

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

Before the Public Service Commission of North Dakota

Docket No. PU-16-666

Rebuttal Testimony
of
Anne M. Jones

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

2 A. Yes, my name is Anne M. Jones. My business address is 1200
3 West Century Avenue, Bismarck, North Dakota 58503.

4 **Q. What is your position with MDU Resources Group, Inc.?**

5 A. I am the Vice President of Human Resources.

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

7 A. I am responsible for all the disciplines in the Human Resources
8 (HR) arena including compensation and benefits, organization
9 development and training, labor and employee relations and governmental
10 compliance with employment and employee relation's laws and practices.
11 I lead the Human Resources function for MDU Resources Group, Inc.,
12 Cascade Natural Gas Corporation, Great Plains Natural Gas Co.,
13 Intermountain Gas Company, Montana-Dakota Utilities Co., and WBI
14 Energy. My team also provides services to Knife River Corporation and
15 MDU Construction Service Group, Inc.

1 **Q. Would you please outline your educational and professional**
2 **background?**

3 A. Yes. I have a Bachelor's Degree in Management with an emphasis
4 in Human Resources from the University of Mary in Bismarck, ND. I began
5 my career with Montana-Dakota in 1982 and have been in a variety of
6 positions throughout the corporation. I have worked within Human
7 Resources since 1997. My most recent job change was to move from
8 Vice President, Human Resources, Customer Service and Safety for the
9 Utility Group to Vice President Human Resources at MDU Resources
10 Group, Inc. in January 2016.

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

12 A. The purpose of my testimony is to respond to the testimony of
13 Richard A. Polich, P.E. regarding at-risk-pay; commonly referred to as
14 incentive compensation included in this case. In particular, I am
15 responding to Mr. Polich's proposal to eliminate 60% of the amount
16 included in this case for incentive compensation. My testimony will explain
17 the Company's process by which it sets total rewards which includes at-
18 risk-pay.

19 **Q. Please describe Montana-Dakota's Utilities Co.'s (Montana-Dakota's)**
20 **general approach to setting total rewards for employees.**

21 A. There are three basic principles underlying Montana-Dakota's
22 approach to employee compensation—all designed to minimize costs

1 while allowing the Company to attract and retain the qualified employees
2 required to deliver safe and reliable electric service to our customers.

3 **First,** Montana-Dakota has adopted a Total Rewards philosophy.
4 This approach requires that we view base pay, incentives (or, pay-at-risk)
5 and benefits together, as a total package—what we call the Total Rewards
6 package-- when determining how to compensate our employees.

7 **Second,** we make every attempt to set total compensation at the
8 market average. We are finding that the market for employees with the
9 skills and experience we require is quite competitive. For that reason, the
10 compensation we offer must provide the same general pay levels and
11 components in its total remuneration package as are included in the
12 packages provided by the Company's competitors for labor.

13 **Third,** the Company believes that, in order to encourage satisfactory
14 performance, a certain percentage of each employee's market
15 compensation must be "at risk." Accordingly, under the Company's
16 incentive plan, each employee has the opportunity to receive total
17 compensation and benefits at the market average, so long as the
18 employee performs at an acceptable level. However, employees will earn
19 less than the average remuneration when performance is less than
20 acceptable and, conversely, will earn higher than the average
21 remuneration when performance is exceptional. Importantly, however,
22 our program is structured such that total compensation to all employees is
23 never to exceed market average.

1 **Q. How does the Company determine the market average when it sets**
2 **the base pay component of the Total Rewards package?**

3 A. When we market price a position within the organization, we pull
4 data from all of our survey and/or online sources. The Company uses
5 many reputable industry surveys when determining base pay levels,
6 including the American Gas Association, Mercer Benchmark, Milliman,
7 Towers Watson, World at Work and Compensation Analyst, among
8 others.

9 **Q. Do you have additional processes in place to ensure that the**
10 **Company is not paying or incentivizing more than the minimum**
11 **necessary to attract and retain a qualified workforce?**

12 A. Yes. Periodically the Company contracts with an outside
13 independent consultant to review compensation programs and practices.
14 For instance, in 2013, the Company contracted with Aon Hewitt to provide
15 a third-party review of base compensation and incentive compensation.
16 This will be done again in 2018.

17 **Q. What was the result of the 2013 Aon Hewitt review?**

18 A. The Aon Hewitt review indicated Montana-Dakota's compensation
19 programs, including incentive programs, are well designed and utilize high
20 quality and established external survey sources to ensure the programs
21 align well with other utilities and industries that compete for the same
22 types of employees.

23 **Q. Do you agree with Mr. Polich's testimony, Page 9, Line 4 that**

1 **incentive compensation should be reduced by 60% as he references**
2 **Case No. PU-10-124?**

3 A. No, Case No. PU-10-124 was an agreed upon black box settlement
4 made up of several items. In the case of settlement, it does not mean that
5 all parties agree on the give and take that is done to resolve a case.

6 The Company stands behind our philosophy that having a portion
7 of employee pay-at-risk creates a desire within employees to do a better
8 job and to focus on the areas within their control such as controlling our
9 costs, providing outstanding customer service, and leadership
10 development.

11 **Q. Are incentive plans an appropriate part of compensation?**

12 A. Yes. We continue to monitor and research incentive pay.
13 According to a 2012 Towers Watson Regional Incentive Compensation
14 Survey, 100 percent of the fifteen participating utilities provided incentive
15 compensation or pay at risk to employees. Aon Hewitt also reviewed the
16 Company's Employee and Senior Management incentive compensation
17 plan design in 2013 and found the plans were sound and within market
18 norms. Additionally, Aon Hewitt found eligibility is consistent with other
19 utilities and the plan metrics include a significant and appropriate portion
20 of incentive compensation focused on customer service and cost
21 management. In 2014, the World at Work incentive pay practices survey,
22 which included 350 publicly traded companies, indicated 99% had short
23 term incentives. Again in 2016, we checked the market and Vivient

1 Consulting reported that based on the World at Work short-term cash
2 incentive programs, while decreasing to 94% of participants was still
3 strong in the workplace. We will continue to watch these programs, as we
4 do pay, to ensure that we are competitive in our total rewards philosophy.

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

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

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

1 **Q. What benefit does the Total Rewards Package provide its North**
2 **Dakota customers?**

3 A. The Total Rewards philosophy is cost effective for the Company
4 and customers because it provides a means to control costs while
5 continuing to attract and retain the work force necessary to provide safe
6 and reliable service to its customers.

7 This competitive total reward philosophy is key to maintaining the
8 highly skilled workforce required to operate and maintain the utility which
9 directly benefits our customer base because it ensures we have qualified
10 people performing the work of providing a safe and reliable system for our
11 customers. It is prudent and beneficial to customers to leverage all three
12 components of our Total Rewards Philosophy to minimize turnover.

13 **Q. Does this complete your testimony?**

14 A. Yes, it does.