Q. HOW DOES DUKE ENERGY KNOW ITS COMPENSATION IS MARKET COMPETITIVE?

A. Duke Energy refers to numerous published surveys to assess whether its compensation is market competitive. As compared to these surveys, the Company's pay levels are competitive with market 50th percentile for base salary and total compensation (base pay plus incentives). As just one example, the salary range for a Senior Engineering Technologist at Duke Energy is $86,400 to $129,600, with a midpoint of $108,000 and total cash compensation of $118,800. These figures are in line with the market median from the WTW Energy Services Mid-Management & Professional 2023 survey which reflects $107,983 for base pay and $118,142 for total cash compensation for the same position. Further, we routinely benchmark total compensation (base pay plus incentives) against other similarly sized companies, both within and outside of the utility industry, and participate in a variety of third-party salary surveys on an annual basis. These surveys contain aggregated compensation data, including base pay and incentive targets, from multiple employers for various job functions and career levels. Duke Energy analyzes this data to determine overall competitiveness of pay for jobs throughout the enterprise. A complete list of the salary surveys Duke Energy currently participates in is reflected in Attachment 16-A (SAC).

Q. DOES A COMPETITIVE TOTAL COMPENSATION PACKAGE FOR EMPLOYEES BENEFIT THE COMPANY'S RETAIL CUSTOMERS?

A. Yes. Our employees deliver critical services to our customers every day. We need to attract, develop, and retain – over the long term – the employees that design, build, and operate our plants and the employees that maintain and improve the infrastructure necessary to keep the lights on. Many craft positions require lengthy apprenticeships to learn the skills needed to perform work independently and safely. The competencies needed for employees in highly skilled positions – such as Line Technicians and engineers – take many years to develop. If we were to lose such employees, we would incur additional costs to train replacements for these positions, while experiencing additional risk with regard to reliability issues. The expense incurred to hire and train new employees, and the loss of productivity realized through high turnover rates, would negatively affect the Company's ability to provide safe and reliable service at a reasonable cost.

This is also true for leadership positions. Duke Energy invests in developing highly effective leaders who develop and carry out the organization's strategy and inspire employees to work together to achieve results the right way. Many of our leaders possess extensive industry experience, advanced degrees, and demonstrated examples of excellent leadership, making recruitment and retention of such leaders critical to the success of the Company, particularly in this changing energy landscape.

Q. WHY ARE LTI PLANS A NECESSARY COMPONENT OF EXECUTIVE COMPENSATION?

A. LTI pay as a component of overall compensation for our executive ranks is market-competitive and provides Duke Energy with an effective retention tool. Offering less than competitive levels of compensation would put Duke Energy at risk of losing these valuable leaders to other companies and potentially having to pay more to attract the same level of leadership talent externally. In addition, the inclusion of LTI pay ensures that our leadership is focused on the long-term, and not overly focused on the short-term. Finally, incenting a focus on long-term sustainable company performance provides a benefit to customers, as a financially strong company will have greater access to capital at a lower cost, which in turn benefits customers through a lower cost structure.

IV. DETAILED REVIEW OF DUKE ENERGY'S COMPENSATION COMPONENTS

Q. PLEASE DESCRIBE DUKE ENERGY'S BASE PAY PROGRAMS.

A. For most non-union positions, Duke Energy utilizes base salary ranges consisting of a minimum and maximum base salary for each job grade. We perform an annual review of market data for both general industry positions and energy services positions and compare that data to our total compensation package (base pay plus incentives). Using this market data, salary ranges are reviewed annually to remain competitive. Market data is also reviewed and used to determine annual wage increase recommendations.

To determine the compensation for executive officers, on an annual basis, the Compensation and People Development Committee of the Board of Directors of Duke Energy ("the Committee") reviews data from nationally recognized, independent executive compensation consulting firms (Frederick W. Cook and WTW). The peer group of companies used for these analyses consists of companies that represent the talent markets from which Duke Energy competes to attract and retain executive employees.

Hourly represented employees, such as mechanics and line technicians, are provided general wage increases negotiated with the labor unions that represent the employees. Duke Energy Indiana has a five-year collective bargaining agreement with the International Brotherhood of Electrical Workers (IBEW) Local Union No. 1393. The agreement began on May 1, 2021, and expires on April 30, 2025.

Wage increases are just one component of union negotiations and must be negotiated in the larger context of work-related topics, such as benefits, work rules and overtime. These general wage increases are expressed as percentages of current base pay rates and are consistent with market trends. Duke Energy bases its positions in these negotiations on survey projections for market increases and also utilizes survey market data to ensure pay is competitive to market.

Q. YOU MENTIONED EARLIER THAT THE INCENTIVE PAY COMPONENT OF DUKE ENERGY'S COMPENSATION PROGRAM HAS TWO COMPONENTS, STI AND LTI. PLEASE DESCRIBE THE STI COMPONENT.

A. All employees are eligible for the STI component of incentive pay; however, some represented employees, including those in Duke Energy Indiana, participate in the Union Employee Incentive Plan ("UEIP") sub plan per their union agreement, which will be described in later testimony. Incentive pay, as I testified previously, puts "at risk" a portion of each employee's compensation. The STI program is designed to promote a workforce culture that responds to pre-determined performance goals set both at the corporate level and at a team (for non-leadership employees) or individual (for leadership employees) level. How much of the STI component is actually paid out to an individual employee depends on the degree to which the performance goals are met.

The process of determining an employee's STI compensation begins with the setting of goals at the commencement of each year. The Committee approves the corporate level performance goals for the upcoming year, as well as individual goals for leadership employees, and executive leadership for each business unit sets the team goals for non-leadership employees.

The corporate goals are reflected in a scorecard. Each goal reflects the specific metrics required to meet the goal at three different levels – the Minimum, Target, and Maximum level. The payout associated with achievement of each goal is based upon where along the Minimum to Maximum continuum the corporate performance falls. A thorough review is performed at the end of the year to determine the achievement level for each performance goal.

The scorecard reproduced in Confidential Attachment 16-B (SAC) is the 2023 scorecard for non-leadership employees. It indicates that team goals are to be set and performance measured against achievement. For leadership employees, individual goals replace the team component, with performance also measured against achievement. Confidential Attachment 16-B (SAC) also details the weight given to achievement of each goal. An overview of the STI metrics, weights, and payout opportunities is set forth in the table below:

TABLE 1: SUMMARY 2023 STI PLAN

Goals	Senior Management Committee (SMC) Weight	Leadership (Other than SMC) Weight	Non-Leadership Weight	Payout range
EPS	50%	50%	50%	0-200%
O&M Expense	12.5%	10%	5%	0-175%
Operational Excellence	12.5%	10%	10%	0-175%
CSAT	12.5%	10%	10%	0-175%
Climate	12.5%	N/A	N/A	0-175%
Team	N/A	N/A	25%	0-175%
Individual	N/A	20%	N/A	0-175%

Members of the Senior Management Committee ("SMC") are subject to an Individual Performance Modifier pursuant to which the Committee may exercise discretion to increase or decrease the aggregate incentive payment of each SMC member. The calculation of the incentive payments is based on the goals and weightings set forth above by up to 25%, with reference to the SMC member's achievement of their performance objectives during the year.

Q. PLEASE DESCRIBE THE UEIP.

A. The UEIP is available to union employees of Duke Energy Indiana and certain employees of its affiliated companies. Employees participating in the UEIP may not also participate in the STI program offered to the general employee population described in the previous question. The purpose of the UEIP is to attract, retain and motivate employees, enhance teamwork and high levels of achievement, and to facilitate the accomplishment of specific corporate and business unit goals.

These goals benefit the customer similar to the annual STI – by motivating employees to excel at such goals as customer satisfaction, safety, reliability, and financial stewardship, high performance becomes part of the culture and employees are motivated to exhibit the behaviors required to meet the goals and deliver the highest value to customers at a reasonable cost. In addition, the UEIP is a necessary component of the total compensation package for union employees that attracts and retains the critical skills necessary to provide safe, efficient and reliable service to customers. These union employees include many of our personnel working in our generation plants and employees who construct and maintain the Company's electric system. All are functions that are critical to reliable customer service.

The UEIP is a short-term incentive opportunity that allows union employees to receive cash payments if Duke Energy attains certain corporate performance goals and/or if their group attains certain operational performance goals during a calendar year. The UEIP award levels consist of a percentage of the employee's base and overtime earnings and is based upon the achievement of corporate and business unit goals, such as financial results, safety, and customer satisfaction.

Q. PLEASE PROVIDE ADDITIONAL DETAIL REGARDING THE METRICS INCLUDED IN THE STI PROGRAM FOR 2023, AND, IN PARTICULAR, DESCRIBE HOW THESE METRICS BENEFIT CUSTOMERS.

A. As the scorecard in Confidential Attachment 16-B (SAC) reflects, corporate STI metrics are grouped into the categories of Financial Performance & Growth, Operational Excellence, and Customer Satisfaction. A detailed description of these categories is as follows:

Financial Performance & Growth: The Financial Performance & Growth measure consists of Earnings per Share and Operations and Maintenance ("O&M") expense measures, each of which motivates employees to focus on financial discipline, efficient operations, and prudent use of resources, all of which are vital to the health and stability of the organization.

(1) Earnings per Share ("EPS"): EPS is an important metric to evaluate the success of our performance, and it is a very common practice, both within and outside of the utility industry, to use EPS as a primary goal in incentive programs. Employees directly impact EPS by finding efficiencies and cost cutting measures which ultimately are passed on to customers when new rates reflecting those savings are implemented.

(2) O&M Expense Control: O&M expenses include those costs necessary to support daily operations, as well as operate and maintain the operating efficiency and productive life of assets. Cost control is an integral part of any company's success. The intent of this goal is for employees to focus on cost control on a day-to-day basis, which will allow Duke Energy to incorporate these savings into programs that will benefit customers.

Operational Excellence: This metric motivates employees to provide reliable and safe products and services to customers and consists of two equally weighted measures: Reliability and Safety/Environmental. This objective emphasizes service reliability and the mitigation of environmental risks associated with our operations.

(1) Reliability: The intent of this metric is to ensure that cost focus does not sacrifice Duke Energy Indiana's ability to provide reliable service, which is expected by all customers. By including reliability in its annual incentive metrics, employees are financially motivated to ensure that the Company provides reliable service to its customers.

(2) Safety/Environmental: This metric incorporates safety and environmental stewardship into day-to-day activities, thus making the safety of employees, customers, and communities a priority. The safety and environmental goal payout will be determined by averaging the year-end accomplishment of two goals: (i) Total Incident Case Rate ("TICR"), which measures the number of occupational injuries and illnesses per 100 employees, including staff-augmented contractors; and (ii) Reportable Environmental Events, which are environmental events resulting from operations that have an impact on the environment, require notification (verbal/written/electronic) to a regulatory agency, or result in a regulatory citation or other enforcement action by a regulatory agency.

Customer Satisfaction: Duke Energy's incentive program also includes a Customer Satisfaction goal, or CSAT, which measures the degree to which customers have a favorable perception of an interaction, product, service, or of Duke Energy overall. Achievement is based on Duke Energy's Net Promoter Score, which is captured through its proprietary survey.

Team/Individual: In addition to these corporate metrics, and as I previously mentioned, the performance of non-leadership employees is assessed against pre-determined "team" goals set by their business units. The team goals directly benefit customers by tying employee compensation to reliability, outage frequency, time required to restore service, lost-time accidents, customer satisfaction scores, O&M expense levels, and capital expenditures. These goals are typically tactical and operational goals that align the work of each team to Duke Energy's overall priorities. Team goal results establish a pool of dollars allocated at the discretion of managers among employees based on their individual performance and contributions to the team.

Executive and leadership-level employees are assigned individual goals. The individual goals are intended to motivate the executive leadership members to advance strategic and operational objectives and are generally aligned to the business in which they operate. Superior performance relating to these team and individual goals directly benefits Duke Energy Indiana customers through safe and reliable service, customer service quality, and low energy costs.

Q. DO YOU CURRENTLY ANTICIPATE THE FINAL 2025 STI PLAN DESIGN TO BE MATERIALLY DIFFERENT?

A. No. Understanding that some changes could materialize before plan finalization, I anticipate the 2025 STI plan to be similar to the current design.

Q. PLEASE DESCRIBE THE LTI COMPONENT OF INCENTIVE PAY.

A. At a high level, Duke Energy's LTI programs provide equity-based compensation (i.e., stock awards) to executive and leadership-level employees. Stock awards are an important component of a compensation package that is reviewed annually to ensure ongoing competitiveness. Compensation including stock awards aligns these employees' interests with the long-term interests of Duke Energy and its customers. The goal of the LTI programs is to attract and retain high-caliber leaders by providing a competitive compensation package and to encourage leaders to make sound business decisions from a long-term perspective. Duke Energy's LTI opportunities generally vest over a period of three years, thus focusing executives on long-term performance and enhancing retention.

Q. WHAT SPECIFIC LTI PROGRAMS ARE OFFERED BY DUKE ENERGY?

A. Duke Energy has two LTI programs. The Executive LTI Plan is reserved for the most senior executives, including the SMC, and members of the Enterprise Leadership Team ("ELT"), which includes approximately 100 of the top leaders within Duke Energy below the level of the SMC. The second LTI program, the Restricted Stock Unit ("RSU") Program, is available to other strategic leaders below the ELT level who are responsible for the most critical roles in each business group (population generally ranges between 2-3% of the total Duke Energy employee population).

Q. PLEASE DESCRIBE THE EXECUTIVE LTI PLAN.

A. The Executive LTI Plan is designed to drive an ownership mindset for participants and ensure accountability for making short- and long-term strategic decisions. For 2023, participants in this program have 70% of their target LTI opportunity awarded as performance shares, and 30% of their target LTI opportunity awarded as restricted stock units ("RSUs").

Duke Energy Indiana participants starting with 2022 grants:

Performance Shares: The performance shares granted to Duke Energy Indiana participants incorporate four Duke Energy Indiana performance goals based on (1) meeting annual budget targets, (2) timely filing of regulatory proceedings per the applicable regulatory business plan, (3) composite net promoter scores for residential, small/medium business, and large business, and (4) Net Promoter Score Community Leaders Study Goals. These goals are measured over a three-year performance period and participants must generally continue their employment with Duke Energy for the full three-year period to be eligible for a full payout, based on achievement of metrics.

RSUs: The RSUs granted to Duke Energy Indiana participants are 100% performance based RSUs based on Duke Energy Indiana performance.

RSUs vest in equal installments on the first three anniversaries of the grant date to the extent the RSU performance goals established by the Compensation Working Group of the Board of Directors ("Compensation Group") of Duke Energy Indiana Holdco for the applicable vesting date are achieved. Shares issued on any vesting date can be increased or decreased by 25% by the Compensation Group, based on how performance related to the goals has been achieved. Participants who remain employed with Duke Energy through a vesting date receive a share of Duke Energy common stock for each vesting RSU.

<u>Pre-2022 grants to Duke Energy Indiana participants and grants to other Duke Energy participants:</u>

<u>Performance Shares</u>: The performance shares granted in 2023 incorporate three performance goals: (1) cumulative adjusted EPS, (2) Total Shareholder Return ("TSR") compared to companies in the Philadelphia Utility Index, and (3) Total Incident Case Rate ("TICR"), which (as indicated above in my discussion of STI metrics) is a measure of operational safety – a factor of great importance to Duke Energy and its customers. Similar to the payout associated with meeting STI goals, payout of performance shares occurs only if pre-defined performance metrics related to the goals are met, but in the case of the performance share awards, the goals must be met over a three-year vesting period. The multiyear vesting period ties the number of performance shares

participants ultimately earn to Duke Energy's long-term performance, and this correlates to long-term value. Executive LTI Plan participants must generally continue their employment with Duke Energy for a three-year period to earn a payout.

RSUs: The other 30% of Executive LTI Plan participants' target LTI opportunity is awarded as RSUs. Vesting of RSUs is solely tied to participants' continued employment through vesting dates over a three-year vesting period and is not dependent upon Duke Energy's financial performance. Participants who remain employed with Duke Energy through a vesting date receive a share of Duke Energy common stock for each vesting RSU.

Below is a summary table of the metrics for the 2023 Executive LTI Plan:

TABLE 2: SUMMARY EXECUTIVE INCENTIVE PLAN

Incentive Plan	Incentive Plan Components	Weighting
Executive LTI	**Restricted stock units**	30%
	Performance shares (70%)	
	• Total Shareholder Return (TSR) relative to that of the companies in the Philadelphia Utility Index	17.5%
	• Cumulative adjusted Earnings Per Share (EPS)	35%
	• Absolute Total Incident Case Rate (TICR)	17.5%
Duke Energy Indiana Executive LTI	**Performance Based Restricted stock units (30%)**	
	• Regulatory Business Plan	15%
	• Funds from Operations	3%
	• O&M	3%
	• Capital Expenditures	4.5%
	• TICR	4.5%
	Performance shares (70%)	
	• Annual Budget Targets	17.5%
	• Regulatory Filings	31.5%
	• Net Promoter Score	7%
	• Composite Net Promoter Score	14%

Q. PLEASE DESCRIBE THE LTI PROGRAM AVAILABLE TO LEADERS BELOW THE ELT LEVEL.

A. Leaders below the ELT level participate in the RSU program and receive their LTI value in the form of RSUs that vest equally over three years, thereby encouraging retention of high-quality employees. Participation in the RSU plan is reserved for positions that meet at least one of the following criteria:

- Position has significant responsibility for a broad area or function or geographic region;
- The employee leads major projects or groups with substantial enterprise or business unit strategic or financial impact;

- The employee is in a role that has decision-making authority that impacts company performance; and/or
- Position requires specialized expertise that is critical to business operations or strategy development.

The RSU plan is an equally important component within the total compensation package for eligible leadership positions (below executive level) and is critical to maintaining market competitiveness and retaining key leadership talent. The base salary for these employees is set at such a level that, when factoring in the RSUs, the total package results in market-competitive compensation designed to retain qualified employees.

For pre-2022 grants to Duke Energy Indiana participants and grants for other Duke Energy participants, the reward of these RSUs is purely aimed at continuing employment and is in no way tied to performance metrics or financial performance.

For Duke Energy Indiana participants starting with 2022 grants, the RSUs granted are still aimed at continuing employment but are also 100% performance based RSUs based on Duke Energy Indiana performance. RSUs vest in equal installments on the first three anniversaries of the grant date to the extent the RSU performance goals established by the Compensation Group for the applicable vesting date are achieved. Shares issued on any vesting date can be increased or decreased by 25% by the Compensation Group, based on how performance related to the goals has been achieved. Participants who remain employed with

Duke Energy through a vesting date receive a share of Duke Energy common stock for each vesting RSU.

Below is a summary table of the metrics for the 2023 RSU Plan:

TABLE 3: SUMMARY RSU PLAN

Incentive Plan	Incentive Plan Components	Weighting
Other Duke Energy non-executive LTI	**Restricted stock units**	100%
Duke Energy Indiana non-executive LTI	**Performance Based Restricted stock units (100%)** • Regulatory Business Plan • Funds from Operations • O&M • Capital Expenditures • TICR	 50% 10% 10% 15% 15%

Q. DO YOU CURRENTLY ANTICIPATE THE 2025 LTI PLAN DESIGN TO REMAIN SIMILAR?

A. Yes. Understanding that some changes can materialize during the budgeting process, I anticipate the 2025 LTI plan to be similar to the current design.

Q. WHY IS IT IMPORTANT TO PROVIDE INCENTIVE OPPORTUNITIES AS A PART OF EMPLOYEES' TOTAL COMPENSATION?

A. STI opportunities are components of market-competitive total compensation that are necessary to attract and retain qualified employees. It is important to stress the fact that if Duke Energy did not provide incentive opportunities to employees, the same target value of incentive compensation would need to be added to base pay – which is paid regardless of Duke Energy's performance – in order to maintain market-competitive compensation.

Similarly, Duke Energy's LTI programs are a necessary component of compensation packages for leaders. They allow Duke Energy to attract and retain high-performing leaders who are capable of leading the way to cleaner, smarter energy solutions that are valued by customers. If Duke Energy and its subsidiaries, including Duke Energy Indiana, did not incorporate LTI as a part of the total compensation for these leadership positions, the positions would require higher base salaries in order to provide the same level of market-based total compensation. If an increase to base pay was not made in place of the LTI component, and the overall level of total compensation was reduced, Duke Energy would not be able to effectively attract or retain the experienced leaders necessary to direct the efforts of its employees and make the best strategic decisions on behalf of the enterprise and allow Duke Energy Indiana to provide reliable service to its customers.

Put another way, whether it is through base pay, or a combination of base pay and incentives, Duke Energy must keep its overall compensation package competitive in order to attract and retain a competent workforce. Incentive pay is similar to the other costs related to providing electric service – it is a necessary cost to provide customers safe and reliable service. In the competitive market for talent, employees consider the total rewards package, including base pay, incentive pay and benefits, as a key determinant in deciding whether to work for a particular employer.

Q. HOW DO GOALS BASED ON MEETING EPS OR TSR BENEFIT CUSTOMERS?

A. In order to achieve EPS goals, Duke Energy must have strong cost management, prudent investments, and operational excellence, all of which benefit customers. Achieving financial success benefits customers by reducing the cost of capital as Duke Energy continues to conduct necessary maintenance of the system, invest in modernization of the electric grid, and transform the customer experience by providing customers with more billing options, additional energy usage information, and new tools to help manage and reduce energy costs.

V. COST RECOVERY OF INCENTIVE PAY EXPENSE

Q. WHAT INCENTIVE PAY EXPENSE DOES DUKE ENERGY INDIANA PROPOSE TO RECOVER IN THIS PROCEEDING?

A. Duke Energy Indiana proposes to recover the incentive pay expenses at target levels that are directly assigned or allocated to Duke Energy Indiana. These expenses are prudent, benefit customers, and are a component of market-competitive pay.

Q. DO DUKE ENERGY'S STI AND LTI PLANS MEET THE COMMISSION'S REQUIREMENTS FOR COST RECOVERY?

A. Yes. The Commission's requirements for incentive plan costs to be recoverable in rates state that: "(1) the incentive compensation plan is not a pure profit-sharing plan, but rather incorporates operational as well as financial performance goals; (2) the incentive compensation plan does not result in excessive pay levels beyond what is reasonably necessary to attract a talented workforce; and (3) customers and shareholders are allocated part of the cost of the incentive compensation programs".[1]

First, the evidence establishes the Company's incentive compensation plans are not pure profit-sharing plans. They include many other metrics, such as safety, operational excellence, customer satisfaction, and reliable and efficient operations. Second, the Company's incentive compensation plans do not result in excessive pay levels beyond what is reasonably necessary for the Company to attract a talented workforce. Rather, Duke Energy's overall compensation philosophy is to target total compensation consisting of base pay and short- and long-term incentives, at the median of the market when compared to peer companies. Third, the costs of the incentive plan are allocated to both customers and shareholders, as shareholders would cover any amounts above the target levels proposed to be included in rates.

Q. WHY DOES THE COMPANY'S PROPOSAL FOR INCENTIVE COMPENSATION ASSUME REACHING 100% OF TARGET ACHIEVEMENT LEVELS?

A. These are the accrued and budgeted achievement levels for the performance goals for the STI, UEIP, and the LTI. The 100% target achievement level is used for the accruals and budget because this is what the Company expects to achieve on average.

[1] SIGECO, Cause No. 43839 (IURC 4/27/11), at 50-51.

Q. WHY DOES THE COMPANY BELIEVE SHORT-TERM AND LONG-TERM INCENTIVE SHOULD BE RECOVERABLE?

A. As I stated previously, incentive pay is similar to the other costs related to providing electric service. It is a necessary cost to provide customers safe and reliable service. In the competitive market for talent, employees consider the total rewards package, including base pay, incentive pay and benefits, as a key determinant in deciding whether to join or continue working for a particular employer.

Incentive pay is one element of Duke Energy's compensation programs, which consist of a base pay component and incentive pay component, that together provide a market-competitive compensation package for all employees. Competitive compensation packages are necessary for the Company to attract and retain the skilled workforce needed to provide clean and reliable energy to our customers. The annual STI pay opportunity is an important component of overall total compensation that promotes a corporate culture that is performance-oriented in order to provide the greatest benefit to customers.

The LTI opportunities provided to the Company's leaders are a necessary component of market-competitive target level of total compensation for these particular positions. This total compensation package allows the Company to attract and retain the experienced leaders necessary to direct the efforts of its employees and make the best strategic decisions on behalf of the Company and align their interest with the long-term strategy of Duke Energy, including Duke Energy Indiana, and its customers.

Further, as previously mentioned, the STI, UEIP and LTI plans meet the commissions requirements for incentive plan costs to be recoverable in rates.

VI. <u>BENEFIT PLAN DESIGN</u>

Q. WHAT IS DUKE ENERGY'S BENEFITS PHILOSOPHY AND HOW DOES IT TIE INTO THE COMPANIES' OVERALL COMPENSATION PHILOSOPHY?

A. At Duke Energy, we place a priority on attracting and retaining a diverse, high-performing workforce. An important way we do this is by providing a comprehensive, competitive total rewards package of pay and benefits that includes base pay, incentive pay opportunities, and benefits. Benefits are the non-pay portion of an employee's total rewards. Our benefit programs are designed so that Duke Energy can maintain a highly trained, experienced workforce that can render excellent utility service. Retaining employees is important for us because our business involves complex processes such that employees must receive long-term training to perform their jobs safely and effectively. Generally, benefits are provided through two vehicles: health and welfare benefit plans and retirement plans. Health and welfare benefit plans include medical, dental, vision, life insurance, and disability plans. Retirement plans include pension (limited to a grandfathered population) and 401(k) plans. Our retirement plans are designed to enable employees, through shared responsibility, to accumulate sufficient resources to be able to transition into retirement at the appropriate time. An employee's ability to retire at the right time increases opportunities for the workforce as a whole and also helps the utility manage costs.

Q. PLEASE DESCRIBE THE EMPLOYEE BENEFIT PROGRAMS PROVIDED TO EMPLOYEES.

A. The benefit programs in which all eligible employees may participate include medical, health savings account, dental, vision, flexible spending accounts, employee assistance program, wellness, sick pay, short-term disability, long-term disability, life insurance, accidental death and dismemberment, and business travel accident insurance. Retirement benefits include company contributions and company matching contributions to employees' 401(k) plans to promote the shared responsibility between the company and employees for accumulating retirement resources.

Q. PLEASE DESCRIBE DUKE ENERGY'S POST RETIREMENT HEALTHCARE BENEFITS PROVIDED TO EMPLOYEES.

A. Duke Energy is the result of a series of many acquisitions and mergers and has worked hard at integration to minimize differences among legacy company employee groups. This includes the post-employment benefits available to employees when they retire. Newly hired employees will be eligible to enroll in company sponsored pre-65 retiree medical, dental and vision benefits at retirement on an unsubsidized basis by paying the full cost of coverage. Additionally, Duke Energy provides retirees access to a retiree exchange program for assistance with exploring options for coverage available on the individual market as an alternative to Duke Energy-sponsored retiree coverage. They will also have the option to convert or port their active life insurance to an individual policy at retirement by paying the required premiums. Active employees who were part of a closed group and eligible for a retiree healthcare subsidy towards the cost of Duke Energy-sponsored retiree health care coverage were generally transitioned to a common approach in the form of a pre-65 Health Reimbursement Account benefit.

Q. IS IT COMMON PRACTICE, IN THE INDUSTRY, TO PROVIDE POST RETIREMENT BENEFITS?

A. As Duke Energy periodically reviews healthcare trends, we see that 28 percent of general industry and 44 percent of utility industry companies provide financial support for pre-65 coverage for current and future retirees. We also see that 21 percent of general industry and 38 percent of utility industry companies provide financial support for post-65 coverage for future retirees. As Duke Energy's financial support of retiree healthcare has lessened over the years, we have recognized that this is an area of concern for many employees. To address this, we encourage employees who are enrolled in a High Deductible Health Plan to contribute to a Health Savings Account and receive company matching contributions to save for their future retiree healthcare costs.

Q. WHAT IS THE GRANTOR TRUST?

A. The Grantor Trust is a trust established pursuant to Indiana Utility Regulatory

Commission ("IURC") order dated October 21, 1998, in Cause No. 40388 to hold amounts collected in Indiana retail rates that are to be used to pay post-retirement benefits other than pensions (generally, post-retirement medical coverage) for employees of Duke Energy Indiana and Duke Energy Business Services. The trust and Cinergy Corp, as the grantor of the trust, are taxed under the grantor trust rules of the Internal Revenue Code.

Q. WHY DOES THE GRANTOR TRUST EXIST?

A. As a condition of moving from "pay as you go" to accrual accounting of post-retirement benefits other than pensions, the IURC by order in Cause No. 40388 required external funding of the post-retirement benefits other than pensions through the Grantor Trust.

Q. IN YOUR OPINION IS THE GRANTOR TRUST SUFFICIENTLY FUNDED?

A. Yes, the Grantor Trust is adequately funded to pay for the future obligations of Other Post-Retirement Benefits ("OPRB") plan participants and not collect additional funds from customers. In addition, annual benefit payments are expected to decline over time because the OPRB plan is closed to newly hired employees. To determine sufficiency, the company compared the estimated future benefit obligation for Duke Energy Indiana OPRB plan participants, plus a proportionate share of Duke Energy Business Services' OPRB obligations, to the current Grantor Trust balance and added a reasonable annual rate of return on the Grantor Trust assets, net of tax. Based on the most recent sufficiency study, the balance of the Grantor Trust is expected to exceed future benefit payments, due to high rates of return on investments and declining future benefit payments. Therefore, the Company proposes in this rate proceeding to refund retail customers $37.5 million dollars upon receiving the Commission order on the current Duke Energy Indiana rate case (expected to be in early 2025) and then another $37.5 million dollars at the beginning of 2026. For more information on the Grantor Trust, see the testimony of Duke Energy Indiana Witness Ms. Suzanne Sieferman (Petitioner's Exhibit 4).

Q. DOES DUKE ENERGY INDIANA HAVE A PENSION PLAN?

A. Duke Energy closed its pension plans to non-union new hires in 2014 and has since negotiated closing pension participation for new hires for all union groups. New hires participate in the Enhanced 401(k) Program and receive a Duke Energy retirement contribution to the 401(k) in lieu of pension participation and have an opportunity to receive company matching contributions if they choose to contribute to the 401(k). Pension eligible employees have generally experienced reductions in future pension benefit accruals with transitions from a final average pay formula to a cash balance formula. As early as 1997, Duke Energy, through mandatory conversions, choice windows and design change for new hires, moved non-union and many union pension eligible employees to a cash balance design. Moving the existing employees allowed the Company to reduce future pension accrual, and reduce risks associated with longevity and investments (since most participants take lump sum distributions). To offset the impact of these pension reductions, Duke Energy increased its matching opportunity in the 401(k) plan. The emphasis throughout this process was to create a competitive retirement benefit, which provided as much comparability as possible across all legacy organizations and new hires, while aligning to the market.

Q. IN YOUR OPINION ARE DUKE ENERGY'S PENSION PLANS SUFFICIENTLY FUNDED?

A. Yes.

Q. HOW DID YOU COME TO THIS DETERMINATION?

A. Annually, Duke Energy engages WTW to prepare an Actuarial Valuation Report of Duke Energy's pension plans. The most recent Duke Energy Indiana report is attached at Confidential Attachment 16-C (SAC). This report provides information for year-end financial reporting, net periodic benefit cost, and the year-end funded status of the qualified pension plans for Duke Energy Indiana. The funded percentage of the qualified pension plans for Duke Energy Indiana on December 31, 2023, under US GAAP accounting was 104%. The qualified pension plans had a projected benefit obligation ("PBO") of $498M and a market value of assets of $516M. Duke Energy is committed to funding the qualified pension plans as necessary to meet all future required contributions.

Q. HOW DOES DUKE ENERGY DETERMINE THAT THE EMPLOYEE BENEFIT PROGRAMS THAT IT OFFERS ARE REASONABLE AND NECESSARY?

A. Duke Energy routinely examines its benefits to confirm how we compare with national trends among comparable employers, and we consider the most effective ways to serve our diverse workforce who reside in over 25 states. Because we are a company with a history of mergers and acquisitions, we try to ensure consistency and fairness among legacy company employee groups as well as cost-effectiveness. We benchmark our programs against other large employers from both the utility industry and general industry, so that we are positioned to attract and retain qualified employees needed to support our customers. Duke Energy leverages its consultants, vendor partners and nationally recognized surveys to evaluate the competitiveness of its benefits and costs. Examples of surveys include WTW's Financial Benchmarks Survey, Best Practices in Health Care Survey, Emerging Trends in Healthcare Survey and Benefits Data Source. These surveys indicate that Duke Energy's benefit plans and employee contributions are in line with its utility industry and general industry peers, making them reasonable and necessary in order to compete with other employers for qualified talent. We routinely determine if any changes should be made based on Duke Energy's reviews of the competitiveness and reasonableness of its benefit programs and employee costs compared to its peers.

Q. HAS DUKE ENERGY TAKEN STEPS TO CONTROL THE COST OF EMPLOYEE BENEFITS?

A. Yes. On an ongoing basis, Duke Energy reviews its employee benefits and costs in an effort to keep costs reasonable, while continuing to provide benefits that are sufficient to attract and retain employees. Employees pay a portion or all of the cost for many of their benefits, so we strive to manage costs for not just the Companies, but for employees as well. Periodically, benefit plan changes are made, and other steps are taken to control costs.

VII. SCHEDULES AND FILING REQUIREMENTS SPONSORED BY WITNESS

Q. HOW DID YOU ESTIMATE THE LABOR AND BENEFIT COST CHANGES FOR THE FORECASTED PERIOD PROVIDED TO DUKE ENERGY INDIANA WITNESSES MR. JOEL RUTLEDGE AND MS. REBEKAH BUCK?

A. I made reasonable estimates based on recent trends, current conditions, the market studies by independent consultants that I discussed previously in my testimony, and my previous experience with compensation and benefits matters. Based on these considerations, I provided Mr. Rutledge and Ms. Buck with estimates for the following for the forecasted test period consisting of the twelve months ending December 31, 2025: the union and non-union labor rate increases, the anticipated cost of incentive and benefits, and payroll tax.

VIII. CONCLUSION

Q. WERE ATTACHMENTS 16-A (SAC) AND CONFIDENTIAL ATTACHMENTS 16-B (SAC) AND 16-C (SAC) PREPARED BY YOU OR AT YOUR DIRECTION?

A. Yes.

Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?

A. Yes.

Cause No. 46038

VERIFICATION

I hereby verify under the penalties of perjury that the foregoing representations are true to the best of my knowledge, information and belief.

Signed: Shannon A Caldwell
Shannon Caldwell

Dated: April 4, 2024

Duke Energy 2023 Survey Library

SURVEY CODE	SURVEY NAME
AON-EMT23	Aon Energy Marketing and Trading
AON-REN23	Aon Renewable Energy
EMPS-WORKS23	Empsight The Works
FOU-ENV23	Foushee Environmental, Health & Safety
FOU-SEC23	Foushee Security & Compliance
GBS-AVI23	Gallagher Aviation
MER-HRM23	Mercer Benchmark Corporate Services and Human Resources
MER-ENG23	Mercer Benchmark Engineering & Design
MER-EXE23	Mercer Benchmark Executive
MER-FAL23	Mercer Benchmark Finance, Accounting & Legal
MER-ITS23	Mercer Benchmark Information Technology
MER-LSC23	Mercer Benchmark Logistics & Supply Chain
MER-SMC23	Mercer Benchmark Sales, Mktg & Comm
MER-CON23	Mercer Contact Center & Customer Service
PM-CYB23	Pearl Meyer Cyber Security, AI, Data Science – All Firms Only
RAD-GCD-JUL- DUKE23	Radford Global Compensation Database - July (Duke Energy)
TW-EMT23	WTW Energy Marketing and Trading
TW-EXE-ES-DUKE23	WTW Energy Services Executive (Duke Energy)
TW-MMPS-ES-DUKE23	WTW Energy Services Mid-Mgmt & Prof (Duke Energy)
TW-EXE-DUKE23	WTW General Industry Executive (Duke Energy)
TW-MMPS-DUKE23	WTW General Industry Mid-Mgmt, Prof & Support (Duke Energy)
TW-AGA23	WTW American Gas Association, 2023
WMG-UTIL23	Western Management Group Utilities

Attachment 16-B (SAC) (Confidential)

[Confidential Attachment]

Attachment 16-C (SAC) (Confidential)

[Confidential Attachment]