

SHARON L. KOENIG  
INCENTIVE COMPENSATION  
EVIDENTIARY HEARING OPENING STATEMENT  
Case No. PU-12-813



My purpose in this proceeding is to provide testimony to demonstrate the reasonableness of the Company's annual incentive program and nuclear retention program costs. For individual but related reasons, these programs are necessary to attract, retain and engage the highly-skilled employees that help provide reliable electric service throughout our system each day.

Delivering safe and reliable electric service to our North Dakota customers is dependent upon attracting talented employees to our Company in the present – and upon planning for the long-term success of the utility. I'm concerned that we would not be able to attract and retain capable employees in a consistent manner unless we continue to offer total cash compensation – meaning a combination of base salary and incentive compensation – that is competitive with what is offered elsewhere in the market. We therefore utilize industry best practices to compare our total cash compensation for a position to what is offered in the marketplace for the same or similar jobs. By that objective measure, we know that without annual incentive, our employees' cash compensation would be 14 to 17 percent below that which comparable utilities pay. That would be like paying our employees \$85 for a job that elsewhere would pay \$100.

Furthermore, the annual incentive is a prevalent compensation tool used by corporations and utilities alike for the dual purposes of motivating employees to attain business goals that benefit customers, and managing the overall cost of employee compensation. Because incentive compensation must be newly earned each year, and because certain employee benefit costs increase as base pay amounts increase, our annual incentive is more cost-effective than providing cash compensation solely

through base salary. As a human resources professional, I am concerned about any potential inability to recover incentive compensation costs that are designed to help us fairly compensate and motivate employees, and at the same time serve to manage the overall cost of employee compensation.

To further manage costs and provide value for our North Dakota customers, we are not seeking 100 percent of our annual incentive costs. Instead, we propose to cap our recovery of these costs at 25 percent of base pay. This cap essentially precludes rate recovery of the costs of providing incentive compensation to executive-level employees, while recognizing that it is reasonable to recover the cost of incentives for those skilled employees in a variety of other jobs so they have the opportunity to receive market-level cash compensation. We have also aligned our annual incentive program with goals that benefit our customers, such as safety and reliability standards. For each of these reasons, I believe that our annual incentive program provides significant overall benefits to our customers, that program costs are reasonable both in the nature and amount of the costs, and that rate recovery in North Dakota is appropriate.

Similarly, our nuclear incentive programs are designed to help us retain employees who are in key positions in our nuclear business. My testimony provides information about our recent experiences with critical nuclear employees leaving the Company, and describes the limited pool of skilled nuclear industry employees for which we compete. While we have had some success when utilizing retention programs for our nuclear programs, we have struggled to hire needed employees where other utilities were able to implement retention programs ahead of us. In combination with the annual incentive, our nuclear retention programs align employee interests with nuclear operational goals, reduce the significant costs of employee turnover, and ensure employee stability in this particularly complex and highly unique area of our business.