

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

Before the Public Service Commission of North Dakota
Case No. PU-15-___

Direct Testimony
of
Anne M. Jones

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

2 A. My name is Anne M. Jones and my business address is 400 North
3 Fourth Street, Bismarck, North Dakota 58501.

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

5 A. I am the Vice President - Human Resources, Customer Service &
6 Safety for Montana-Dakota Utilities Co. (Montana-Dakota) and Great
7 Plains Natural Gas Co., Divisions of MDU Resources Group, Inc.

8 **Q. What are your duties and responsibilities?**

9 A. I am responsible for all disciplines associated with the Human
10 Resources function including compensation and benefits, organization
11 development and training, labor and employee relations, and compliance
12 with employment and employee relation laws and practices.

13 I am also responsible for the Customer Service Center, Credit and
14 Collections Team as well as Safety and Technical training functions.

15 **Q. Would you please outline your educational and professional
16 background?**

17 A. I have a Bachelor's Degree in Management with an emphasis in
18 Human Resources from the University of Mary. I began my career with

1 Montana-Dakota 32 years ago and have held a variety of positions of
2 increasing responsibility throughout the Company. I joined the Company's
3 Human Resources group in 1997; and before being named Vice President
4 in 2013, I served as Director of Human Resources.

5 **Q. Have you testified before this Commission and other state regulatory**
6 **bodies?**

7 A. I have previously testified before this Commission as well as the
8 Montana Public Service Commission and South Dakota Public Utilities
9 Commission.

10 **Q. What is the purpose of your testimony?**

11 A. The purpose of my testimony is to provide an overview of the
12 Company's efforts to control the costs of wages and benefits through its
13 Total Rewards Philosophy and how the Company's efforts to operate
14 efficiently in the customer service area also serves to control costs.

15 The Total Rewards Philosophy is comprised of base pay, variable
16 (incentive) pay and employee benefits as a complete package.

17 **Q. Would you explain how compensation is reviewed at Montana-**
18 **Dakota?**

19 A. The first component of the Total Rewards package is base pay.
20 Montana-Dakota's philosophy is to set base pay using national general
21 industry data and provide base pay opportunities that are aligned with the
22 market average for similar positions. Periodically the Company contracts
23 with an outside independent consultant to review compensation programs

1 and practices. In 2013, the Company contracted with Aon Hewitt to
2 provide a third party review of base compensation and incentive
3 compensation.

4 The review indicated that Montana-Dakota's compensation
5 programs are well designed and utilize high quality and established
6 external survey sources to ensure the programs align well with other
7 utilities and industries that compete for the same types of employees.
8 Recommendations for improvement were primarily minor enhancements
9 to employee pay opportunities because of Montana-Dakota's conservative
10 approach to total compensation. For example, Aon Hewitt suggested that
11 in order to keep the Company from falling below market competitive base
12 pay levels, salary structures should be increased more aggressively than
13 they have been in the past.

14 In addition to periodic third party reviews, Human Resources
15 reviews standard benchmark jobs in the corporation annually, including
16 job families such as engineers, construction supervisors and system
17 analysts. The Company's total compensation package for the benchmark
18 jobs are compared to market compensation for comparable positions to
19 ensure that the Company is compensating employees at the appropriate
20 pay grade and range. Human Resources also reviews positions on an "as
21 needed" basis throughout the year to ensure it is competitively
22 compensating within the established pay ranges. The Company uses
23 many reputable industry surveys when determining base pay levels,

1 including the American Gas Association, Salary.com, Mercer Benchmark,
2 Milliman, Towers Watson and World at Work, among others.

3 **Q. Would you please discuss the incentive compensation component of**
4 **the Total Rewards Philosophy?**

5 A. Yes. This second component of the Total Rewards package is
6 incentive pay. Montana-Dakota's incentive plans are a critical portion of
7 the total compensation provided to all employees. Incentive
8 compensation is offered in an effort to remain competitive within the
9 industry at the lowest reasonable cost and to focus employee efforts on
10 achieving important objectives. The incentive plans encourage continued
11 improvement in standards for performance that benefit customers and
12 lead to positive business results. The key incentive plan measures
13 include financial, customer service and operating costs.

14 Incentive plans are designed to:

- 15 • Establish a strong relationship between pay and Company
16 performance;
- 17 • Provide focus on utility strategic initiatives that increase
18 effectiveness and efficiency;
- 19 • Promote superior customer service; and
- 20 • Deliver labor market competitive rewards that attract, retain and
21 motivate talented employees to higher levels of performance.

22 The efforts of employees, both individually and as team members,
23 are keys to this success. Incentive plans provide an opportunity for

1 employees to receive additional compensation only when pre-established
2 financial results are achieved as well as attainment of important
3 organizational and customer satisfaction goals. Through the design of
4 incentive plans, part of the employees' total compensation package is "at
5 risk." When business performance thresholds are not met, employees will
6 not receive incentive pay.

7 According to a 2012 Towers Watson Regional Incentive
8 Compensation Survey, 100 percent of the fifteen participating utilities
9 provided incentive compensation to employees. Aon Hewitt also reviewed
10 the Company's incentive compensation plan design and found the plans
11 were sound and within market norms. Additionally they found eligibility is
12 consistent with other utilities and the plan metrics include a significant and
13 appropriate portion of incentive compensation focused on customer
14 service and cost management.

15 In the absence of incentive compensation, the only viable
16 alternative for Montana-Dakota is to increase base pay to remain
17 competitive in the labor market and retain a qualified work force. Base
18 pay is the most expensive way to compensate employees because other
19 benefits such as the Company's 401K contributions are calculated as a
20 percentage of base salary. Benefit cost increases lead to additional costs
21 for the utility and ultimately for customers. For this reason, it is important
22 to have a reasonable balance of base pay and incentive (variable/at risk)
23 pay to stay competitive in the labor market while still controlling costs.

1 **Q. Would you describe the third component, the benefits that are**
2 **available to employees?**

3 A. Yes. Employee benefits are the third part of the Total Rewards
4 package. The Company offers standard health and welfare plans
5 (medical, dental and vision insurance; vacation and other paid time off
6 benefits; and life, disability and accident insurance); along with a
7 retirement savings plan. Employees share premium costs for many of
8 these benefits.

9 **Q. Has the Company made any changes to medical plan benefits?**

10 A. Yes. The medical plans for active employees continue to change to
11 maintain a sustainable benefit under the new healthcare legislation. The
12 Company has restructured and priced the medical benefit plans in a
13 manner that encourages employees to strongly consider a higher
14 deductible medical plan paired with a Health Savings Account (HSA). The
15 high deductible medical plan encourages employees to be wise
16 consumers of medical services and allows employees to build HSA
17 accounts that may be used into retirement. The high deductible plan also
18 decreases the medical liability of the Company under the self-insured
19 plans because first dollar coverage is limited to preventative care.

20 **Q. What benefit does Montana-Dakota's Total Rewards Package provide**
21 **its North Dakota gas customers?**

22 A. The Total Rewards Philosophy employed by Montana-Dakota is
23 cost effective for the Company and customers because it provides a

1 means to control costs while continuing to attract and retain the work force
2 necessary to provide safe and reliable service to its customers.

3 This competitive Total Rewards Philosophy is key to maintaining
4 the highly skilled workforce required to operate and maintain the utility.
5 Montana-Dakota's workforce and operations have been significantly
6 impacted by the highly competitive labor market due to the oil and natural
7 gas industry expansion in North Dakota and eastern Montana. High
8 paying oilfield jobs are plentiful and our work force is viewed by many
9 companies as an ideal feeder pool for their vacant positions.

10 It is prudent and beneficial to customers to leverage all three
11 components of the Total Rewards Philosophy to minimize turnover.
12 Compensating employees competitively achieves this objective and in turn
13 helps keep the gas distribution system safe and operational costs lower.

14 **Q. Is the Company currently experiencing turnover in the Bakken and**
15 **Western North Dakota in particular?**

16 **A.** The Company continues to monitor this area and has put recruitment and
17 retention programs into place to ensure the Company attracts qualified
18 individuals for open positions as well as retains the labor force that is in
19 place today. The Company still has work to do in these areas as a result
20 of the Bakken expansion and it is important to continue to focus on
21 positions that have been harder to fill and have been posted for longer
22 period of times. The Company has engaged in a number of activities to fill
23 positions and retain employees.

1 **Q. Can you tell us more about what these activities entail?**

2 A. Yes. The Company has held career fairs, increased advertising
3 through not only traditional methods but also through social media such as
4 Facebook, Indeed and Career Builder. The Company has also contracted
5 with a recruiter to search for candidates. The Company has always had
6 the ability to offer sign-on bonuses and has seen an increased need to
7 rely upon sign-on bonuses. The Company will also pay current
8 employees for referring qualified individuals through its Employee Referral
9 Program. The employee is paid an award of \$1,500 if the referral results
10 in a successful hire which is defined as successful completion of a six
11 month probationary period.

12 To retain the employees, retention incentives may include rental
13 subsidies and in some cases, the Company has purchased mobile homes
14 for employees to live in when housing is either not available or is not
15 available at an affordable price.

16 The Company continues to receive fewer applicants for open
17 positions compared to past openings for the same or similar positions.

18 **Q. Has the Company made any changes to its customer service
19 operations since the last case?**

20 A. Yes. Montana-Dakota has moved eight Customer Service
21 Representative positions from Meridian, Idaho to Bismarck to answer
22 phone calls on a daily basis and to provide a backup function in an
23 emergency to the Meridian location.

1 Based on second quarter 2014 billings, 40 percent of customers
2 paid their bill electronically as opposed to mailing their payments. An
3 increase to on-line services reduces the number of calls into the customer
4 service center providing for efficiency gains in staff levels. It should also
5 provide additional efficiencies and cost savings in mailing costs. These
6 changes are also providing increased customer satisfaction. At this time,
7 approximately eight percent of customers receive their bills electronically.
8 As the Company continues to communicate and share information on this
9 process, this number will also increase and provide additional efficiencies.

10 **Q. What are the Call Center's hours and how does the Company**
11 **respond to after-hours emergency calls?**

12 **A.** The Call Center is designed to have representatives available to
13 offer full service from 7:00 a.m. to 7:00 p.m. local time. After these hours,
14 there is limited staff on duty to answer emergency calls, however, based
15 on weather conditions, additional staff can quickly respond to provide
16 assistance as well as initiating a recording to quickly let customers know
17 the Company is aware of the emergency situation. An automated call
18 back system is also available in order to better meet customer demand
19 during times of high call volume. The Company has also found that
20 customers respond well to social media such as Facebook and Twitter.

21 **Q. Does this complete your direct testimony?**

22 **A.** Yes, it does.