

MONTANA-DAKOTA UTILITIES CO.
A Division of MDU Resources Group, Inc.

Before the Public Service Commission of North Dakota

Case No. PU-10-124

Rebuttal Testimony
of
David L. Goodin

1 **Q. Would you please state your name and business address?**

2 A. Yes. My name is David L. Goodin and my business address is 400
3 North Fourth Street, Bismarck, North Dakota 58501.

4 **Q. What is your position with Montana-Dakota Utilities Co.?**

5 A. I am the President and Chief Executive Officer (CEO) of Montana-
6 Dakota Utilities Co. (Montana-Dakota), a Division of MDU Resources
7 Group, Inc. and Great Plains Natural Gas Co. (Great Plains), also a
8 Division of MDU Resources Group, Inc. I am also the President and CEO
9 of Cascade Natural Gas Corporation and Intermountain Gas Company;
10 subsidiaries of MDU Resources Group, Inc.

11 **Q. Are you the same David L. Goodin that submitted Direct Testimony**
12 **in this proceeding?**

13 A. Yes, I am.

14 **Q. What is the purpose of this rebuttal testimony?**

15 A. The purpose of my rebuttal testimony is to address the Settlement
16 Agreement (Settlement) between the Advocacy Staff and Montana-Dakota
17 regarding certain issues in this case. I will also respond to the
18 recommendations of Mr. Mathai, appearing on behalf of Advocacy Staff,

1 to exclude the Company's investment in the Diamond Willow and the
2 Cedar Hills wind facilities and 60 percent of the Company's incentive
3 compensation from consideration in determining the Company's revenue
4 requirement in this proceeding.

5 **Q. Mr. Goodin, do you support the Settlement entered into between**
6 **Montana-Dakota and the Commission Advocacy Staff?**

7 A. Yes, I do.

8 **Q. What is the amount that the Company is requesting as a result of the**
9 **Settlement?**

10 A. Montana-Dakota's request as amended to reflect the Settlement, as
11 well as adjustments to the revenue requirement associated with wind
12 facilities which is to be explained in the rebuttal testimony of Ms. Rita
13 Mulkern, is \$8.8 million as shown below:

<u>In (000s)</u>	<u>Amount</u>	<u>% Increase</u>
Settlement	\$500	0.4%
Incentive Compensation	1,147	
Board of Directors expenses	70	
Wind Generation	<u>7,108</u>	
Total Request	<u>\$8,825</u>	<u>7.7%</u>

14

15 **Q. Mr. Goodin, do you agree with Mr. Mathai's recommendation to**
16 **exclude the Company's investment and expense associated with the**
17 **Diamond Willow and Cedar Hills wind facilities from consideration in**
18 **determining the revenue requirement in this case?**

19 A. No, I do not. The Company's decision to invest in the Diamond

1 Willow wind projects and the Cedar Hills wind project was pursued after
2 thoughtful consideration of many alternatives as will be discussed in detail
3 in the rebuttal testimonies of Andrea Stomberg and Darcy Neigum.

4 I believe that the process Montana-Dakota stepped through in the
5 Company's determination to invest in wind generation highlights Montana-
6 Dakota's commitment to providing safe and reliable electric service at
7 affordable rates. Meeting the energy requirements of the Company's
8 customers, diversification of Montana-Dakota's generation portfolio
9 including the availability and price volatility of other generation
10 alternatives, the timing considerations given to the availability of tax
11 benefits and transmission, as well as environmental issues and state
12 energy policy standards and objectives, were all considerations in the
13 Company's decision to invest in the wind generation. Contrary to Mr.
14 Mathai's suggestion, these facilities were not built simply to meet the
15 Montana renewable energy requirement. Montana-Dakota operates an
16 integrated electric system in North Dakota, South Dakota, and Montana
17 and its North Dakota customers, like all of the customers of its integrated
18 system, are receiving the benefits of the Company's decision to invest in
19 wind generation and have been since the commercial operation of
20 Diamond Willow I. The wind facilities provide all integrated customers with
21 protection from future price volatility associated with fossil fuel generation,
22 especially natural gas, and reduce the dependency on MISO energy
23 market purchases, and reduce environmental emissions. While current

1 market prices for natural gas and MISO energy are attractive, this wasn't
2 the case at the time decisions were made to add wind generation to the
3 portfolio and we know from experience the market prices for natural gas
4 and MISO energy are not predicable and will likely rise in the future.

5 The Company's wind generation facilities are used to provide
6 electric service to North Dakota customers and should be included in the
7 Company's revenue requirement in this proceeding.

8 **Q. As president of Montana-Dakota Utilities Co., do you believe**
9 **incentive compensation is an important element of the compensation**
10 **package provided to the Company's employees?**

11 A. Yes, I believe incentive compensation is an important component of
12 an employee's total compensation package as it helps promote the
13 Company's culture of providing safe and reliable service to our customers
14 while helping to control costs and attain earnings.

15 **Q. Would you please explain why incentive compensation is an**
16 **important component of total compensation?**

17 A. Montana-Dakota subscribes to a "Total Compensation" philosophy
18 whereby the Company's compensation programs reflects competitive
19 forces in the market place and are designed to recruit, motivate, reward,
20 and retain highly skilled and high performance employees. The major
21 components of the Company's total compensation package include a mix
22 of base pay, incentive compensation, benefits, employee recognition,
23 rewards, and development.

1 Specifically, Montana-Dakota's incentive compensation programs
2 are designed to further advance the development of a Company culture of
3 safety and customer satisfaction, while controlling costs and attaining
4 earnings through the establishment of goals based on these objectives. I
5 believe the Company's incentive compensation structure helps keep our
6 employees focused on these important objectives when performing their
7 daily responsibilities by providing a direct link between the incentive
8 compensation rewarded and the accomplishment of the objectives. To put
9 it another way, the Company has placed an element of the employee's
10 compensation at risk when objectives are not met, which in turn focuses
11 employee work performance on critical Company objectives.

12 **Q. Do you believe Montana-Dakota's "Total Compensation" philosophy**
13 **in similar to that of other organizations?**

14 A. Yes, I believe Montana-Dakota's "Total Compensation" philosophy
15 is in line with that of other organizations that have base pay and incentive
16 compensation. Montana-Dakota strives to compensate at the median of
17 the competitive labor market for base pay and incentive compensation.
18 Employee incentive plans and payout opportunities are designed to be
19 competitive with peer positions in the industry.

20 Mark Del Vecchio, the Vice-President of Human Resources for
21 MDU Resources Group, Inc. will be presenting rebuttal testimony that will
22 further discuss the Company's response to Mr. Mathai's recommendation
23 regarding incentive compensation and Board of Directors' fees and

1 expenses.

2 **Q. Do you have evidence that incentive compensation has helped**
3 **Montana-Dakota accomplish these objectives?**

4 A. Yes, as I mentioned earlier, Montana-Dakota's incentive
5 compensation programs are designed with these very objectives in mind.
6 I would like to highlight some of the Company's accomplishments in the
7 following areas:

8 Safety

9 Montana-Dakota has adopted a "Committed to Zero" safety goal
10 and, at all times, strongly encourages its employees to contribute to a safe
11 working environment. To encourage and recognize the importance of this
12 objective, the Company has a safety incentive compensation program
13 designed to recognize employee contributions toward meeting this
14 objective.

15 In my opinion, this program has helped the Company achieve
16 positive safety results in the areas of personal injuries and reportable
17 vehicle incidents and correspondingly helped to control costs associated
18 with workers compensation and third party liability claims.

19 Success of the safety training programs, combined with the focus
20 on safety through incentives, can be seen through the following awards
21 and internal statistics:

- 22 • 2010 American Gas Association Leader Accident Prevention Award
23 • 2010 Midwest Energy Association Accident Prevention Award

- 1 • 2010 North Dakota Safety Council Occupational Safety Merit Award
- 2 • Devils Lake District - No recordable injuries in 5 year/No attributable
- 3 vehicle crashes in 15 years
- 4 • Lewis & Clark Station - No recordable injuries in last 2 years/No
- 5 attributable vehicle crashes in 2009 and 11 years without a lost time
- 6 injury
- 7 • R.M. Heskett Station - 12 years without a lost time injury
- 8 • Turbines - No recordable injuries in 4 years/No attributable vehicle
- 9 crashes in 17 years
- 10 • Rapid City - No recordable injuries since 2008
- 11 • Wolf Point - No recordable injuries or attributable vehicle crashes
- 12 since 2008

13 Customer Satisfaction Goal

14 A positive customer service experience from our first to our last
15 interaction is another goal the Company always strives to accomplish. To
16 highlight the importance of this objective, the Company has established a
17 Customer Service Satisfaction Survey. Survey results show Montana-
18 Dakota consistently meets or exceeds the Company's customer service
19 goals, averaging 4.65 out of a possible 5 point scale for the past five
20 years. To recognize employees' continued commitment to this Company's
21 objective, employees are awarded for meeting or exceeding the
22 Company's customer satisfaction goal.

23 Operations and Maintenance (O&M) Expense Goal

1 Employees are expected to work together to continuously seek
2 appropriate efficiencies that prudently control costs in areas such as labor,
3 benefits, collections, travel, material, supplies, office, and plant
4 maintenance. To encourage employees to seek out more efficient and
5 prudent practices, the Company established a new goal for 2010 to
6 encourage employees to perform their job functions in a manner that is
7 most efficient and cost effective over the long term.

8 In my opinion, Montana-Dakota's incentive compensation programs
9 have helped the Company achieve these above results.

10 **Q. Are financial benchmarks part of Montana-Dakota's incentive**
11 **compensation programs?**

12 A. Yes. The Company's incentive programs are based on the
13 attainment of first meeting a financial benchmark before any incentive
14 compensation is paid to an employee.

15 **Q. How are these benchmarks beneficial to the Company's customers?**

16 A. The benchmarks all highlight the Company's objectives of providing
17 safe and reliable service while controlling costs and attaining earnings. By
18 linking the Company's objectives to its incentive compensation programs,
19 employees are educated on the influence their daily decisions have on the
20 Company's earnings and its customers. Each and every employee
21 influences the Company's financial results by performing their jobs
22 effectively and efficiently which helps control and reduce the Company's
23 operating expenses. Reduced operating expenses in turn benefit the

1 Company's customers by maintaining affordable rates for electric service
2 in North Dakota.

3 Following are just some of the ways employees can impact the
4 Company's financial goals:

- 5 • Attention to safety reduces lost time from work, worker's
6 compensation claims, and reduction of O&M expenses related to
7 repairs and/or replacement and possible litigation.
- 8 • Increase efficiencies in the methods used to perform daily tasks
9 and eliminate redundant services across department or utility
10 segments.
- 11 • Working effectively and efficiently.
- 12 • Properly maintain equipment to extend its useful life.

13 **Q. Can you provide examples of how employee efficiencies are being**
14 **passed on to customers?**

15 A. Yes. In addition to the specific changes I outlined in my Direct
16 Testimony starting on page 7, Montana-Dakota continues to take an active
17 approach to controlling expenses by reducing the Company's employee
18 numbers through attrition, improved processes and taking advantage of a
19 "shared concept" with MDU Resources. These employee savings have
20 contributed to the Company's ability to keep employee counts lower or flat
21 from previous years.

22 To summarize my earlier comments regarding a focus on safety,
23 customer satisfaction and controlling costs, all are passed on to customers

1 through reduced costs and operating efficiencies. The Company's intent
2 is to always focus on the most practical and prudent way of conducting
3 ourselves so that it translates to savings or cost containment for Montana-
4 Dakota customers while still recognizing employees and a "Total
5 Compensation" philosophy.

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

7 A. Yes, it does.