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INDIANA UTILITY
REGULATORY COMMISSION

VERIFIED DIRECT TESTIMONY OF KIRSTIE EYRE

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1 I. INTRODUCTION

2 **Q1. Please state your name, business address and title.**

3 A1. My name is Kirstie Eyre. My business address is 290 West Nationwide
4 Blvd., Columbus, Ohio 43215. I am employed by NiSource Corporate
5 Service Company ("NCSC") as a Compensation Manager.

6 **Q2. On whose behalf are you submitting this direct testimony?**

7 A2. I am submitting this testimony on behalf of Northern Indiana Public Service
8 Company LLC ("NIPSCO" or "Company").

9 **Q3. Please describe your educational and employment background.**

10 A3. I received a Bachelor of Science degree in Business Administration from
11 Troy University. I have worked for NiSource in a human resources capacity
12 since 2017. I have held the position of Compensation Manager at NiSource
13 since November 2022. Prior to that, I was Manager of Human Resources
14 and Payroll Compliance.

15 **Q4. What are your responsibilities as Compensation Manager?**

1 A4. As Compensation Manager, I develop and implement broad based
2 compensation and incentive programs provided to the employees of
3 NiSource Inc. ("NiSource") and its subsidiaries, including NIPSCO.

4 **Q5. Have you previously testified before the Indiana Utility Regulatory**
5 **Commission ("Commission") or any other regulatory commission?**

6 A5. Yes. I previously testified before the Commission in NIPSCO's most recent
7 gas rate case proceeding in Cause No. 45967.

8 **Q6. What is the purpose of your direct testimony?**

9 A6. The purpose of my direct testimony is to support NiSource total rewards,
10 which includes supporting details for total rewards programs, policies, and
11 philosophies including base compensation/wages, incentive compensation,
12 and employee benefits such as healthcare and dental coverage. I also set
13 forth comparative analyses to establish the reasonableness and
14 competitiveness of the wages, salaries, and incentive compensation
15 provided to employees.

16 **Q7. Are you sponsoring any attachments to your testimony in this Cause?**

17 A7. Yes. I am sponsoring the following attachments, all of which were either
18 prepared by me or under my direction and supervision:

<u>Attachment No.</u>	<u>Description</u>
Attachment 11-A	NIPSCO Non-Union Salary Analysis
Attachment 11-B	NCSC Salary Analysis
Attachment 11-C	Non-Union Merit Increase Market Data
Attachment 11-D	STI and LTI Metrics
Attachment 11-E	Mercer Long Term Incentives

1

2 **Q8. How is your testimony organized?**

3 A8. Section II discusses the Company's overall approach to employee
4 compensation, including base pay (wages and salaries) and incentive
5 compensation as part of total cash compensation, and benefits. Section III
6 presents documentation to support the reasonableness and competitiveness
7 of the Company's compensation expenses. Sections IV through VI describe
8 the Company's union and non-union compensation, merit increases, all
9 incentive compensation, and profit sharing components. Section VII
10 provides detailed analyses that demonstrate that the total cash
11 compensation paid to employees by NIPSCO and NCSC is reasonable and
12 competitive in relation to other utilities and general industry companies.
13 Section VIII describes the Company's health and dental benefit plans and
14 associated cost-containment efforts.

1 **II. EMPLOYEE COMPENSATION AND BENEFITS**

2 **Q9. Please describe NiSource's total rewards philosophy.**

3 A9. NiSource's total rewards philosophy is to compensate employees and
4 provide benefits that are competitive in comparison to the utility industry,
5 as well as general industry (non-utility) employers, to attract, retain and
6 motivate employees who are qualified to perform the functions needed by
7 the Company. This philosophy enables the Company to meet its
8 obligations to provide safe, reliable, and affordable service to its customers.
9 This philosophy is consistent across all NiSource companies.

10 **Q10. In defining and implementing the total rewards strategy and programs,**
11 **does NiSource obtain any assistance from outside human resource**
12 **experts?**

13 A10. Yes. For compensation, NiSource regularly relies on the advice and
14 guidance provided by Mercer, a global consulting leader in talent, health,
15 retirement, and investments. Mercer provides several services to assist
16 NiSource, such as validation of NiSource compensation benchmarking
17 sources; advice and expertise supporting periodic adjustments of salary
18 ranges to stay competitive; and providing best practice advice on pay and

1 incentive plan design. NIPSCO relies on Mercer's guidance to substantiate
2 that its compensation practices are consistent with other employers in the
3 utility and general industries.

4 In addition, Lockton, Aon, and Alight Solutions, global human resource
5 consulting firms, assist NiSource with certain health and welfare benefits
6 consulting, actuarial analysis, and administration of pension, health, and
7 welfare benefits.

8 **Q11. What are the various elements of a competitive total rewards program?**

9 A11. A competitive total rewards program includes market-driven base
10 compensation (rewarding employees in a manner that is competitive with
11 the external job market), market-driven performance adjustments/merits,
12 long- and short-term incentives, profit sharing, and health and welfare
13 benefits. The mix of these elements differs for various levels in the
14 organization. For purposes of my testimony, I will focus on merit increases,
15 long-term incentives, short-term incentives, health and welfare benefits,
16 and profit sharing, which are all included in the total rewards program.

1 **III. REASONABLENESS AND COMPETITIVENESS OF COMPENSATION EXPENSE**

2 **Q12. What analysis have you conducted that confirms the reasonableness and**
3 **competitiveness of NIPSCO and NCSC's wages, salaries, and total**
4 **compensation?**

5 A12. Attachments 11-A through Attachment 11-C support the Company's test-
6 year levels for total compensation. Utility and general industry data was
7 used to allow for comparison of NIPSCO and NCSC's compensation to
8 salary survey benchmark data. My supporting attachments are as follows:

9 Attachment 11-A: NIPSCO Non-Union Salary Analysis –
10 compares NIPSCO non-union average base salaries and total
11 cash compensation to the average salaries and total cash
12 compensation paid by utility and general industry
13 companies.

14 Attachment 11-B: NCSC Salary Analysis – compares NCSC
15 average base salaries and total cash compensation to the
16 average salaries and total cash compensation paid by utility
17 and general industry companies.

18 Attachment 11-C: Non-Union Merit Increase Market Data –
19 compares NIPSCO's granted 2023 and 2024 merit increases
20 for employee groups to national, utility, and regional actual
21 increases in 2023 and projected increases for 2024.

22 **Q13. What are the different groups of employees that you address throughout**
23 **your testimony?**

1 A13. Throughout my testimony, I refer to three employee groups that exist
2 within NIPSCO. Exempt is the employee group that includes all
3 salaried/management employees. Union is the group whose employment
4 terms and conditions are covered by a bargaining unit agreement.
5 Nonexempt refers to hourly employees not covered by a bargaining unit
6 agreement.

7 **Q14. What is your conclusion about the reasonableness and competitiveness**
8 **of the Company's compensation and benefits package?**

9 A14. The Company's compensation is competitive when compared to the
10 compensation of a similar group of employers in the United States. The
11 Company's benefits are also competitive when compared to a similar group
12 of employers. I provide support for these conclusions throughout the
13 remainder of my testimony.

14 **IV. UNION COMPENSATION**

15 **Q15. How many bargaining unit contracts exist for represented employees at**
16 **NIPSCO?**

17 A15. NIPSCO has two bargaining unit (union) contracts. They are the United
18 Steelworkers of America Local 12775 (Physical) and the United
19 Steelworkers of America Local 13796 (Clerical).

1 **Q16. How are the Company's union wage rates and benefits established**
2 **through collective bargaining?**

3 A16. Collective bargaining consists of negotiations between an employer and a
4 bargaining unit (union) to establish wages, benefits, and conditions of
5 employment. The result of the collective bargaining process is a collective
6 bargaining agreement that establishes the terms for wages and benefits for
7 affected employees. During the collective bargaining process, NIPSCO
8 assesses changes in the overall compensation packages offered to union
9 employees to ensure that the total compensation and benefits levels remain
10 reasonable and commensurate to other union and non-union employees at
11 similar levels within NiSource. Wherever possible, NIPSCO encourages its
12 union employees to join in the benefit programs offered to non-union
13 employees to streamline the administration of the benefit programs and
14 provide the most value to the employees and their families at the least cost.

15 **Q17. When do wage increases under the bargaining unit contracts take effect?**

16 A17. Wage increases for both bargaining unit contracts were 3.5% effective
17 January 1, 2023 and 3.0% effective January 1, 2024. The wage increase for

1 2025 is contractually set at 3%. Both bargaining unit contracts will expire
2 March 31, 2026.

3 **V. NON-UNION COMPENSATION**

4 **Q18. How is base compensation for non-union employees determined?**

5 A18. The base compensation for the Company's and NCSC's non-union
6 employees is measured against base compensation for employees in similar
7 positions at other employers. More specifically, internal NIPSCO and
8 NCSC positions have been compared to external market positions. To
9 establish parity with other employers vying for qualified workers in
10 NiSource's labor markets, base compensation is set within a range that is
11 established around the market median for individual jobs.

12 **Q19. How does the Company establish the range within which non-union base**
13 **pay can fluctuate around the market median?**

14 A19. The established salary range is approximately 80 percent to 120 percent of
15 the market medians. This range allows individual leaders to differentiate
16 base pay compensation among employees in similar jobs with varied skills,
17 experiences, and level of responsibility.

1 **Q20. How does the Company determine that its compensation is competitive**
2 **with the labor market?**

3 A20. Attachment 11-A compares NIPSCO base salaries and total cash
4 compensation to utility and general industry companies. Attachment 11-B
5 compares NCSC base salaries and total cash compensation to utility and
6 general industry companies. I will explain in more detail later in my
7 testimony.

8 **Q21. Have you compared the Company's non-union merit adjustments to**
9 **those of other utility and general industry companies to determine if they**
10 **are reasonable?**

11 A21. Yes. Attachment 11-C compares the Company's granted merit increases
12 and the increases projected for employee groups regionally and nationally
13 and for utilities and general industry in 2023 and 2024. The results show
14 that the Company's exempt and non-union, non-exempt merit adjustments
15 are aligned with the actual 2023 and projected 2024 market increases.

16 **VI. INCENTIVE COMPENSATION AND PROFIT SHARING**

17 **Q22. Explain the Company's incentive compensation and profit sharing**
18 **programs that are part of the total rewards program.**

1 A22. As part of the total rewards program explained earlier in my testimony,
2 NiSource maintains two incentive compensation programs and one profit
3 sharing program. The two incentive compensation programs include the
4 annual Short-Term Incentive Plan ("STI") and the Long-Term Incentive
5 Plan ("LTI"). NIPSCO identifies the levels of jobs that are eligible for STI
6 and/or LTI, to align employee rewards with the Company's vision and
7 strategies surrounding occupational health and safety, operational
8 excellence, customer, workforce, sustainability, and financial metrics.
9 Participants are eligible to receive incentive awards based on a blend of
10 their personal performance and the performance of NCSC and the
11 Company. The Profit Sharing Plan is an element of the Company's
12 Retirement Savings Plan and supports employees' saving for retirement.
13 The Profit Sharing Plan is not included in the calculation of the revenue
14 requirement in this case.

15 **Q23. Is STI an important component of total compensation for NIPSCO and**
16 **NCSC to be effective in recruiting and retaining employees and to drive**
17 **strategic priorities for the Company?**

18 A23. Yes. The STI program is designed to drive and reinforce the strategies that
19 are most important to the Company, which include occupational health and

1 safety, operational excellence, customer satisfaction, workforce,
2 sustainability, and financial metrics and to help provide safe and reliable
3 service to customers. It is essential that employees are held accountable for
4 all costs passed along to the customer, which is done through financial,
5 safety, and customer goals. All three elements are key and critical to
6 support customer costs. If, for example, safety goals are exceeded but
7 financial or customer goals are not then success is not met on what is
8 essential for the delivery of safe and reliable service to customers. The STI
9 program allows NiSource to drive the message of safety, customer, and
10 financial focus to employees and the ability to reward employees for
11 meeting those goals is essential.

12 To do this, specific goals are included in exempt employees' annual
13 objective plans. These goals are critical in reinforcing key Company
14 initiatives, including goals related to safety, customer, financial, execution,
15 and people oriented initiatives. This is evidenced by the 2023
16 Compensation Best Practices Report released by PayScale. The following is
17 an excerpt from the Variable Pay and Benefits section of this report (p. 37):

18 According to our survey, 78 percent of organizations offer

1 variable pay. This is about where it was last year, having
2 increased only one percentage point. However, variable pay
3 has gone up compared to several years ago, where it was 8-
4 9 percentage points lower than it is now.

5
6 The March 2023 Forbes article Monetary Incentives in the Workplace (2024
7 Guide) supports this perspective:

8 Monetary incentives in the workplace can play a powerful
9 role in recognizing and motivating employees. Employees
10 want to feel valued and appreciated for their
11 accomplishments and are more likely to stay loyal when
12 there is an incentive.

13
14 Using money as an incentive in the workplace can be highly
15 effective to motivate employees to work harder and boost
16 worker retention.

17
18 Employers can offer cash rewards to employees who strive
19 for top performance, go above and beyond or meet set goals.
20 This instills a sense of purpose and satisfaction from
21 accomplishment and a job well done.

22
23 Therefore, to remain competitive in the labor market, it is important to
24 provide STI compensation as part of total compensation. If the Company
25 and NCSC maintain a competitive base compensation but do not provide
26 incentive compensation, it follows that total compensation will lag the
27 competition and employees will have larger total compensation
28 opportunities at other employers providing competitive compensation
29 inclusive of incentives.

1 **Q24. What are the specific STI metrics and measures utilized?**

2 A24. STI metrics include operational excellence, safety, customer satisfaction,
3 and financial measures. See Attachment 11-D: STI and LTI Metrics for
4 definitions of these metrics.

5 **Q25. Is individual employee performance a factor for STI?**

6 A25. Yes, for exempt (salaried) employees. A portion of each exempt employee's
7 annual total rewards is tied to the performance results of the measures in
8 the STI and individual performance. Under the terms of the incentive plan,
9 a discretionary amount is available to exempt employees based on
10 individual performance as determined by an employee's supervisor. I
11 describe the employee incentive level and performance evaluation process
12 below.

13 **Q26. How are incentive levels and incentive ranges determined under the STI?**

14 A26. Each employee is placed in a job scope level, which is based mainly on their
15 responsibility level within the organization. Each job scope level has an
16 associated incentive level and incentive opportunity range, beginning at a
17 threshold or "trigger" level, which provides an incentive of 50 percent of a
18 "target." The incentive opportunity range increases through the "target"

1 level up to the "stretch" level, which provides an incentive of 200 percent
2 of the "target."

3 Below is an example of how incentive levels and ranges are utilized. Field
4 leaders are in a job scope level that provides a target incentive opportunity
5 of 12 percent of base pay. The trigger and stretch levels are 50 percent below
6 and 200% above the target percentage, respectively. Therefore, the
7 incentive range for a front line supervisor is:

8	Trigger	Target	Stretch
9	6%	12%	24%

10
11 The employee's leader considers the employee's performance when
12 determining the incentive amount to be awarded, with stronger performers
13 typically receiving an incentive between the target and stretch levels. In all
14 cases, each STI measure will only pay out if it meets or exceeds the Trigger
15 level of performance. Employees must perform safely, must provide a
16 positive customer experience, and must operate with financial efficiency for
17 these metrics to be achieved and paid. Having STI as part of NIPSCO and
18 NCSC employees' compensation plan incents them to demonstrate the
19 behaviors that support the Company's goals of providing safe and reliable
20 service to our customers.

1 **Q27. How does the incentive level factor into the appropriate level of total cash**
2 **compensation for each employee?**

3 A27. The incentive opportunity is one component of an employee's total cash
4 compensation, along with base pay, and therefore affects the potential
5 value of total cash compensation. An incentive opportunity range is
6 associated with each broad level, which determines the minimum and
7 maximum incentive payout opportunity as a percentage of base pay for
8 exempt employees and as a percentage of base pay plus overtime and other
9 premium pay for non-exempt employees. The total value of base pay and
10 incentive compensation determines the overall total cash compensation
11 opportunity available to employees.

12 **Q28. How does NIPSCO ensure that employees are committed to meeting the**
13 **needs of customers, such as service quality and service reliability, and**
14 **how does this fit into the incentive program?**

15 A28. The discretionary portion of the STI is based on individual performance
16 linked to goals in occupational health and safety, operational excellence,
17 customer, workforce, sustainability, and financial categories. Performance
18 management is executed through the annual evaluative process embodied

1 in the written objectives of each employee and is measured against those
2 objectives, resulting in a performance rating that is factored into the
3 employee's incentive award calculation.

4 A NIPSCO employee's Objectives Form contains annual performance
5 objectives and articulates the means of measuring the employee's progress
6 in relation to the established objectives. Each employee is actively involved
7 in the development of his or her objectives, with input from his or her
8 supervisor, and the employee's progress is reviewed and discussed with
9 the employee periodically throughout the year. The annual performance
10 objectives are also used as an aid in determining the amount of a merit
11 increase for an employee.

12 The use of the objectives process to establish goals to measure employees'
13 performance is important in reinforcing the proper focus on key initiatives
14 and goals designed to continuously remain focused on occupational health
15 and safety, operational excellence, customer, and cost containment.
16 Examples of goals that support customer and safety include: achieve safety
17 discipline and performance by ensuring processes and procedural
18 adherence; proactively mitigate safety risks and exhibit zero tolerance of

1 harm to our employees, contractors, customers and the public by
2 incorporating all applicable safety processes, training, procedures and
3 standards of conduct; deliver an industry leading customer experience;
4 achieve reliability through emergency response and responding to
5 customer needs timely.

6 **Q29. In general, how is incentive compensation awarded?**

7 A29. If incentive plan measures are met, an incentive pool is established. The
8 percentage of an individual employee's base pay that is available for the
9 cash incentive is dependent upon their job scope level. For exempt
10 employees, the employee's individual performance and achievement of
11 predetermined goals as determined by his or her supervisor is also factored
12 into the amount of the incentive awarded. Incentive payments are made in
13 February or March of the year following the year for which performance is
14 measured, *e.g.*, 2023 plan year incentive was paid in 2024.

15 **Q30. Has NIPSCO included incentive plan costs in the cost of service?**

16 A30. Yes. As it is an important piece of overall total rewards earned by NIPSCO
17 employees, the Company has included it in the cost of service and is
18 requesting recovery of the "target" level of expense for all employees.

1 Target is most representative of an expected, normal level of ongoing STI
 2 expense. The target level represents the annual STI expense as if there were
 3 no adjustments for achieving results above or below expected level of
 4 performance.

5 **Q31. Has NIPSCO achieved a reasonable level of performance to support**
 6 **recovery of a target level of incentive?**

7 A31. Yes. As shown in the figure below, a review of NIPSCO's 10-year incentive
 8 payment history shows NIPSCO routinely pays above target for STI (Years
 9 2014-2023).

STI Plan History											
Percent of Target											
	2014	2015 First Half*	2015 Second Half*	2016	2017	2018	2019	2020	2021	2022	2023
NIPSCO	131%	65%	105%	117%	149%	75%	73%	50%	111%	94.44%	170%
Corporate Wide	142%	122%	105%	117%	149%	75%	73%	50%	111%	94.44%	170%
Executive Only	142%	122%	105%	117%	146%	50%	65%	50%	113%	94.44%	170%

*Due to Split of Columbia Pipeline Group from NiSource, there was a 1/1-6/30 plan and a 7/1-12/31 plan; the second half was based upon total NI results, not business unit results

10

11

12 The 2018 and 2019 program results were significantly impacted by an
 13 operating incident that occurred at Columbia Gas of Massachusetts (a
 14 former NiSource company), having a significant downward impact on
 15 incentive plan results, which also impacted NIPSCO employees. 2020
 16 results reflect a year that was the height of the COVID pandemic. Outside

1 of these two unprecedented anomalies, the Company has a consistent
2 pattern of paying, on average, above target.

3 **Q32. Is LTI an important component of total compensation for NIPSCO and**
4 **NCSC to be effective in recruiting and retaining executive employees?**

5 A32. Yes. As mentioned earlier in this section and as supported by the Aon
6 survey results, LTI is designed to attract and retain executive talent. LTI
7 awards are a common element of compensation at key management levels
8 of organizations throughout the United States, including major utilities
9 and, as such, are an important component of total compensation. These LTI
10 awards allow NCSC and the Company to compete in the market to attract
11 and retain individuals at executive levels. It would be difficult for NiSource
12 to accomplish this objective without this element of total compensation. As
13 described by Mercer in the article "Long Term Incentives, The Basics" (see
14 Attachment 11-E: Mercer Long Term Incentive, page 1):

15 Long-term incentives [...] are a valuable part of a total
16 compensation package both for delivering rewards and
17 focusing employees on desired future outcomes and
18 objectives. LTI also serves as a retention tool because the value
19 of the reward is usually not realized until some future point
20 in time, therefore encouraging the employee to stay engaged

1 and focused on desired results as well as employed with the
2 organization.

3 **Q33. Please explain how NiSource awards LTI.**

4 A33. LTI is part of the Company's total rewards package and was in place during
5 the Historic Base Year (the period beginning January 1, 2023, and ending
6 December 31, 2023) and 2024 Budget Period (the period beginning January
7 1, 2024, and ending December 31, 2024), and will be in place during the
8 Forward Test Year (the period beginning January 1, 2025 and ending
9 December 31, 2025). Performance Share Units and Restricted Stock Units
10 are granted to employees at the level of Director and above. Performance
11 Share Units are vested after achieving specific performance goals that vary
12 by year and include operational excellence and safety, employee
13 engagement, greenhouse gas reduction, diversity of workforce, cumulative
14 net operating earnings per share, and relative total shareholder return
15 goals. Restricted Stock Units are vested based upon achievement of
16 individual conditions as outlined in an award agreement, which includes
17 restrictions based upon the continued service of the employee.

18 **Q34. Do the Company's LTI awards provide customer benefits?**

1 A34. Yes. As mentioned above, a portion of the LTI awards are directly tied to
2 the achievement of operational excellence and safety, employee
3 engagement, greenhouse gas reduction, diversity of workforce, cumulative
4 net operating earnings per share, and relative total shareholder return
5 goals. For the reasons I have previously described, LTI is a key component
6 of the Company's total rewards program. If the Company is to provide
7 high-quality service to its customers, it is imperative that it be able to attract
8 and retain high quality talent, and to do so, all aspects of the total rewards
9 package, including LTI for Director and executive level employees, must be
10 competitive with other industry employers. If not, the Company places
11 itself at high risk of losing talent to competitors. This would create a loss of
12 valuable skills and would have a significant financial impact in the form of
13 turnover costs, which would ultimately be borne by the Company's
14 customers.

15 **Q35. What are examples of the operational excellence and safety, employee**
16 **engagement, greenhouse gas reduction, and diversity of workforce and**
17 **supplier goals?**

1 A35. Examples of goals included in the LTI program are: reduce severe injuries
 2 or events, increase employee engagement survey results, reduce
 3 greenhouse gas emissions, and increase economic inclusion by improving
 4 total expenses on diverse suppliers.

5 **Q36. Has the Company included the cost of its LTI Plan in its cost of service?**

6 A36. Yes. The Company has included recovery of the "target" level of expense
 7 for all employees in its cost of service. The target level is most
 8 representative of an expected, normal level of ongoing LTI expense. The
 9 target level represents the annual LTI compensation expense as if there
 10 were no adjustments for achieving results above or below the expected level
 11 of performance (target).

12 **Q37. Has NIPSCO achieved a reasonable level of performance to support**
 13 **recovery of a target level of incentive?**

14 A37. Yes. As shown in the figure below, a review of NIPSCO's 10-year incentive
 15 payment history shows NIPSCO routinely pays above target for LTI
 16 (results for 2012-2021).

LTI Plan History										
Percent of Target										
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
NIPSCO	183%	188%	170%	100%	120%	100%	55%	77%	79%	164%

17

1 Results for LTI span a 3-year vest period. Results for 2022 and 2023 will be
2 available in 2025 and 2026, respectively. As noted above, the 2018 and 2019
3 program results were significantly impacted by an operating incident that
4 occurred at Columbia Gas of Massachusetts (a former NiSource company),
5 having a significant downward impact on incentive plan results, which also
6 impacted NIPSCO employees. 2020 results reflect a year that was the height
7 of the COVID pandemic. Outside of these two unprecedented anomalies,
8 the Company has a consistent pattern of paying, on average, above target.

9 **Q38. Does the Company have a Profit Sharing Plan?**

10 A38. Yes. Company contributions for Profit Sharing are deposited into
11 employees' Retirement Savings Plan accounts, which provide an important
12 element of employee savings. These contributions to the Retirement
13 Savings Plan have become even more important as more traditional
14 elements of retirement savings, including defined benefit plans, are no
15 longer offered to exempt new hires on or after January 1, 2010, and non-
16 exempt new hires on or after January 1, 2013. Absent these contributions,
17 the Company would have to make other adjustments to its compensation

1 package, such as increases to base pay, to remain competitive in the market
2 for quality employees.

3 **Q39. Has NIPSCO included the costs of its profit sharing plan in the revenue**
4 **requirement?**

5 A39. No. NIPSCO Witness Weatherford sponsors an adjustment to remove
6 profit sharing.

7 **VII. DETAIL OF COMPARATIVE COMPENSATION ANALYSES**

8 **Q40. Has NIPSCO performed comparative analyses to demonstrate the**
9 **reasonableness and competitiveness of its salaries / wages and total cash**
10 **compensation levels?**

11 A40. Yes. As mentioned previously, utility and general industry data were used
12 to allow for a comparison between NIPSCO and NCSC's compensation in
13 the relevant labor markets. Reasonable compensation is defined as
14 salaries/wages and total cash compensation levels being within
15 approximately +/-10% of market based salaries/wages and total cash
16 compensation. The following analyses show that compensation levels for
17 NIPSCO and NCSC are reasonable and competitive when compared with
18 other utility and general industry employers.

1 **Q41. What source material did you rely upon in preparing these analyses?**

2 A41. I used utility and general industry surveys that provided survey job
3 descriptions, a list of participating organizations, a variety of levels in
4 multiple functional areas, clearly defined data elements (i.e., base salary,
5 total cash) and appropriate scope data (i.e., utility industry). The survey
6 data, as outlined below, is relied upon by the Company to establish market-
7 driven base pay on an ongoing basis.

A. Comparative Analysis for Non-Union Compensation

8 **Q42. What source material was used in creating Attachment 11-A and**
9 **Attachment 11-B?**

10 A42. I relied on Mercer Benchmark Database, US Mercer Total Compensation
11 Survey for the Energy Sector, Willis Towers Watson American Gas
12 Association (AGA), Willis Towers Watson General Industry Compensation
13 Surveys Results, and Willis Towers Watson General Industry
14 Compensation surveys to develop Attachment 11-A and Attachment 11-B.
15 The surveys provide competitive salary information for jobs within the
16 utility industry and the general industry.

1 **Q43. Please review the comparative analysis performed in relation to non-**
2 **union total cash compensation.**

3 A43. Attachment 11-A, titled NIPSCO Non-Union Salary Analysis, provides a
4 comparison of NIPSCO's average non-union base salaries and total cash
5 compensation to the average base salaries and total cash compensation of
6 utility and general industry in the United States.

7 **Q44. What were the results of your analysis?**

8 A44. Attachment 11-A shows that the average annual base salary paid by the
9 Company for study positions is \$94,680, with total cash compensation of
10 \$101,013, as compared to an average base salary of \$100,680 paid by utility
11 and general industry employers, with average total cash compensation of
12 \$110,370. When compared based on base salary and total cash
13 compensation, the Company is paying at competitive levels for utilities and
14 general industries. Specifically, the Company is 5.96 percent below the
15 market in base pay and 8.48 percent below in total cash compensation.
16 Reasonable compensation is defined as salaries/wages and total cash
17 compensation levels being within approximately +/-10% of market based
18 salaries/wages and total cash compensation. Attachment 11-A

1 demonstrates that NIPSCO's non-union base salaries and total cash
2 compensation are reasonable and competitive.

3 **Q45. Please review the comparative analysis performed in relation to non-**
4 **union salary.**

5 A45. Attachment 11-B, titled NCSC Salary Analysis, provides a comparison of
6 salaries for NCSC staff as compared to utility and general industry salaries.
7 Attachment 11-B compares average NCSC staff base salaries and total cash
8 compensation to the average salaries and total cash compensation of utility
9 and general industry employers.

10 **Q46. What were the results of your analysis?**

11 A46. Attachment 11-B shows that the average annual base salary paid by NCSC
12 for study positions is \$90,142, and total cash compensation was \$95,967. The
13 average base salary paid by survey employers is \$98,519, and total cash
14 compensation was \$108,161. NCSC base salaries were 8.5 percent below
15 and total cash compensation was 11.27 percent below surveyed employers.
16 Reasonable compensation is defined as salaries/wages and total cash
17 compensation levels being within approximately +/-10% of market based
18 salaries/wages and total cash compensation. Even though the NCSC is

1 slightly lagging the market in total cash compensation, Attachment 11-B
2 demonstrates that NCSC's base salaries and total cash compensation are not
3 in excess of levels that are reasonable and competitive.

B. Performance Adjustments (Merit Increases)

4 **Q47. Did the Company and NCSC grant performance / merit adjustments to**
5 **non-union employees in 2023 and 2024, and are these costs included in**
6 **the cost of service?**

7 A47. Yes. As shown in Attachment 11-C, non-union employees of the Company
8 and NCSC received a 3.0 percent annual performance / merit increase in
9 2023 and a projected 4.0 percent increase in 2024.

10 **Q48. What source material was used in creating Attachment 11-C?**

11 A48. I relied upon two survey sources that covered many employers within the
12 utility and general industry sectors and provided median merit increase
13 information. These surveys were the 2022-2023 WorldatWork Salary
14 Budget Survey and the 2023 AON Salary Increase and Turnover Study.

15 **Q49. Please review the comparative analysis performed in relation to non-**
16 **union performance / merit adjustments.**

1 A49. Attachment 11-C, titled Non-Union Merit Increase Market Data, provides a
2 comparison of the Company's merit increases, for non-union employees in
3 2023 and 2024, to those for other utilities and general industry employers.
4 The data is categorized nationally and regionally.

5 **Q50. What were the results of your analysis?**

6 A50. Attachment 11-C shows that the Company's merit increases in 2023 and
7 2024 were at market with other employers within the region and the utility
8 industry.

9 **VIII. EMPLOYEE BENEFITS**

10 **Q51. What are the benefits offered by the Company to attract and retain**
11 **qualified employees?**

12 A51. Benefits are an important component of any compensation structure and
13 are necessary to ensure the Company can attract and retain qualified
14 employees. The Company's benefit plans correspond to the plans offered
15 throughout the NiSource system, including health and welfare plans
16 (health care coverage, dental coverage, vision care, term life insurance and
17 disability insurance), retirement savings plans, and paid time off (vacation,
18 holiday, parental leave, and sick pay).

1 **Q52. How do the Company and NCSC ensure the reasonableness and**
2 **competitiveness of its benefit offerings?**

3 A52. Regarding employee benefits, NCSC ensures their reasonableness and
4 competitiveness of the level of such benefits by periodically comparing
5 them, at an individual plan level and as a package, against the benefit
6 programs of other employers. As part of this process, the benefits offered
7 by the Company through its affiliation with NiSource are compared to the
8 benefits offered at energy companies, including investor-owned utilities.
9 The total value and the employer-paid portion of the benefits are rated on
10 a standardized value scale that reflects the deviation of the NiSource
11 primary benefit offerings from the average offered by other employers.

12 **Q53. Is it necessary to provide health care and dental coverage to employees?**

13 A53. Yes. Health care coverage, including dental care coverage, is important to
14 Company employees and their families. The Company's experience has
15 demonstrated that quality health care and dental coverage helps to attract
16 and retain employees and encourages longevity with the Company.
17 Therefore, health care and dental coverage plans are offered to all
18 employees of the Company, from field personnel to executives.

1 **Q54. Does the Company incur its own health care and dental care costs or are**
2 **these costs incurred by NCSC on behalf of the Company?**

3 A54. NCSC obtains and incurs the costs associated with health care coverage for
4 Company employees and retirees.

5 **Q55. How does NCSC obtain such coverage?**

6 A55. Benefit coverage is competitively bid through a request for proposals
7 process which is led by NCSC's consultant/broker. Here are the steps:

- 8 (1) request data from insurance companies and/or third-party vendors
9 to compile data for renewal negotiations or preparation of bid
10 specifications;
- 11 (2) develop renewal requests and bid specifications to release to
12 vendors;
- 13 (3) review final bid specifications before release to the marketplace;
- 14 (4) prepare an initial report outlining the results of the marketing
15 project;
- 16 (5) negotiate a final competitive rate basis and contractual terms with
17 vendors;
- 18 (6) prepare and deliver report outlining final negotiated financials; and
- 19 (7) conduct site visits to claim office and/or finalist presentation to
20 determine whether a change in vendors is appropriate. Carriers and
21 third-party administrators are selected based upon their ability to
22 provide quality service in the most cost-efficient manner.

1 Q56. How has the Company attempted to reduce and control its health care
2 costs?

3 A56. NCSC, on behalf of the Company, has undertaken many initiatives to limit
4 the cost of providing health and dental care to Company employees. NCSC
5 continues to review plan coverage and to search for more efficient ways to
6 offer and administer plan coverage. More costly health care plans have
7 been replaced with more efficient preferred provider organization ("PPO"
8 and "High Deductible ("HD") PPO") plans, and the Company self-insures
9 most of its plans, which reduces underwriting margins. Plans that offer
10 coverage through provider networks are used as often as possible to take
11 advantage of provider discounts. Opt-out credits are paid to those
12 employees who have alternative health care coverage and elect not to
13 participate in the plans. These credits are offered at a fraction of the cost
14 that would otherwise be required to provide coverage for the employees
15 who opt-out. Such programs have been offered to both union and non-
16 union employees. The Company offers two high deductible PPOs, and a
17 health savings account for participants in these two high deductible plans.
18 As with other parts of its business, the Company enjoys some purchasing
19 power due to its affiliation with NiSource to ensure competitive rates from

1 its carriers. In addition, corporate-wide programs offer a larger pool of
2 covered participants, which provides for a larger spread of risk. The larger
3 risk pool helps contain increases in health and dental care costs.

4 **Q57. How are costs of the health care plans determined?**

5 A57. NCSC engages a consultant to help determine the estimated cost of health
6 care plans for the upcoming year. NCSC self-insures many of its plans,
7 which means that the Company's actual plan experience is used to
8 determine estimates of future costs.

9 The Company's consultant uses underwriting techniques, based on
10 actuarial guidelines, to project the future plan's costs for the self-funded
11 plans. The key factor in projecting future results is the prior experience of
12 a group, especially when the group consists of a large population. This
13 experience is specific to NiSource's entire covered population. The process
14 of forecasting past claims experience into the future considers plan designs,
15 trends, and group credibility. Adjustments to methodology may be made
16 in certain situations. Examples of situations that may result in an
17 adjustment include changes to plan design, significant increases or
18 decreases in the covered population due to acquisitions or divestitures, or

1 when specific language is negotiated in a collective bargaining agreement.
2 These processes are widely accepted with the insurance market as the
3 standard to establishing budget and premium levels that are appropriate to
4 cover future risks.

5 **Q58. Please explain trend and group credibility.**

6 A58. The primary components of the medical trend include the following:

- 7 • Inflation in unit prices for the same services;
- 8 • Changes in utilization of the same services;
- 9 • Out-of-pocket leveraging;
- 10 • New technology/services (increases or decreases depending on the
11 mix and cost of services);
- 12 • Cost shifting from public payors (Medicare and Medicaid) to private
13 plan payors; and
- 14 • Population aging.

15 The trend factors used in the projections fall within the framework
16 established by the Actuarial Standards Board of the American Academy of
17 Actuaries, which has responsibility for the development of actuarial
18 standards of practice used by all professional organizations.

19 Credibility reflects a degree of confidence and accuracy in using the past
20 group's specific information in projecting future costs. A mixture of the size

1 of the group and the period of time the data reflects determines a group's
2 credibility. Generally, the larger the group and/or the longer the period of
3 available historical information, the greater the degree of confidence and
4 accuracy of using a past group's specific data to project the future costs.
5 NiSource working rates are projected using experience based on over 3,000
6 member life years. This amount of experience is fully credible based on
7 generally accepted actuarial guidelines.

8 **Q59. How does the Company assess how its employee benefit programs**
9 **compare to other companies?**

10 A59. On behalf of the Company, NCSC through Aon performs a benefit index
11 study to compare benefits at a program level and as a package against the
12 benefit programs of similar offerings at other employers. The standard
13 Company benefit offerings are compared to the benefits offered at other
14 energy companies, including investor-owned utilities. The most recent
15 study was conducted in January 2024 by Aon.

16 Company employees share in a percentage-of-cost basis in the cost of the
17 health plans made available to them. The percentage cost share for the PPO
18 and HDPPO 1 plans for non-exempt non-union employees is 25 percent,

1 while exempt employees pay 30 percent of the costs. For employees in the
2 bargaining units, their percentage cost share is 25 percent and is subject to
3 collective bargaining. Additionally, for employees that want to assume
4 greater claims risk through a leaner plan design with a higher deductible
5 and out of pocket maximum, there is an HDPPPO 2 plan offered for a
6 reduced cost share of 15 percent to all employees. For employees in
7 bargaining units this percentage cost share is also subject to collective
8 bargaining.

9 **Q60. What were the results of the latest Aon study regarding NiSource and the**
10 **Company's benefits offerings?**

11 A60. The study shows that the overall employer-paid value of NiSource's
12 benefits plans is 3.9 percent below the median of the selected energy
13 industry cohort. The Company has concluded from the results of the study
14 that its benefits are reasonable as compared with the offerings from other
15 employers in the labor markets.

16 **Q61. Has the Company pursued any benefit cost containment measures?**

1 A61. Yes. The Company has pursued several cost containment measures to help
2 control the cost of providing health and retirement benefits to its
3 employees.

4 • The Company self-insures many of its health plans, utilizing
5 Anthem as its benefits administrator, which reduces underwriting
6 margins.

7 • Anthem's medical provider network provides very competitive
8 medical provider discounts for its PPO and HDPPPO self-insured
9 plans compared to other national carriers.

10 • Introduced an Anthem Integrated Health Management system that
11 provides registered nurse counseling to employees and dependents
12 for the most cost efficient and effective medical treatment options.

13 • The Company has converted from a Final Average Pay pension
14 formula to a less costly Account Balance pension formula. This
15 conversion for nonexempt, non-union employees was effective
16 January 1, 2013. Exempt employees were converted on January 1,
17 2010.

- 1 • Eliminated pension and post-retiree medical and life insurance for
2 the majority of new hires and replaced with a more shared company
3 and employee subsidy, 401k plan and health savings account
4 retirement savings model. This took place for exempt employees
5 effective January 1, 2010, non-exempt nonunion effective January 1,
6 2013, and for union employees from January 1, 2011 through January
7 1, 2014.

8 **IX. CONCLUSION**

9 **Q62. What is your conclusion about the reasonableness and competitiveness**
10 **of the Company's compensation and benefits package?**

11 A62. As supported throughout my testimony and attachments, the Company's
12 compensation and benefits are competitive when compared to the
13 compensation at a similar group of employers, and this total compensation
14 is reasonable and supports the ability to attract and retain talented
15 employees.

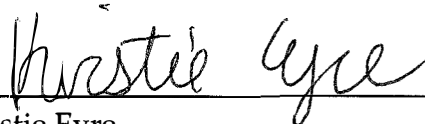
16 **Q63. Does this conclude your prefiled direct testimony?**

17 A63. Yes

VERIFICATION

I, Kirstie Eyre, Compensation Manager of NiSource Corporate Service Company, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information, and belief.

Kirstie Eyre


Kirstie Eyre

September 12, 2024

Date: September 12, 2024

NIPSCO Non-Union Salary Analysis¹
Comparison of NIPSCO Non-Union Base Salaries & Total Cash Compensation to National Survey Data

<u>Job Title</u> (2)	<u>NIPSCO Annual Base</u>	<u>NIPSCO Annual Total Cash</u>	<u>Survey Annual Base</u>	<u>Survey Annual Total</u>
	<u>Salary (Average)</u> (3)	<u>Compensation</u> <u>(Average)</u> (3), (4)	<u>Salary (Average)</u> (5)	<u>Cash Compensation</u> <u>(Average)</u> (5)
Assigner NP	\$65,191	\$67,546	\$59,514	\$61,747
Associate Project Scheduler	\$65,823	\$66,146	\$65,300	\$65,549
Construction Coordinator 2 -NIP	\$86,296	\$90,276	\$60,902	\$61,618
Construction Manager Electric	\$112,963	\$121,940	\$122,469	\$138,293
Engineer Level I	\$76,413	\$78,187	\$77,959	\$82,830
Engineer Level II	\$89,882	\$95,490	\$90,922	\$98,215
Engineer Level III	\$104,122	\$111,771	\$114,042	\$126,952
Field Leader Electric Operations - Line	\$112,674	\$124,180	\$111,500	\$125,101
Lead New Business Specialist	\$78,940	\$84,401	\$111,805	\$120,494
PM Major Projects	\$108,229	\$115,633	\$110,580	\$120,416
Project Cost Analyst	\$96,259	\$98,825	\$111,085	\$123,471
Specialist I	\$77,137	\$78,739	\$77,959	\$82,830
Specialist II	\$87,224	\$93,534	\$90,922	\$98,215
Specialist III	\$102,935	\$111,848	\$114,042	\$126,952
Sr Engineer	\$123,341	\$133,209	\$133,718	\$148,786
Sr New Business Specialist	\$75,903	\$79,397	\$85,563	\$91,893
Supv Maintenance	\$109,683	\$120,623	\$126,167	\$140,618
Supv Operations	\$106,068	\$117,611	\$126,167	\$140,618
Technical Trainer 3	\$108,733	\$118,631	\$107,395	\$117,490
Transmission System Supv-Ops	<u>\$105,781</u>	<u>\$112,277</u>	<u>\$115,591</u>	<u>\$135,316</u>
Overall Average	\$94,680	\$101,013	\$100,680	\$110,370
% Above/(Below) Market			-5.96%	-8.48%

Footnotes

(1) Northern Indiana Public Service Company Data as of 12/31/23.

(2) These jobs were utilized because the Company had multiple incumbents matched to the NiSource job title on 12/31/23.

(3) The average annual base salary and total cash compensation were calculated by aggregating the annual base pay and total cash compensation of all NIPSCO employees matched to the NiSource job title and dividing the aggregate result by the number of NIPSCO employees matched to the title.

(4) Total Cash Compensation equals base salary plus actual incentive paid to employees.

(5) Survey data shown is from the 2023 Mercer Benchmark Database (MBD), US Mercer Total Compensation Survey for the Energy Sector (MTCS), Willis Towers Watson American Gas Association (AGA), Willis Towers Watson General Industry Compensation Surveys Results (CSR), and Willis Towers Watson CDB General Industry Compensation Survey surveys. Survey data is aged to December 31, 2023 and includes National Company Survey Results.

NCSC Salary Analysis¹
Comparison of NCSC Base Salaries & Total Cash Compensation to National Survey Data

<u>Job Title</u> (2)	NCSC		National Data	
	<u>Annual Base Salary</u> (Average) (3)	<u>Annual Total Cash</u> <u>Compensation (Average)</u> (3), (4)	<u>Survey Annual Base</u> <u>Salary (Average)</u> (5)	<u>Survey Annual Total Cash</u> <u>Compensation (Average)</u> (5)
	Assigner 1	\$53,527	\$54,687	\$63,197
Assigner 2	\$65,182	\$68,054	\$69,724	\$72,386
Category Lead	\$109,764	\$112,376	\$113,745	\$123,729
Communications Mgr	\$105,563	\$115,220	\$123,970	\$135,153
Customer Service Representative 1	\$38,067	\$39,094	\$37,918	\$39,315
Customer Service Representative 2	\$43,620	\$45,294	\$50,917	\$52,558
Customer Service Representative 4	\$51,299	\$53,030	\$57,252	\$58,363
Environmental Coordinator 3	\$95,196	\$100,614	\$107,147	\$119,547
Environmental Inspector 2	\$64,464	\$64,726	\$85,116	\$90,098
Environmental Principal	\$126,182	\$136,413	\$122,695	\$144,447
Executive Admin Assistant	\$78,244	\$80,473	\$77,690	\$84,079
Gas Controller	\$72,384	\$76,288	\$91,685	\$98,152
Gas Qualification Specialist	\$93,290	\$96,492	\$75,000	\$77,763
GIS Technician 1	\$54,857	\$55,515	\$63,930	\$66,899
GIS Technician 2	\$63,581	\$65,785	\$70,490	\$74,099
Lead Architect	\$145,717	\$153,741	\$159,135	\$188,537
Lead Financial Analyst	\$105,348	\$111,579	\$123,346	\$138,899
Lead IT Analyst	\$121,658	\$131,061	\$136,842	\$152,310
Lead New Business Specialist	\$79,742	\$85,388	\$111,805	\$120,494
Lead Regulatory Analyst	\$105,935	\$115,907	\$123,655	\$140,810
New Business Specialist	\$58,344	\$59,887	\$69,370	\$73,706
Operational Excellence Specialist Senior	\$91,433	\$95,765	\$105,069	\$116,540
Principal Engineer	\$136,519	\$150,695	\$133,718	\$148,786
Project Management Manager	\$115,037	\$129,220	\$126,005	\$139,558
Project Manager	\$132,112	\$140,196	\$130,981	\$146,749
Quality Assurance Specialist	\$56,364	\$58,457	\$67,395	\$70,806
Safety Specialist	\$82,365	\$85,690	\$103,420	\$113,616
Scheduling Leader	\$76,731	\$82,531	\$106,093	\$113,693
Senior Customer Service Representative	\$57,611	\$59,629	\$64,504	\$68,133
Sr Business Analyst	\$115,575	\$118,621	\$110,414	\$121,779
Sr Counsel	\$172,875	\$189,888	\$192,448	\$223,448
Sr Financial Analyst	\$84,531	\$87,316	\$102,255	\$112,936
Sr Gas Sys Design Eng	\$119,383	\$128,344	\$133,718	\$148,786
Sr IT Systems Analyst	\$104,754	\$111,529	\$118,740	\$129,164
Sr Land Agent	\$91,004	\$99,201	\$59,385	\$62,306
Sr New Business Specialist	\$67,795	\$72,723	\$85,563	\$91,893
Sr Project Manager New Business	\$88,760	\$98,014	\$112,402	\$122,064
Sr Technical Suppt Specialist	\$109,484	\$118,270	\$89,174	\$95,769
Sr Work Coordinator	\$58,370	\$60,412	\$67,759	\$71,979

Cause No. 46120

Team Ldr Gas Operations	\$108,901	\$118,132	\$112,317	\$126,085
Technical Support Specialist 2	\$99,359	\$105,548	\$114,042	\$126,952
Technical Trainer 2	\$93,513	\$100,204	\$87,961	\$93,858
Technical Trainer 3	\$106,001	\$115,147	\$107,395	\$117,490
Work Coordinator	\$45,026	\$46,029	\$50,160	\$52,310
Work Planning and Forecasting Manager	<u>\$110,931</u>	<u>\$125,322</u>	<u>\$117,808</u>	<u>\$135,508</u>
Overall Average	\$90,142	\$95,967	\$98,519	\$108,161
% Above/(Below) Market - National			-8.50%	-11.27%

Footnotes

(1) NiSource Corporate Service Company Data as of 12/31/2023.

(2) These jobs were utilized because the Company had multiple incumbents matched to the job title on 12/31/2023.

(3) The average annual base salary and total cash compensation were calculated by aggregating the annual base pay and total cash compensation of all NCSC employees matched to the NiSource job title and dividing the aggregate result by the number of NCSC employees matched to the title.

(4) Total Cash Compensation equals base salary plus actual incentive paid to employees.

(5) Survey data shown is from the 2023 Mercer Benchmark Database (MBD), US Mercer Total Compensation Survey for the Energy Sector (MTCS), Willis Towers Watson American Gas Association (AGA), Willis Towers Watson General Industry Compensation Surveys Results (CSR), and Willis Towers Watson CDB General Industry Compensation Survey surveys. Survey data is aged to December 31, 2023 and includes National Company Survey Results.

Non-Union Merit Increase Market Data

	<u>Actual 2023</u> <u>% Merit Increase</u> <u>(Median)</u>	<u>Projected 2024</u> <u>% Merit Increase</u> <u>(Median)</u>
2022-2023 WorldatWork Salary Budget Survey		
<i>National</i>		
Officers & Executives	4.0%	4.0%
Exempt Salaried	4.0%	4.0%
Non-Exempt Salaried	4.0%	4.0%
Non-Exempt Hourly Nonunion	4.0%	4.0%
<i>Utilities</i>		
Officers & Executives	4.0%	4.0%
Exempt Salaried	4.0%	4.0%
Non-Exempt Salaried	4.0%	3.8%
Non-Exempt Hourly Nonunion	4.0%	4.0%
2023 AON Salary Increase and Turnover Study		
<i>National</i>		
	(Excluding Zeros)	
Executives	4.0%	4.0%
Management	4.0%	3.8%
Professional- Individual Contributor	4.0%	4.0%
Support - Individual Contributor	4.0%	4.0%
Hourly	4.0%	3.8%
<i>Energy</i>		
Executives	4.0%	4.0%
Management	4.0%	4.0%
Professional- Individual Contributor	4.0%	4.0%
Support - Individual Contributor	4.0%	4.0%
Hourly	4.0%	4.0%
<i>Central/Midwest States (Includes IA, IL, IN, KS, MI, MN, MO, NE, OH, WI)</i>		
Executives	4.0%	4.0%
Management	4.0%	3.6%
Professional- Individual Contributor	4.0%	3.5%
Support - Individual Contributor	3.9%	3.5%
Hourly	3.9%	3.5%
NiSource	<u>Actual</u>	<u>Actual</u>
Executive	3.0%	4.0%
Director	3.0%	4.0%
All Other Exempt	3.0%	4.0%
Non-Exempt & Nonunion Hourly	3.0%	4.0%

NiSource Corporate Service Company (NCSC)**2024 Short-Term Incentive "STI" and Long-Term Incentive "LTI" Metrics**

2024 STI Metrics- Measures	Definitions	Metric Weight
Financial		
Net Operating Earnings Per Share	The definition of NOEPS is income from continuing operations determined in accordance with GAAP, including, without limitation, the impact of incentive payouts and adjusted for certain items, such as fluctuations in weather and other significant unusual events disclosed in our earnings reports (examples of which may include transaction-related costs, debt extinguishment costs or certain income tax items); aligns with financial commitments and annual financial plan for 2024.	70%
Operational Excellence		
Operations or Process Failure	No significant injuries or fatalities (SIF) or PHMSA reportable incidents due to operations or process failures (employees).	10%
Safety		
DART	NiSource's long-term target is to be top decile in safety performance by 2026 when compared to our AGA peers (combo utilities). 2024 targets will be established by building a year-over-year improvement glidepath using 2023 YTD actuals and our 2026 target top decile projection.	5%
PVC	Days Away, Restricted or Transferred (DART) incident rate for all injuries meeting OSHA reportability that require an employee to not report to work, to restrict their duties or transfer to another role as a result of the injury.	5%
Customer Experience		
Customer Satisfaction	NiSource's long-term target is to improve "top box" (very satisfied/5 on scale of 1-5) to 75% by 2027; 2024 goal reflects steady state from 2023 results due to budget challenges and technology upgrade needs.	10%
		TOTAL WEIGHT=
		100%

2024 LTI Metrics- Measures	Definitions	Metric Weight
Financial		
NOEPS: 3 Year Cumulative	Range represents 6.3 to 7.9% Combined Annual Growth Rate (CAGR) and aligns with financial commitments of 6-8% CAGR from 2024-2026	55%
Relative TSR	Benchmarked practice and in alignment with 2023 program design	25%
Operational Excellence & Safety		
Annual Operational Index Scorecard: 3 Year Average	The Index provides visibility to long-term, critical metrics that support our strategy for proactively mitigating risk. These measures are recognized as top-tier industry risk-reduction programs. Scorecard metrics and targets will be established each year.	10%
People and Culture; Sustainability		
Employee Engagement Index Score	Create an enviable employee experience: strive toward incremental path forward to increase engagement above benchmarked median over long term horizon.	5%
Environmental	Keep NiSource on-track to achieve its publicly announced GHG reduction targets	5%
		TOTAL WEIGHT=
		100%

[Long-term incentives, the basics | Mercer \(imercer.com\)](#)

Long-term incentives, the basics

The what, how, and why of LTI



March 01, 2022

[Blog Home](#)

Long-term incentives, or LTI as they're often called, are a valuable part of a total compensation package both for delivering rewards and focusing employees on desired future outcomes and objectives. LTI also serves as a retention tool because the value of the reward is usually not realized until some future point in time, therefore encouraging the employee to stay engaged and focused on desired results as well as employed with the organization. However, because LTI are typically part of the reward strategy for only a subset of the employee population, not all human resources personnel or compensation practitioners are familiar with various LTI vehicles, their pros and cons, and the value they deliver. If you're in that position, or are in need of a refresher, read on for a primer on LTI.

Overview

A [long-term incentive](#), as the name suggests, is a vehicle that has an extended time horizon (generally greater than one year) and that can be a strategic compensation vehicle to promote long-term retention and alignment with company goals. LTI can be a win-win for all participants:

- For employers, LTI present an opportunity to reward the achievement of long-term plans, promoting buy-in to corporate performance.
- For employees, LTI can be a reward for outstanding performance and are a vehicle for capital accumulation.
- For shareholders, LTI are a vehicle that aligns employees with the performance of shares (for market-based equity vehicles) and the long-term vision of the company. When employees become shareholders themselves, they have incentive to increase company value as the performance of the shares directly affects their own compensation.

What are the types of LTI?

LTI can generally be broken down into following three types:

1. **Appreciation-based:** Value is delivered based on the increase in the company's underlying value, which in the case of a public company, is reflected in share price. Per unit, employees will receive the difference between the value of the underlying unit at some point in the future, and the underlying value when the stock options/stock appreciation rights (SARs) were granted.
2. **Stock-based:** Value is delivered in shares of the company stock. Payout may be tied to achievement of performance goals, but ultimately, employees will receive a share of the company stock. Note that some companies may grant "phantom shares," which track the movement of the value of the underlying shares but pay out in cash.
3. **Cash-based:** Value is delivered in cash and is not tied to the performance of shares; employees will receive a cash payout, based on service, achievement of predefined performance goals, or both.

What are common LTI vehicles?

Stock options

A stock option entitles the grantee the right to purchase shares of a company at a fixed price (known as the exercise price) in the future. Generally, the option's exercise price will be the stock's closing price on the date of the grant. Once a stock option vests (see "What is Vesting?" below), the grantee can exercise the right to purchase stock at the exercise price. For example, if a share is trading at \$10, and the exercise price is \$5, the grantee can purchase a share at \$5 and sell at \$10 in the open market, resulting in a \$5 profit per unit.

The window of time that a grantee can exercise the option is referred to as the term. Most companies grant options with 10-year terms. An option has no value if in the future the share of the company is below the exercise price (since the grantee would be paying above-market price, and there would be no impetus to exercise the option). These options are referred to as being “underwater.”

Stock appreciation rights

Stock Appreciation Rights, or SARs, function very similarly to a stock option in that a recipient of an SAR will receive the value of the increase in stock price in cash (though sometimes it is received in stock). The major distinction between an SAR and a stock option is that an SAR does not require the actual purchase of shares.

Time-based restricted stock/restricted stock units

Time-based restricted stock/units vest based on a predetermined length of time. A company can choose to grant equity based on a predefined value on the grant date or predefined number of shares (the former is more popular). Unlike an appreciation-based award, a restricted stock will still have value upon vesting even if the per-stock value decreases.

Performance shares/units

These are also full-value shares; however, the vesting of these types of shares is contingent upon meeting predetermined performance goals. These goals can be internal or external, and can be measured on a relative basis (compared to other companies), absolute basis (compared to predefined achievement levels), or both. These have grown in popularity over recent years due to the ease of linking payout to long-term performance. Metrics used by companies differ but are generally consistent within each industry, since the metrics that define good performance tend to be similar. One of the most popular metrics is total shareholder return (TSR), which measures the increase in share price over a predefined period (most commonly three years).

Companies will generally grant 100% of shares at a target level and give the shares both downward and upward leverage (meaning shares can vest at less than 100% for poor performance, and shares can vest at greater than 100% for outstanding performance).

Long-term cash units

These are non-equity-based long-term grants that pay out in cash. The grantee will receive a cash payout after the vesting period.

Performance cash units

These are cash-based long-term grants that vest based on performance achievement. These are more common at private companies, due to the difficulty of share valuation.

What are pros and cons of different incentive strategies?

Incentive strategy	Pros	Cons
Appreciation-based awards	<ul style="list-style-type: none"> Offers significant upside in the case of share price appreciation 	<ul style="list-style-type: none"> Units can potentially be worthless
Time-based full-value share awards	<ul style="list-style-type: none"> Extended vesting period promotes retention and ties to company value Guaranteed to have value at vesting, even if underlying value decreases 	<ul style="list-style-type: none"> Not tied to any metrics; may encourage employees to “put in time” until vesting period lapses
Performance-based awards	<ul style="list-style-type: none"> Can be tied to desired company performance in order to increase alignment with corporate strategy 	<ul style="list-style-type: none"> Requires diligent goal-setting Potential for zero payout; could cause discontent among employees who expect to receive a certain amount of compensation on an annual basis
Cash-based awards	<ul style="list-style-type: none"> Can be granted in cases where share valuation is difficult 	<ul style="list-style-type: none"> Less ideal for companies trying to manage cash flow Employees may not feel as invested in the company

What is vesting?

LTI are typically granted with what is known as a vesting period. What this means is that grantees are conditionally granted equity, but they do not actually own it until the vesting period expires. This is the retentive feature of LTI; unless the grantee fulfills the applicable vesting requirement (e.g., staying with the company for three years after grant or meeting a performance goal), they forfeit the grant.

There are two types of vesting: cliff and ratable. Awards that cliff vest are paid out all at once, at the conclusion of a predetermined time period. Awards that vest ratably vest a portion at a time (e.g., an award that vests 25% each year for four years). If an employee terminates prior to the end of the final vesting period, the employee still owns the portion that has vested.

Who receives LTI?

Commonly, LTI are more prevalent for employees at higher levels of an organization because the value of the company is predominately affected by those with line-of-sight into the long-term strategic vision of the company. Let's say a company grants performance shares that are contingent on achieving a net income target. Would the CEO be able to influence corporate profitability? Yes (at least we hope so). But an entry-level accountant? Probably not. There is less value in administering performance-based LTI to lower-level positions, since these roles do not have the impact to effect that type of change. For this reason, LTI for lower-level employees typically focus more on retention. Incorporating ESG incentives into your LTI plans, for example, is one of the emerging ways that these plans can help to improve retention.

LTI are more prevalent at public companies because of their liquidity and ease of valuation (i.e., a share of a public company is valued by and can be sold on the open market, whereas the value of a share at a private company can differ widely based on valuation methodology).

Conclusion

The appropriateness of an LTI vehicle ultimately varies from company to company. No one LTI vehicle is superior to another, and it typically requires an overall assessment of culture, company strategy, and goals to select the right mix, amounts, and vesting mechanics. Mercer consultants have experience in every

industry and can help you determine the right approach when it comes to utilizing long-term incentives as part of the total rewards package for your employees.

To help you consider the best long-term incentive solutions for your employees check out the Mercer Benchmark Database: Long-term Incentive and Equity Report for the [United States](#) or [Canada](#).

If you're interested in learning about competitive short-term incentives as well as long-term ones, Mercer also offers short-term reports for the [United States](#) or [Canada](#).

About the author



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