

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

Before the Public Utilities Commission of South Dakota
Docket No. NG12-__

Direct 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 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 and Safety for Montana-
6 Dakota Utilities Co. (Montana-Dakota) and Great Plains Natural Gas Co.,
7 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 (HR) function including compensation and benefits,
11 organization development and training, labor and employee relations, and
12 compliance with employment and employee relation's laws and practices.
13 I also have oversight of Safety and Technical training functions.

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

16 A. Yes. I have a Bachelor's Degree in Management with an emphasis
17 in Human Resources from the University of Mary. I began my career with
18 Montana-Dakota 30 years ago and have held a variety of positions of

1 increasing responsibility throughout the Company. I have worked within
2 Human Resources since 1997; and have been Director of Human
3 Resources since 2008.

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

5 A. The purpose of my testimony is to provide an overview of the Total
6 Rewards Philosophy of the Company as it relates to base pay, variable
7 (incentive) pay and employee benefits. It is important for the Company to
8 not only attract talent to its organization, but also to retain the highly skilled
9 talent which it has today.

10 **Q. Would you explain how compensation is reviewed at Montana-**
11 **Dakota?**

12 A. The first component of the Total Rewards package is base salary.
13 Montana-Dakota's philosophy is to compensate employees at the base
14 salary market average for similar positions, which is consistent or slightly
15 more conservative than most utility organizations. According to the 2010
16 Watson Wyatt Survey Series which includes companies such as Xcel
17 Energy, NW Natural, Black Hills, and many others, approximately half of
18 the participating organizations strive to provide a total compensation
19 package that is above the market average.

20 Each year, HR reviews standard benchmark jobs in the corporation
21 such as engineers, construction supervisors and system analysts. It
22 compares the Company's total compensation package for the benchmark
23 jobs to market compensation for comparable positions to insure that the

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

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

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

19 **Incentive plans are designed to:**

- 20 • **Establish a strong relationship between pay and Company**
21 **performance**
- 22 • **Provide focus on Utility strategic initiatives that increase**
23 **effectiveness and efficiency**

1 • Promote superior customer service
2 • Deliver labor market competitive rewards that attract, retain and
3 motivate talented employees to higher levels of performance
4 The efforts of employees, both individually and as team members,
5 are keys to this success. Incentive plans provide an opportunity for
6 employees to receive additional compensation only when pre-established
7 financial results are achieved as well as attainment of important
8 organizational and customer satisfaction goals. Through the design of
9 incentive plans, part of the employees' total compensation package is "at
10 risk." Only when established business performance thresholds are met do
11 employees have the opportunity to receive the incentive pay.

12 According to a 2012 Towers Watson Regional Incentive
13 Compensation Survey 100 percent of the fifteen participating utilities
14 provided incentive compensation to employees. In the absence of
15 incentive compensation the only viable alternative for Montana-Dakota is
16 to increase base pay to remain competitive in the labor market and retain
17 a qualified work force. Base pay is the most expensive way to
18 compensate employees because other benefits such as the Company's
19 401K contributions are calculated as a percentage of base salary. Benefit
20 cost increases lead to additional costs for the utility and ultimately for
21 customers. For this reason, it is important to have a reasonable balance
22 of base pay and incentive (variable/at risk) pay to stay competitive in the
23 labor market while controlling costs.

1 **Q. The other component listed was benefits. Would you describe the**
2 **benefits that are available to employee?**

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 recent changes to benefits?**

10 **A. Yes. The Company's defined benefit pension plan was closed to**
11 **new entrants in January of 2006. Additionally, both the non-union (2009)**
12 **and union (2011) plans have been frozen to significantly reduce future**
13 **liability and the volatile funding swings which were occurring. There was**
14 **no change to the pension benefits employees earned as of December 31,**
15 **2009 (non-union) and December 31, 2011 (union), but –participants age**
16 **65 retirement benefits will remain frozen. The Company now offers a**
17 **retirement contribution to this group of employees that is age based.**

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 also will allow
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 In 2009, the medical retiree plan was changed to decrease future
8 liability. As of January 1, 2010, retiree medical insurance is no longer
9 offered to employees hired after that date. Employees who attained age
10 55 by December 31, 2009 are grandfathered and will be required to
11 transition to a retiree reimbursement account (RRA) at age 60. All other
12 employees will only receive the RRA if they retire at age 60 or later.

13 In 2012, Montana-Dakota implemented another change to reduce
14 post-retirement benefit liability. Medicare eligible retirees that retired after
15 December 31, 1993 are required to move from the Company sponsored
16 retiree medical plan to a Medicare Supplemental Plan. The Company will
17 continue to fund a portion of the retiree's premium through a Health
18 Reimbursement Account.

19 **Q. What other changes have been made to employee benefits?**

20 **A.** As part of the integration efforts to provide comparable benefits to
21 employees within the Utility Group, Montana-Dakota employees received
22 two additional holidays beginning in 2010. The Company also eliminated
23 the employee discount on the Montana-Dakota utility bill in 2010 for those

1 employees that were active customers as part of its integration efforts.

2 **Q. What benefit does Montana-Dakota's Total Rewards Package provide**
3 **its Montana gas customers?**

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

8 This competitive total reward philosophy is key to maintaining a
9 highly skilled workforce required to operate and maintain the utility.
10 Montana-Dakota's workforce and operations have been significantly
11 impacted by the highly competitive labor market in eastern Montana due
12 to the Bakken oil boom. High paying oilfield jobs are plentiful and our
13 work force is viewed by many companies as a ideal feeder pool for their
14 vacant positions.

15 It is prudent and of benefit to utility customers to leverage all three
16 components of our Total Rewards Philosophy to minimize turnover.
17 Compensating our employees competitively achieves this objective and in
18 turn helps the distribution system remain safe and keeps operational costs
19 lower.

20 **Q. Does that complete your direct testimony?**

21 **A. Yes, it does.**