

MONTANA-DAKOTA UTILITIES CO.

Before the Public Service Commission of North Dakota

Case No. PU-22-194

Rebuttal Testimony

of

Kirsti Hourigan

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

2 A. Yes. My name is Kirsti Hourigan 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 Director - Human Resources for Montana-Dakota Utilities  
6 Co. (Montana-Dakota).

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

8 A. I am responsible for the day-to-day human resource operations of  
9 Montana-Dakota. I work closely with the Human Resources Department  
10 at MDU Resources Group, Inc. with respect to employee compensation  
11 philosophy, benefit programs, and other corporate-wide programs and am  
12 responsible for implementation of that philosophy and those programs.

13 **Q. Would you please outline your educational and professional  
14 background?**

15 A. I graduated from Cornell University in 1995 with a Bachelor of  
16 Science degree in Industrial and Labor Relations. In 2000 I graduated  
17 from Wake Forest University School of Law with a Juris Doctor degree,

1 emphasizing in labor and employment law. I have been licensed to  
2 practice law in the state of North Dakota since 2000.

3 I worked as an attorney in private practice in Fargo, North Dakota  
4 from 2000-2007. In 2007 I joined MDU Resources Group, Inc., and  
5 between 2007 and 2020 I was an attorney in the legal department focused  
6 on labor and employee relations, employee benefits, corporate  
7 compliance, uninsured litigation, and finance matters. During this time I  
8 worked closely with Montana-Dakota's Human Resources Department to  
9 ensure compliance with federal and state law, as well as promoting the  
10 Company's culture of being an employer of choice. In 2020 I transferred  
11 from the legal department to my current position as Human Resources  
12 Director.

13 **Q. Please describe your duties and responsibilities with the Company.**

14 A. I oversee and develop strategy for implementation of all human  
15 resources functions for the Utility Group. These functions include the  
16 compensation philosophy outlined in the MDU Total Rewards Philosophy  
17 (including base pay and incentive pay), employee benefit offerings, and  
18 company culture.

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

20 A. The purpose of my testimony is to provide an overview of the  
21 Company's efforts to control the costs of wages and benefits through its  
22 Total Rewards Philosophy and Executive Compensation Philosophy and  
23 how the Company's short-term and long-term incentive programs for

1 employees and officers benefit customers.

2 **Q. Please describe the Total Rewards Philosophy and general approach**  
3 **to managing employees' total compensation.**

4 A. The Company's approach to employee compensation is designed  
5 to minimize costs while allowing it to attract and retain the qualified  
6 employees necessary to deliver safe and reliable service to its customers.  
7 The Company does this through its Total Rewards Philosophy, which  
8 includes three basic principles:

9 **First**, the Company has adopted a Total Rewards philosophy,  
10 which provides employees with a Total Rewards package. The Total  
11 Rewards package includes both total cash compensation and benefits.  
12 The two key components of total cash compensation are base pay and  
13 incentive compensation.

14 **Second**, the Company compares its wages and at-risk incentive  
15 compensation with the relevant labor market and seeks to set total cash  
16 compensation at the market average for comparable jobs. However, the  
17 Company has found the market for employees with the skills and  
18 experience required is very competitive in the industry, and therefore it  
19 must provide the same general pay levels and benefits as are included in  
20 the packages provided by the Company's competitors for labor.

21 **Third**, the Company believes that a certain percentage of each  
22 employee's market compensation should be "at-risk" to encourage  
23 employee engagement and reward employees for their role in effectively

1 operating the business. Accordingly, employees have the opportunity to  
2 receive total cash compensation at the market average under Montana-  
3 Dakota's incentive plan. However, that program is structured such that  
4 total compensation for all employees is aligned with the market average in  
5 a typical year.

6 **Q. What is the incentive compensation component of the Total Rewards**  
7 **Philosophy?**

8 A. Montana-Dakota's incentive plans are a critical portion of the total  
9 compensation provided to all employees. Incentive compensation is  
10 offered in an effort to remain competitive within the industry at the lowest  
11 reasonable cost to customers and to focus employee efforts on achieving  
12 important objectives. The incentive plans encourage continued  
13 improvement in standards for performance that lead to positive business  
14 results and benefit customers. The key incentive plan measures include  
15 customer service, operations and maintenance expense, and  
16 cybersecurity.

17 Incentive plans are designed to:

- 18 • Provide focus on utility strategic initiatives that increase  
19 effectiveness and efficiency for customers;
- 20 • Promote superior customer service; and
- 21 • Deliver labor market competitive rewards that attract, retain and  
22 motivate talented employees to higher levels of performance.

1           The efforts of employees, both individually and as team members,  
2           are keys to this success. Incentive plans provide an opportunity for  
3           employees to receive the applicable “at risk” compensation only upon the  
4           attainment of important organizational and customer satisfaction goals.  
5           Through the design of incentive plans, part of the employees’ total  
6           compensation package is “at risk.” Only when established business  
7           performance thresholds are met do employees have the opportunity to  
8           receive the incentive pay, which ensures the link between payouts and  
9           Company effectiveness, efficiency, productivity and customer satisfaction.

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

19   **Q.    Has the current economic environment affected the Company’s**  
20   **ability to hire qualified employees?**

21   A.           Montana-Dakota takes the impact of a rate increase on its  
22   customers very seriously and has considered the economic conditions  
23   before submitting the wage increases described in this proceeding.

1           However, the current economic environment has not decreased the  
2           Company's need to attract and retain qualified individuals. The Company  
3           provides an essential service to its customers, and must maintain high-  
4           quality, safe, and reliable service to its customers regardless of the  
5           economics existing in the industry or labor market. The Company  
6           continues its goal to attract and retain highly-qualified employees despite  
7           the current economic conditions, and continues to significantly invest in  
8           their training and development.

9   **Q.   How has the current labor market impacted the Company's goal to**  
10 **hire and retain qualified employees?**

11 A.           Similar to other organizations in the country, the current labor  
12 market has made it difficult for the Company to hire and retain qualified  
13 employees. Due to the COVID-19 pandemic, we have seen a significant  
14 rise in the number of organizations providing telecommuting options for  
15 their employees. This has in-turn opened the labor market so utility  
16 employers are not only competing locally for talent but nationally as  
17 employers from other states attempt to hire employees that live in the  
18 midwest with no requirement to relocate.

19 **Q.   How does the Company determine the market average for the base**  
20 **pay and pay-at-risk components of total cash compensation for**  
21 **employees?**

22 A.           The Company researches and obtains industry salary data when  
23 market pricing individual positions. This data comes from many sources,

1 including the American Gas Association, Mercer, EAP Data Information  
2 Solutions, Empsight, World at Work, Willis Towers Watson, and Kenexa  
3 Compensation Analyst, among others. Specifically, the Company  
4 analyzes the median base pay and target incentive compensation from  
5 these sources to determine an appropriate market wage.

6 **Q. How does the Company ensure it is not paying or incentivizing more**  
7 **than necessary to attract and retain a qualified workforce?**

8 A. In addition to the internal market review described above,  
9 approximately once every five years the Company retains an outside  
10 independent consultant to review its compensation practices and  
11 programs. In 2022 the Company contracted with Mercer to conduct a  
12 robust competitive market study on multiple aspects of the Company's  
13 compensation program and incentive compensation program. This review  
14 assures that reasonable and appropriate compensation packages are  
15 implemented to attract and retain quality employees, who in turn allow the  
16 Company to continue providing safe and reliable service to its customers.

17 The Company's pay philosophy is to pay employees at the 50<sup>th</sup>  
18 percentile for total cash compensation, and Mercer's study found the  
19 Company's pay levels are within a competitive market range of +/- 15% for  
20 total cash compensation.

21 The Company is continuing to analyze options to position a more  
22 favorable compensation package to current and potential employees, as

1 the talent market continues to be very competitive, and extremely  
2 competitive for certain positions.

3 **Q. What benefit does Montana-Dakota's Total Rewards Package provide**  
4 **its North Dakota electric customers?**

5 A. The Total Rewards philosophy employed by Montana-Dakota is  
6 cost effective for the Company and customers because it provides a  
7 means to control costs while continuing to attract and retain the work force  
8 necessary to provide safe and reliable service to its customers. The  
9 incentive portion of total compensation (at-risk pay) is dependent upon  
10 employees meeting specific goals.

11 This competitive total reward philosophy is key to maintaining the  
12 highly skilled workforce required to operate and maintain the utility.  
13 Montana-Dakota's workforce and operations have been significantly  
14 impacted by the COVID-19 pandemic and subsequently tight national  
15 labor market. High paying positions for our trade positions are plentiful as  
16 the supply of individuals trained in the trades continues to decrease. The  
17 availability of telecommuting positions for companies throughout the  
18 nation has also increased, and our work force is viewed by many  
19 companies as an ideal feeder pool for their vacant positions.

20 It is prudent and beneficial to customers to leverage all three  
21 components of the Company's Total Rewards Philosophy to minimize  
22 turnover. Compensating our employees competitively achieves this  
23 objective and in turn helps keep the electric distribution system safe and

1 operational costs lower.

2 **Q. Please describe the Executive Compensation Philosophy and**  
3 **general approach to managing officers' total compensation.**

4 A. The Company's approach to executive (or officer) compensation is  
5 also designed to minimize costs while allowing it to attract and retain the  
6 qualified individuals necessary to deliver safe and reliable service to its  
7 customers. The Company's Executive Compensation Philosophy  
8 incorporates the following goals:

- 9 • Recruit, motivate, reward and retain high performing executive talent to  
10 lead the Company;
- 11 • Reward short-term and long-term performance;
- 12 • Ensure development of talent within the organization;
- 13 • Discourage excessive risk taking by executives

14 **Q. What is the incentive compensation component of the Executive**  
15 **Compensation Philosophy?**

16 A. The Company utilizes two "at risk" pay programs to incentivize  
17 officers. They are the Executive Incentive Compensation Plan (EICP) and  
18 the Long Term Incentive Program (LTIP). Both programs, as well as  
19 executive base pay, are determined and administered by the  
20 Compensation Committee of the MDUR Board of Directors.

21 The EICP provides an incentive for key executives of the Company  
22 to focus their efforts on customer service, diversity/equity/inclusion,  
23 cybersecurity, and operational efficiency and productivity. When

1 performance reaches or exceeds the targets for these various  
2 performance measures, EICP payments, when combined with base  
3 salaries, provide a level of competitive level of compensation. EICP  
4 awards are determined on an annual basis.

5 The LTIP provides executives with the opportunity to earn  
6 performance-based long-term incentive compensation as a result of  
7 driving long-term value creation and implementing the Company's  
8 strategic objectives. The LTIP is a tool that promotes stock ownership of  
9 the Company's executives and serves to retain talent. It also is an  
10 compensation program of "at risk" compensation that allows the Company  
11 to be competitive from a total remuneration standpoint for executive pay  
12 while simultaneously ensuring that customers receive the benefit of  
13 executives acting the best long-term interests of the Company and its  
14 customers. LTIP awards cover a three-year period of time, and consist of  
15 performance shares and restricted stock units combined with dividend  
16 equivalents.

17 The only viable alternative to the EICP and LTIP programs is to  
18 increase base pay to remain competitive in the labor market and retain  
19 qualified executives. As discussed above, base pay is the most expensive  
20 way to compensate employees, including executives. Benefit cost  
21 increases lead to additional costs for customers. Therefore, a reasonable  
22 balance of base pay and incentive (variable/at risk) pay is necessary to  
23 stay competitive while still controlling costs.

1 **Q. How has the current labor market impacted the Company's goal to**  
2 **hire and retain qualified executives?**

3 A. Similar to the challenges seen with employees, the Company has  
4 also seen a significant rise in the number of organizations providing  
5 telecommuting options for their executives and officers. This has in-turn  
6 opened the labor market so utility employers such as Montana-Dakota are  
7 not only competing locally for talent but nationally as employers from other  
8 states attempt to hire qualified executives that live in the midwest with no  
9 requirement to relocate.

10 **Q. How does the Company determine the market average for the base**  
11 **pay and pay-at-risk components of total cash compensation for**  
12 **executives?**

13 A. Meridian Compensation Partners reviews the Company's Section  
14 16 officers each year and recommends a median base and target  
15 incentive compensation (LTIP and EICP) for each of those positions  
16 based upon the total compensation package of the Company's industry  
17 peers. The Company performs a similar internal analysis of base pay and  
18 target incentive compensation for the Company's other executive officers.

19 This process also ensures that the Company is not paying or  
20 incentivizing more than necessary to attract and retain qualified executives  
21 and assures that reasonable and appropriate compensation packages are  
22 implemented to attract and retain quality talent. This in turn allows the  
23 Company to continue providing safe and reliable service to its customers.

1           The Company is also continuing to analyze options to position a  
2 more favorable compensation package to current and potential executives  
3 and officers, as the talent market continues to be very competitive, and  
4 extremely competitive for certain positions.

5 **Q. How does the Company's total executive compensation package,**  
6 **including EICP and LTIP, benefit customers?**

7 A.           The Company's total executive compensation package benefits  
8 customers by competitively compensating executives, thus assuring their  
9 retention to lead the Company in providing safe and reliable service to its  
10 customers.

11           The Company's EICP and LTIP particularly benefits customers by  
12 creating incentives for executives to focus on key objectives, including  
13 operational efficiency and high-quality customer service. Using EICP and  
14 LTIP as components of total cash compensation allow the Company to be  
15 competitive in the labor market with lower fixed costs in the form of base  
16 pay. It is also a cost effective for the Company and customers because it  
17 provides a means to control costs while continuing to attract and retain the  
18 leadership necessary to provide safe and reliable service to its customers.  
19 Thus, it is prudent and beneficial to customers to leverage EICP and LTIP  
20 with base pay to minimize executive turnover.

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

22 A.           Yes.