

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

Before the Public Utilities Commission of South Dakota
Docket No. NG15-____

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's 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 33 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 provided testimony or testified before this
8 Commission as well as the Montana, North Dakota and Wyoming state
9 regulatory commissions.

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 serve to control costs.

15 The Total Rewards Philosophy is comprised of base pay, variable
16 (incentive) pay and employee benefits as a complete package and
17 balances the need for growth in one area with the costs in the other two
18 areas. While the Company's labor costs reflect a wage increase in this
19 case, that increase is minimized with the offering of incentives to base
20 pay.

21 **Q. Would you explain how compensation is reviewed at Montana-**
22 **Dakota?**

1 A. The first component of the Total Rewards package is base pay.
2 Montana-Dakota's philosophy is to set base pay using national general
3 industry data and provide base pay opportunities that are aligned with the
4 market average for similar positions. Periodically the Company contracts
5 with an outside independent consultant to review compensation programs
6 and practices. In 2013, the Company contracted with Aon Hewitt to
7 provide a third party review of base compensation and incentive
8 compensation.

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

19 In addition to periodic third party reviews, Human Resources
20 reviews standard benchmark jobs in the corporation annually, including
21 job families such as engineers, construction supervisors and system
22 analysts. The Company's total compensation package for the benchmark
23 jobs are compared to market compensation for comparable positions to

1 ensure that the Company is compensating employees at the appropriate
2 pay grade and range. Human Resources also reviews positions on an “as
3 needed” basis throughout the year to ensure it is competitively
4 compensating within the established pay ranges. The Company uses
5 many reputable industry surveys when determining base pay levels,
6 including the American Gas Association, Salary.com data, Mercer
7 Benchmark, Milliman, Towers Watson and World at Work, among others.

8 **Q. Would you speak to the increases in wages over the last several**
9 **years?**

10 A. Yes. We have a negotiated contract with the International
11 Brotherhood of Electrical Workers (IBEW) System Council U-13 and
12 increases in wages in 2012 and 2013 were 2.5% across the covered
13 employees. The contract had a wage opener and was opened by the
14 bargaining unit in 2014. This resulted in an overall weighted increase to
15 wages of 5.11% as we staggered increases to recognize employees
16 where salaries were no longer competitive and to provide lesser increases
17 in positions where wages were at or above market. A new three year
18 contract with the IBEW has recently been ratified. Increases to the
19 contract over the three year period vary by by classification with an overall
20 weighted increase to workers of 3% in 2016; 3% in 2017 and 3% in 2018.
21 Additionally, the contract recognizes an increase in Shift premium pay for
22 hours worked from 4 p.m. to 8 a.m.; an increase in “stand-by” duty during
23 irregular hours; an increase in the minimum Call out time from 1 hour to 2

1 hours; and an increase for those individuals on who are on Stand-By/On-
2 Call during irregular hours.

3 For non-bargaining employees, average increases ranged from
4 2.69% in 2012 to 3.38% for 2015.

5 **Q. Where there any changes of note to your salary structure during this**
6 **same period?**

7 A. Yes. Through our annual study over a two year period we
8 recognized that our Engineers, Level 1 thru Senior Engineer were no
9 longer being paid in competitive ranges to the market. Therefore the
10 salary grades were realigned affecting approximately 48 employees.

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

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

22 Incentive plans are designed to:

- 1 • Establish a strong relationship between pay and Company
2 performance;
- 3 • Provide focus on utility strategic initiatives that increase
4 effectiveness and efficiency;
- 5 • Promote superior customer service; and
- 6 • Deliver labor market competitive rewards that attract, retain and
7 motivate talented employees to higher levels of performance.

8 The efforts of employees, both individually and as team members,
9 are keys to this success. Incentive plans provide an opportunity for
10 employees to receive additional compensation only when pre-established
11 financial results are achieved as well as attainment of important
12 organizational and customer satisfaction goals. Through the design of
13 incentive plans, part of the employees' total compensation package is "at
14 risk." Only when established business performance thresholds are met do
15 employees have the opportunity to receive the incentive pay.

16 According to a 2012 Towers Watson Regional Incentive
17 Compensation Survey, 100 percent of the fifteen participating utilities
18 provided incentive compensation to employees. Aon Hewitt also reviewed
19 the Company's incentive compensation plan design and found the plans
20 were sound and within market norms. Additionally they found eligibility is
21 consistent with other utilities and the plan metrics include a significant and
22 appropriate portion of incentive compensation focused on customer
23 service and cost management.

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

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

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

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

19 A. Yes. The medical plans for active employees continue to change to
20 maintain a sustainable benefit under the new healthcare legislation. The
21 Company has restructured and priced the medical benefit plans in a
22 manner that encourages employees to strongly consider a higher
23 deductible medical plan paired with a Health Savings Account (HSA). The

1 migration of employees to a high deductible medical plan encourages
2 employees to be wise consumers of medical services and allows
3 employees to build HSA accounts that may be used into retirement. The
4 high deductible plan also decreases the medical liability of the Company
5 under the self-insured plans because first dollar coverage is limited to
6 preventative care.

7 **Q. What benefit does Montana-Dakota's Total Rewards Package provide**
8 **its South Dakota gas customers?**

9 A. The Total Rewards philosophy employed by Montana-Dakota is
10 cost effective for the Company and customers because it provides a
11 means to control costs while continuing to attract and retain the work force
12 necessary to provide safe and reliable service to its customers.

13 This competitive total reward philosophy is key to maintaining the
14 highly skilled workforce required to operate and maintain the utility.
15 Montana-Dakota's workforce and operations have been significantly
16 impacted by the highly competitive labor market due to the oil and natural
17 gas industry expansion in North Dakota and eastern Montana. High
18 paying oilfield jobs are plentiful 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 our Total Rewards Philosophy to minimize turnover.
22 Compensating our employees competitively achieves this objective and in
23 turn helps keep the gas distribution system safe and operational costs

1 lower.

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

4 **A.** Yes. Montana-Dakota has moved eight Customer Service
5 Representative positions from Meridian, Idaho to Bismarck to answer
6 phone calls on a daily basis and to provide a backup function in an
7 emergency to the Meridian location.

8 The availability of on-line services reduces the number of calls into
9 the customer service center providing for efficiency gains in staff levels.
10 It should also provide additional efficiencies and cost savings in mailing
11 costs. These changes are also providing increased customer satisfaction.
12 At this time, approximately 11 percent of customers receive their bills
13 electronically. As the Company continues to communicate and share
14 information on this process, this number will also increase and provide
15 additional efficiencies. Our electronic systems for customers allow self-
16 service to a customer so that they may stop or transfer service, enter into
17 short-term payment arrangements, enroll in AutoPay and view/print
18 previous bills and account history.

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

21 **A.** The Call Center is designed to have representatives available to
22 offer full service from 7:00 a.m. to 7:00 p.m. local time. After these hours,
23 there is limited staff on duty to answer emergency calls, however, based

1 on weather conditions, additional staff can quickly respond to provide
2 assistance as well as initiating a recording to quickly let customers know
3 the Company is aware of the emergency situation. An automated call
4 back system is also available in order to better meet customer demand
5 during times of high call volume.

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

7 A. Yes, it does.