

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,

Complainant,

v.

CASCADE NATURAL GAS  
CORPORATION,

Respondent.

DOCKET UG-240008

**CASCADE NATURAL GAS CORPORATION  
FIFTH EXHIBIT (CONFIDENTIAL) TO THE  
DIRECT TESTIMONY OF KIRSTI B. HOURIGAN**

**SHADED INFORMATION IS DESIGNATED AS  
CONFIDENTIAL PER PROTECTIVE ORDER IN  
DOCKET UG-240008**

**REDACTED  
VERSION**

**March 29, 2024**

# MDU Utilities Group

## Compensation Study

December 7, 2022

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## Overview

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# Introduction

## Overview

- MDU Resources Group, Inc. engaged Mercer to conduct a robust competitive market study on multiple aspects of the compensation program for MDU Resources Group (MDUR), WBI Energy, Inc. (WBI), Cascade Natural Gas Corp. (CNG), Intermountain Gas Co. (ICG), and Montana-Dakota Utilities Co (MDU), collectively referred to as the “Regulated Group”. The study included analysis on:
  - Competitive Compensation Levels
  - Compensation Pay Structure
  - Incentive Plan Design
  - Compensation Program Policies
- To complete the study, Mercer gathered data from multiple perspectives:
  - Internal perspectives:
    - Gathered input on the organization through weekly conversations with the HR team and through key stakeholder interviews conducted at the beginning of the project
  - External market perspectives:
    - Gathered market data from published surveys from Mercer, including Mercer Total Compensation Survey for the Energy Sector (MTCS), Mercer’s Benchmark Database (MBD), Mercer’s Compensation Planning Survey, and CompData Utilities Industry
- This report contains Mercer’s findings of competitive market practices

# Introduction

## Overview

- Mercer completed the study in four key phases:



### Overview

- |  |  |  |  |
|--|--|--|--|
| <ul style="list-style-type: none"> <li>• Develop an understanding of MDUR’s compensation programs and how the current talent and rewards strategies drive business outcomes</li> </ul> | <ul style="list-style-type: none"> <li>• Assess competitive positioning of MDUR’s compensation programs, relative to the appropriate competitive benchmarks</li> </ul> | <ul style="list-style-type: none"> <li>• Use findings from Discovery and Analysis phases to recommend changes to the compensation program</li> </ul> | <ul style="list-style-type: none"> <li>• Partner with MDUR to communicate and implement effectively, deliver three reports and present to all three companies</li> </ul> |
|--|--|--|--|

### Worksteps

- |  |   |   |   |
|--|---|---|---|
| <ul style="list-style-type: none"> <li>• A. Assess total rewards strategy through key stakeholder interview</li> </ul> | <ul style="list-style-type: none"> <li>• B. Non-bargained market pricing, job analysis, and classification</li> <li>• C. Incentive Compensation Analysis</li> </ul> | <ul style="list-style-type: none"> <li>• D. Non-bargained Salary Structure Design</li> <li>• E. Compensation Administration Guidelines</li> </ul> | <ul style="list-style-type: none"> <li>• F. Presentation of Findings and Communication</li> </ul> |
|--|---|---|---|

Ongoing Project Management

# Introduction

## Overview for Compensation Benchmarking Assessment

MDUR Jobs	Market Adjustments
<ul style="list-style-type: none"><li>• The analysis covers 200 total positions covering 678 employees</li><li>• Market data sources include Mercer Total Compensation Survey for the Energy Sector (MTCS), Mercer's Benchmark Database (MBD), and CompData for Utilities</li><li>• Market data was based on compensation survey job matches selected using job descriptions and several rounds of review with the MDUR HR team</li><li>• Additionally, senior staff provided input into the accuracy of matches; premiums and discounts were applied when survey job descriptions were not reflective of the job duties for roles across the Regulated Group</li></ul>	<ul style="list-style-type: none"><li>• All market data were aged at a rate of 3.5% to November 1, 2022 based on the MBD, MTCS, and CompData surveys</li><li>• Compensation data for all employees reflects the national average market data. For reference, the appendix highlights the cost of labor for each employee's location (the cost of labor factor is within +/- 10% for all locations)</li></ul>

# Introduction

## Overview of approach to Salary Structure

Evaluated and reviewed competitive market data for all benchmark positions using multiple survey sources

Updated the pay structure reflecting new competitive market data

Reviewed data-based slotting of benchmark jobs (based on nearest midpoints) and evaluated the data-based groupings of jobs within the proposed structure for internal equity

Finalized assignments of benchmark positions to pay grades

Modeled cost impacts of the proposed structure

# Executive Summary

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# Executive Summary

## Overview of Compensation Assessment

- Overall, the MDU Utilities Group's pay levels are competitive with the market as they are positioned between near the market median for base salary and total cash compensation.
  - Pay levels are within a competitive market range of +/- 10% for base salary market median and +/-15% for total cash compensation market median.
- Mercer assessed 102 roles within MDUR and 441 employees in the benchmarking analysis.

# Executive Summary

## Overview of Managing Pay Progression

- The current pay structure design is generally aligned with market practice. To assess the pay structure, Mercer reviewed the following components of structure design:



### Midpoint Progression

- In the market, midpoint progressions are typically between 10% and 15%, but may be higher at leadership levels
- Typically, there are consistent and logical progressions



### Range Spread

- In the market, range spreads vary from 30% to 80% depending on the number of grades in the structure and the levels of jobs represented in each grade.
- Typically, there is consistency in range spread throughout the structure, but higher levels may have wider ranges



### Number of Grades

- In general, companies have between 12-18 grades depending on the size of their organization.

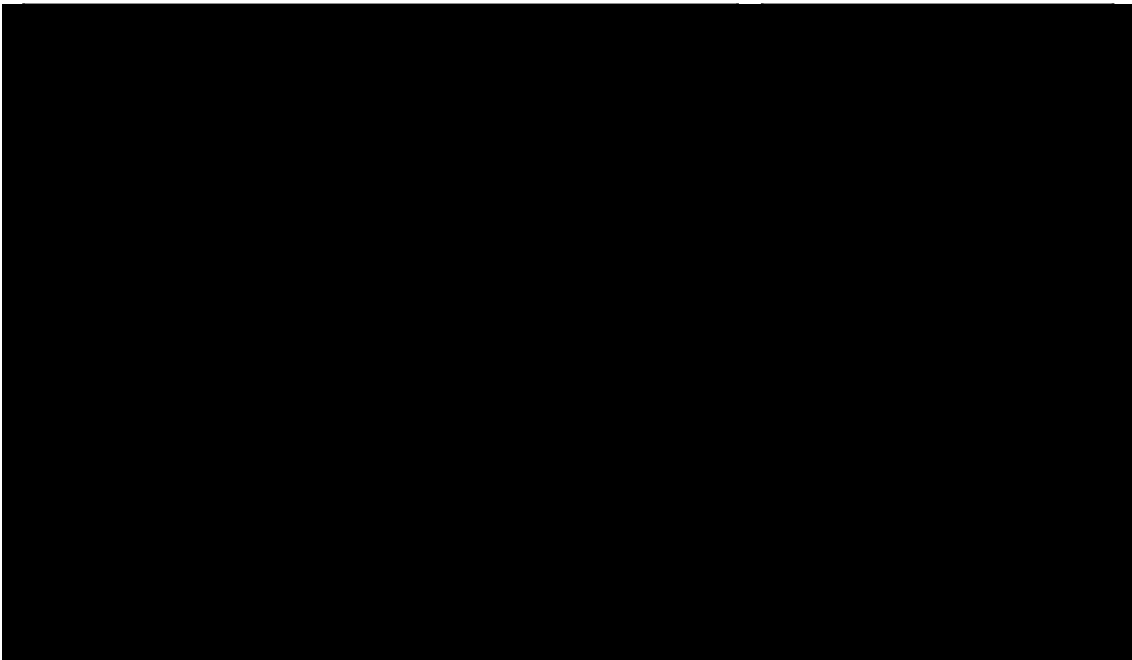
# Executive Summary

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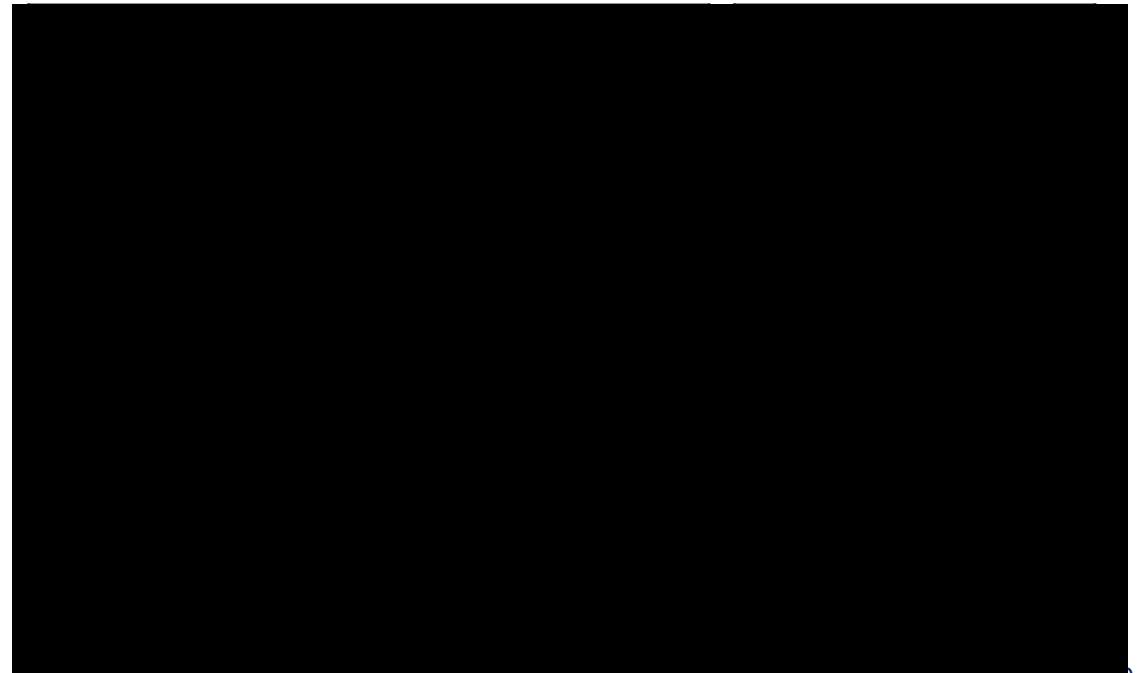
## Changes to the Pay Structure

- The current pay structure design is generally aligned with market practice. Mercer recommends:
  - Aligning the structure pay levels with the new market data gathered from the assessment, including introducing a new pay grade (43) to better align with the competitive market data.
  - Introduce greater consistency in the midpoint progression to align with market practice.
  - Maintain Range Widths as current practice aligns to market.

### Current Structure



### Proposed Structure



# Executive Summary

## Overview of Managing Pay Progression

- To manage pay progression, Mercer recommends shifting to a “grade zone” perspective to shift the messaging to performance and away from a specific compa-ratio.
  - Separating each pay grade into ‘Developing’, ‘Market’ and ‘Premium’ zones, and targeting pay for employees based on their sustained performance and experience with the organization toward the most appropriate zones shown



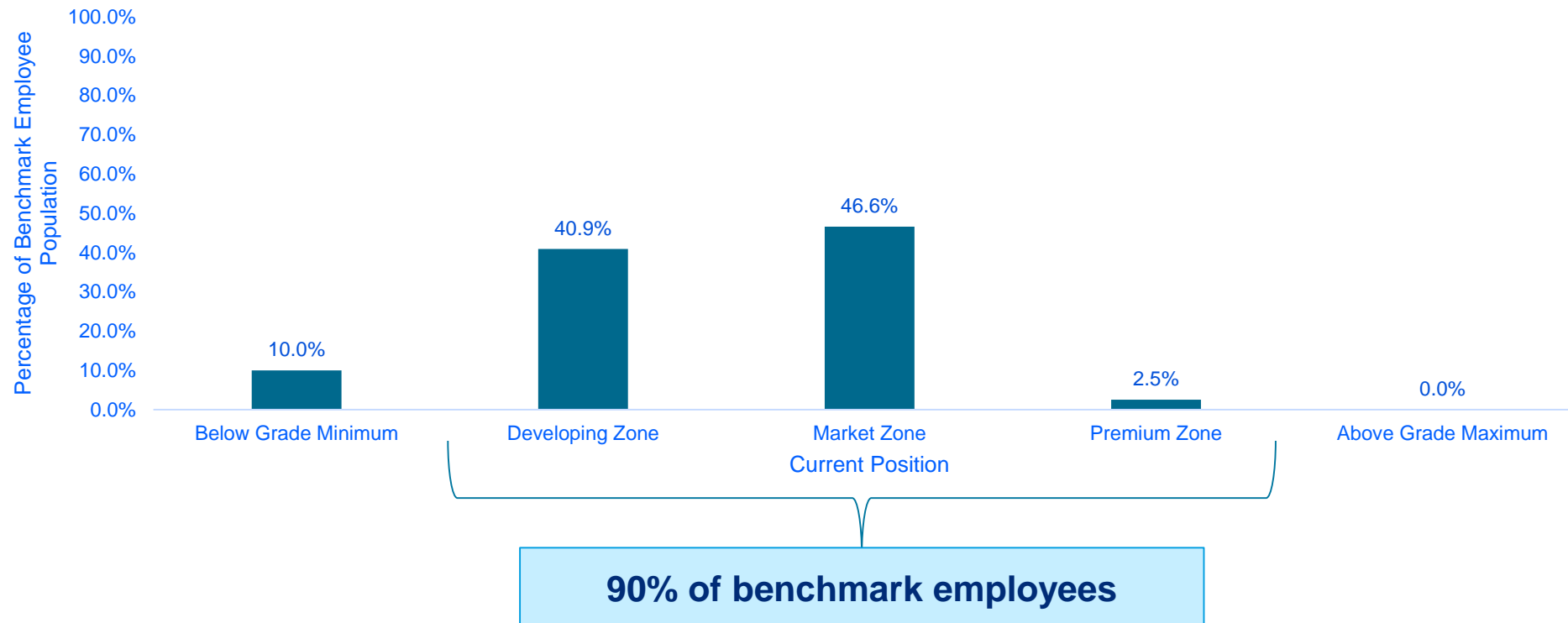
### Establishing new hire pay

- **New employees should be hired at a rate that is both competitive to the market as well as internally equitable. Placement within the salary range should be determined based on:**
  - Experience and qualifications of the candidate relative to the stated job requirements
  - Current pay for employees performing the same/similar roles
  - Any unique circumstances behind the hire (e.g., a critical business need, a hot job, or hiring for a unique/scarc skill set)

# Executive Summary

## Current Distribution

- 90% of benchmark employees are within the range of their newly assigned pay grade
  - 10% of benchmark employees are below the minimum
  - 0% of benchmark employees are above the maximum



# Executive Summary

## Considerations for Implementation

- Mercer's recommendations regarding pay level adjustments reflect our understanding of the organization developed through key stakeholder interviews, weekly calls with the HR team, and competitive market practice
- Typically, adjustments are made over a period of multiple years, with the initial efforts focused on:
  - Employees below the competitive market levels
  - Below the grade structure
  - High performers
- The timeline for implementing changes is highly dependent on:
  - Cost impact analysis
  - The ability for the business to take on the additional cost
- Implementing over a shorter time period (1 to 2 years) makes compensation more competitive with market sooner. As the talent market is still very competitive, a competitive compensation package is critical to ensure that the business attracts and retains the right talent
  - Prioritize implementing the proposed structure
  - Prioritize roles that are below the range minimum, and subsequently, roles that the organization struggles to retain or attract talent in
  - Focus on pay equity – both perceived and actual – through adherence for thoughtful guidelines and regular reviews

# Short-term Incentive Plan Design

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# Short-term Incentive Plan Design

## Overview of Plan Terms

Design Element	MDU Utilities Group	General Industry Market Practices	Energy Market Practices
<b>1. Eligibility</b>	<ul style="list-style-type: none"> <li>Regular part-time non-bargaining employees and regular part-time bargaining employees</li> </ul>	<ul style="list-style-type: none"> <li>99% of companies provide an annual incentive plan to their employees</li> </ul>	<ul style="list-style-type: none"> <li>100% of companies provide an annual incentive plan to their employees</li> </ul>
<b>2. Plan Funding, Performance Measures and Weighting<sup>3</sup></b>	<ul style="list-style-type: none"> <li>Plan Funding Metric: 100% Earnings</li> <li>Goal Achievement Metrics: 40% O&amp;M Expense Goal; 40% Operational Goal – Customer Service; 20% Cyber Security Goal</li> </ul>	<ul style="list-style-type: none"> <li>One to three Goal Achievement metrics is the most common for incentive plan design to align employees on specific metrics that drive the business strategy</li> <li>Financial objectives such as Earnings (~75%) and Sales/Revenue (~60%) are most common, although Operational Objectives (Customer Satisfaction, Safety, etc.) are also used (~40%)</li> <li>Weighting of metrics may vary by level, with more senior positions seeing an increased focus on corporate objectives and less on individual performance</li> </ul>	<ul style="list-style-type: none"> <li>EBITDA and EPS are the two most prevalent plan funding metrics</li> <li>EBITDA is the most prevalent goal achievement goal, while EPS, ROE, and Safety are also moderately common for energy industry companies</li> </ul>
<b>3. Performance Goal Range</b>	<ul style="list-style-type: none"> <li>Threshold Performance = 90% achievement</li> <li>Maximum Performance = 110% achievement</li> </ul>	<ul style="list-style-type: none"> <li>Typical to have a threshold, target, and maximum performance goal levels; the typical performance range is:                             <ul style="list-style-type: none"> <li>For revenue metrics: 95% of target/budget at threshold to 105% of target/budget at maximum</li> <li>For earnings metrics: 85% of target/budget at threshold to 115% of target/budget at maximum</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Consistent with General Industry</li> </ul>
<b>4. Payout Leverage</b>	<ul style="list-style-type: none"> <li>Below Threshold: 0% of Target</li> <li>Threshold: 50% of Target</li> <li>Maximum: Generally 150% or 200% of Target depending on grade</li> </ul>	<ul style="list-style-type: none"> <li>Most Prevalent Structure:                             <ul style="list-style-type: none"> <li>Below Threshold: 0% of Target</li> <li>Threshold: 50% of Target</li> <li>Maximum: 150% or 200% of Target</li> </ul> </li> <li>A higher maximum rewards outstanding performance beyond target</li> </ul>	<ul style="list-style-type: none"> <li>Consistent with General Industry</li> </ul>



# Short-term Incentive Plan Design

## Overview: Eligibility by Salary Band

### General Industry

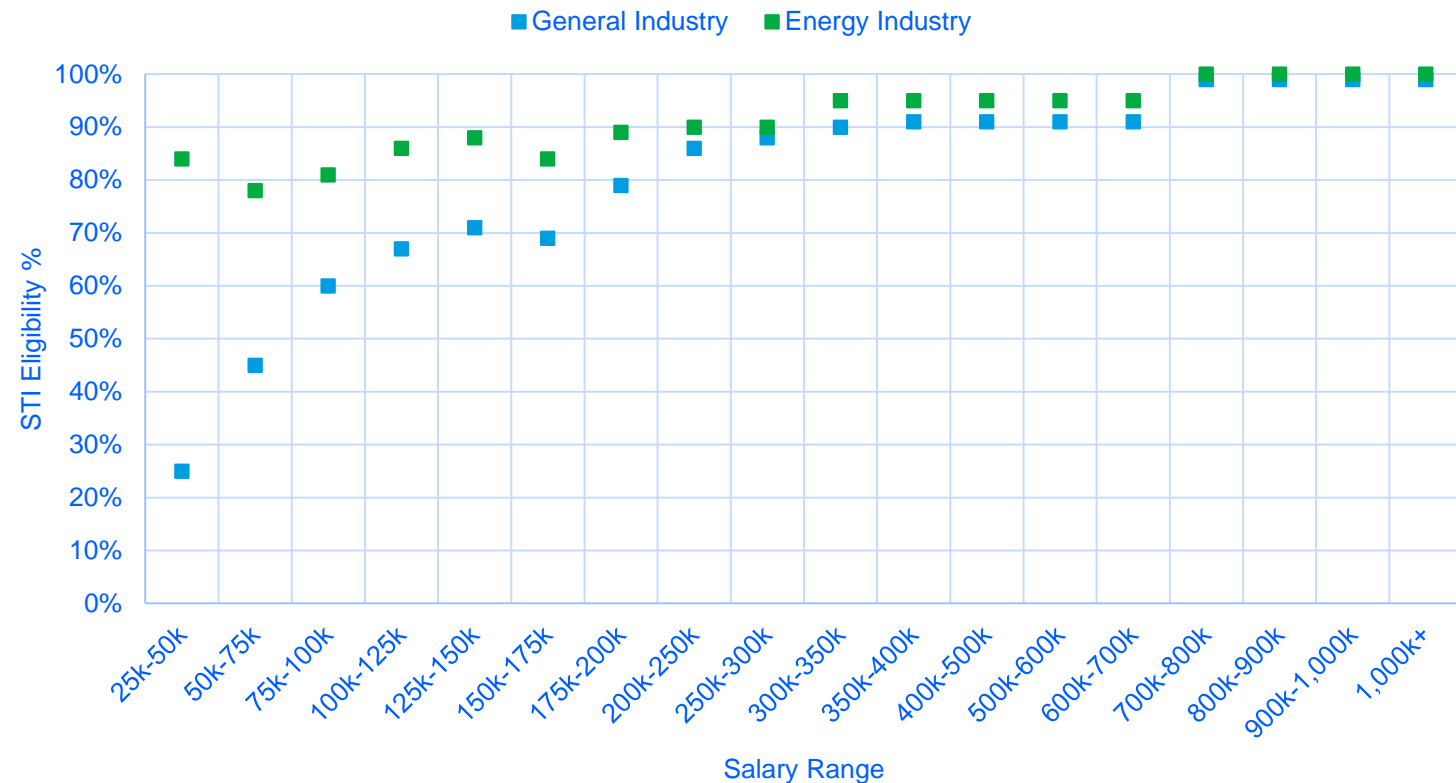
Eligibility increases steadily as salary increases; over 85% of organizations provide short-term incentive awards to employees with over \$200k in base salary

### Energy Industry

Eligibility is substantially higher than general industry levels for base salaries up to approximately \$200k; above base salary levels of \$200k STI eligibility is consistent

## STI Eligibility % by Salary Range

Base Salary (USD \$000)	STI Eligibility %	
	General Industry	Energy Industry
25 - 50	25%	84%
50 - 75	45%	78%
75 - 100	60%	81%
100 - 125	67%	86%
125 - 150	71%	88%
150 - 175	69%	84%
175 - 200	79%	89%
200 - 250	86%	90%
250 - 300	88%	90%
300 - 350	90%	95%
350 - 400	91%	95%
400 - 500	91%	95%
500 - 600	91%	95%
600 - 700	91%	95%
700 - 800	99%	100%
800 - 900	99%	100%
900 - 1,000	99%	100%
1,000+	99%	100%



# Recommendations

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# Recommendations

## Three Recommendations to Align to Competitive Market Practices

1

### Determining Competitive Pay:

- Utilize a blended survey approach to determining competitive market levels
- Utilize a blend of industry-specific survey and general industry for roles found across industries (e.g. accountant); whereas for industry-specific roles, utilize industry-specific data
  - Assessing multiple surveys ensures a robust data set is considered and that outliers do not materially skew data

2

### Determining Competitive Pay:

- Establish a philosophy to identify competitive pay as +/- 10% of base salary median
  - Typical market practice is to establish a range around the market median and identify that as “competitive”
  - Salary increases should be based on: performance rating, salary range penetration, financial affordability, and market trends

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### Managing Pay Levels:

- Manage pay progressions with a “zone” approach rather than emphasizing compa ratios
  - This approach emphasizes performance and competency in role; enabling people managers to have effective development conversations

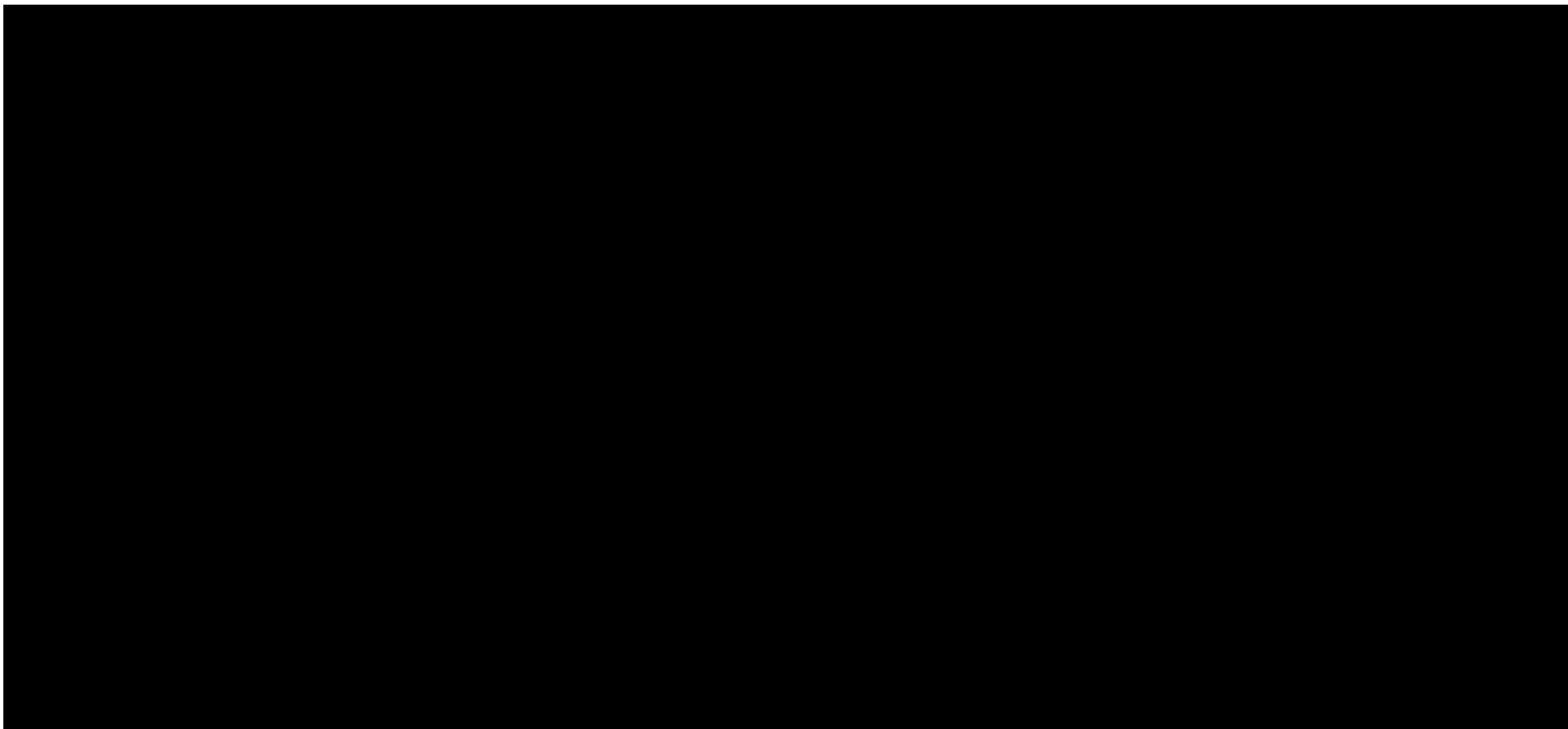
# Competitive Positioning Detail

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# MDU Utilities Group Competitive Positioning – By Job

## Base Salary

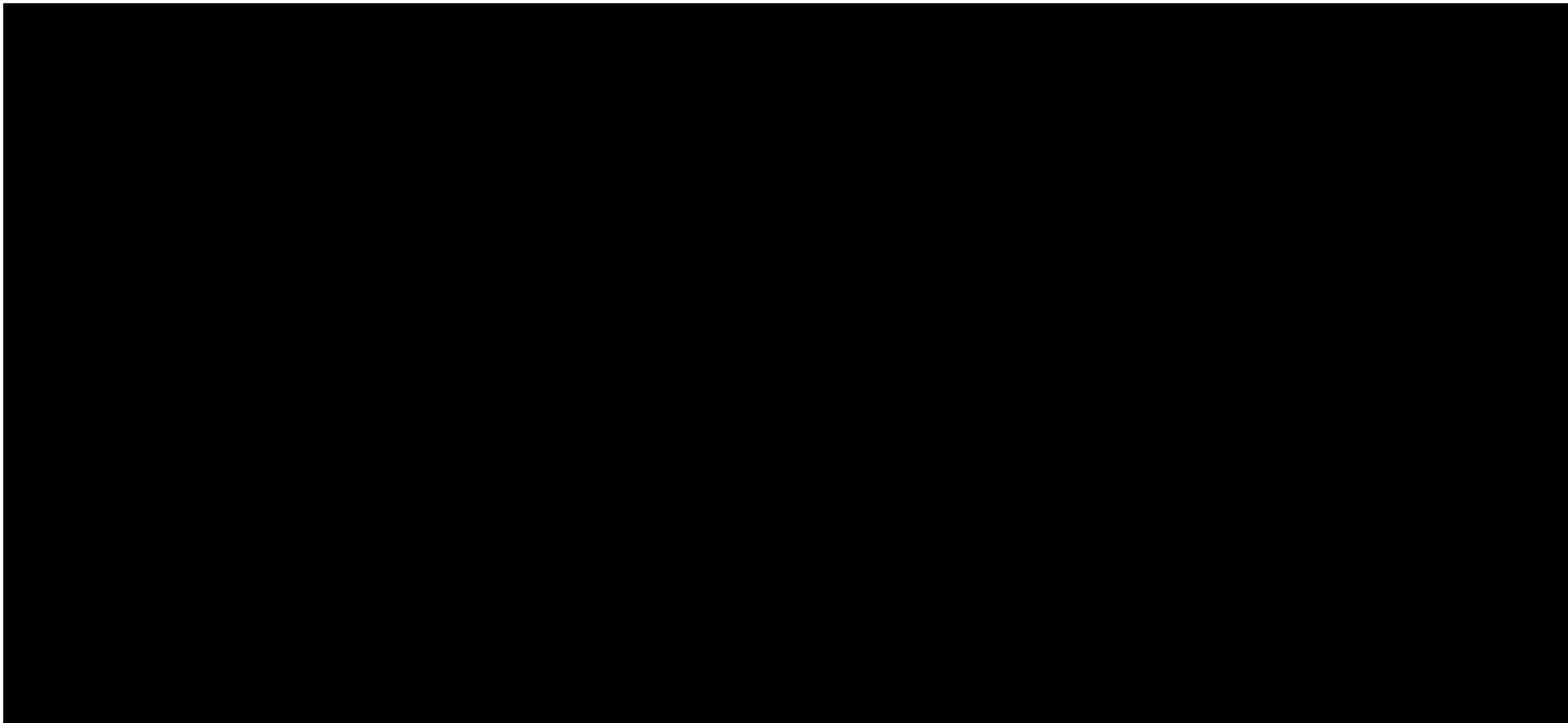
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# MDU Utilities Group Competitive Positioning – By Job

Base Salary

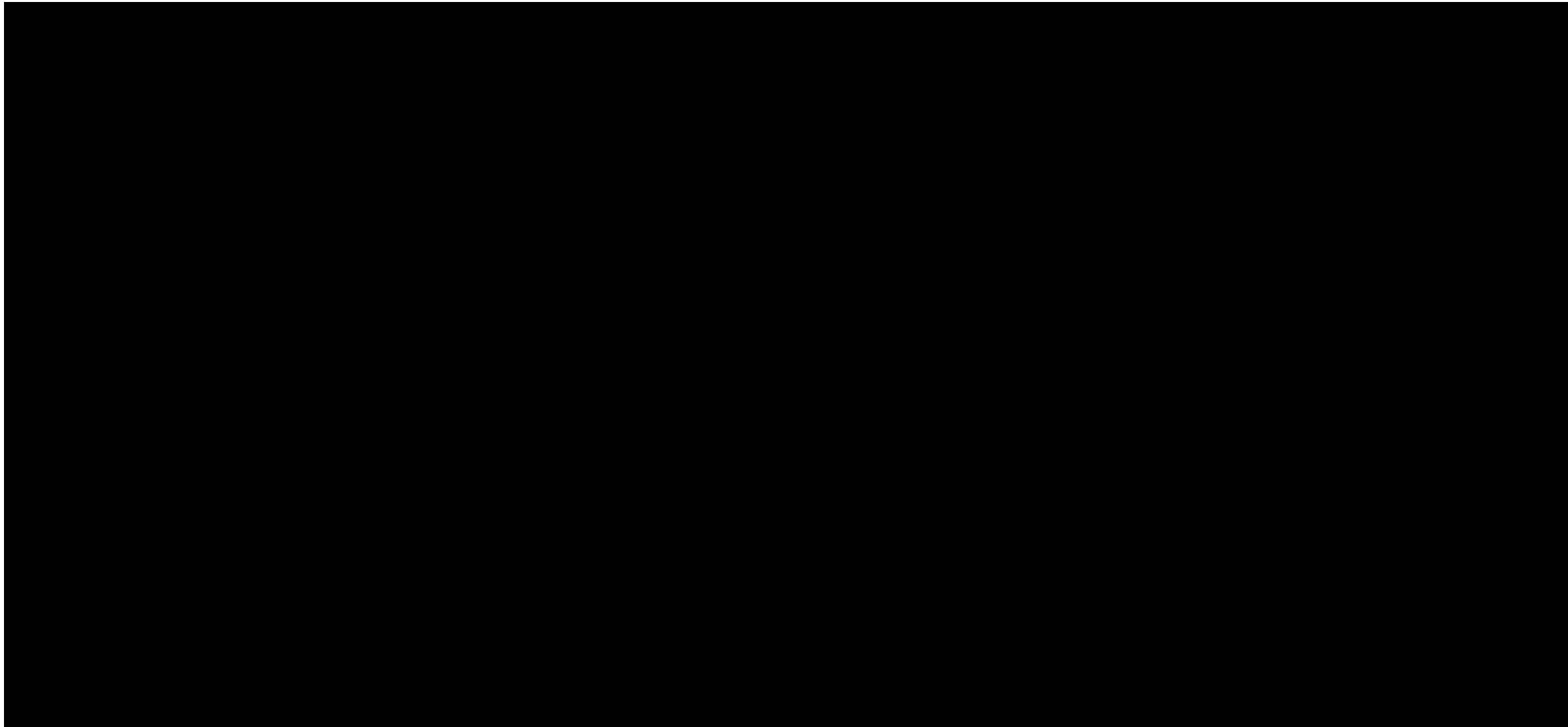
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# MDU Utilities Group Competitive Positioning – By Job

## Base Salary

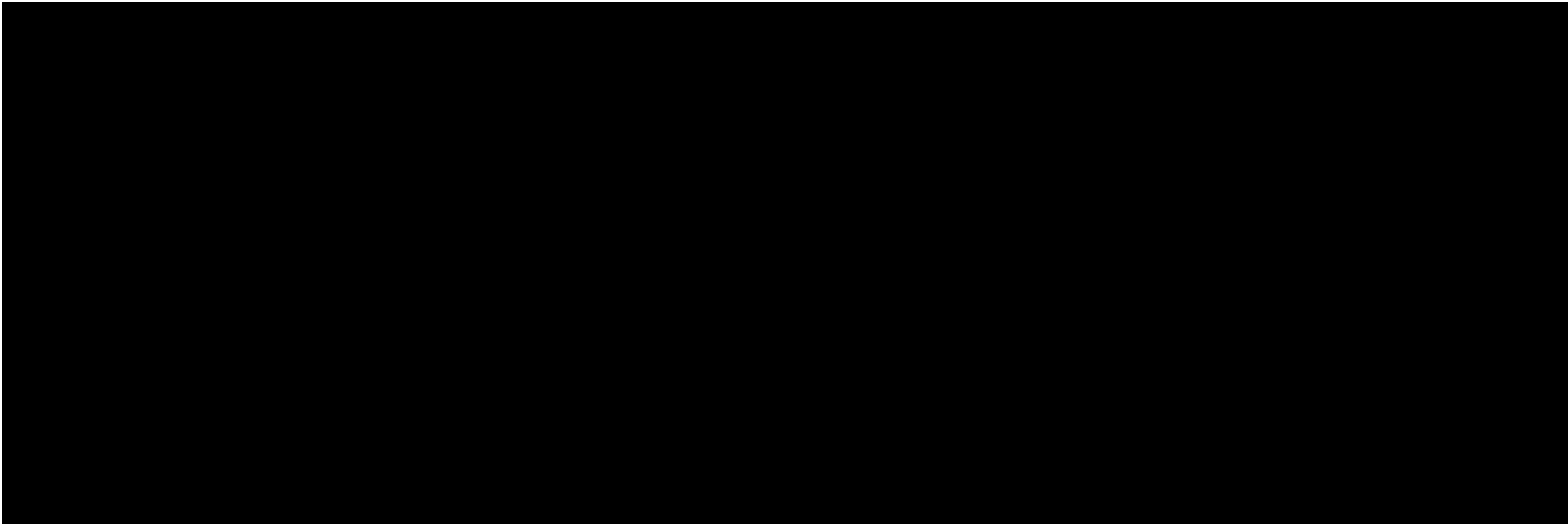
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# MDU Utilities Group Competitive Positioning – By Job

## Base Salary

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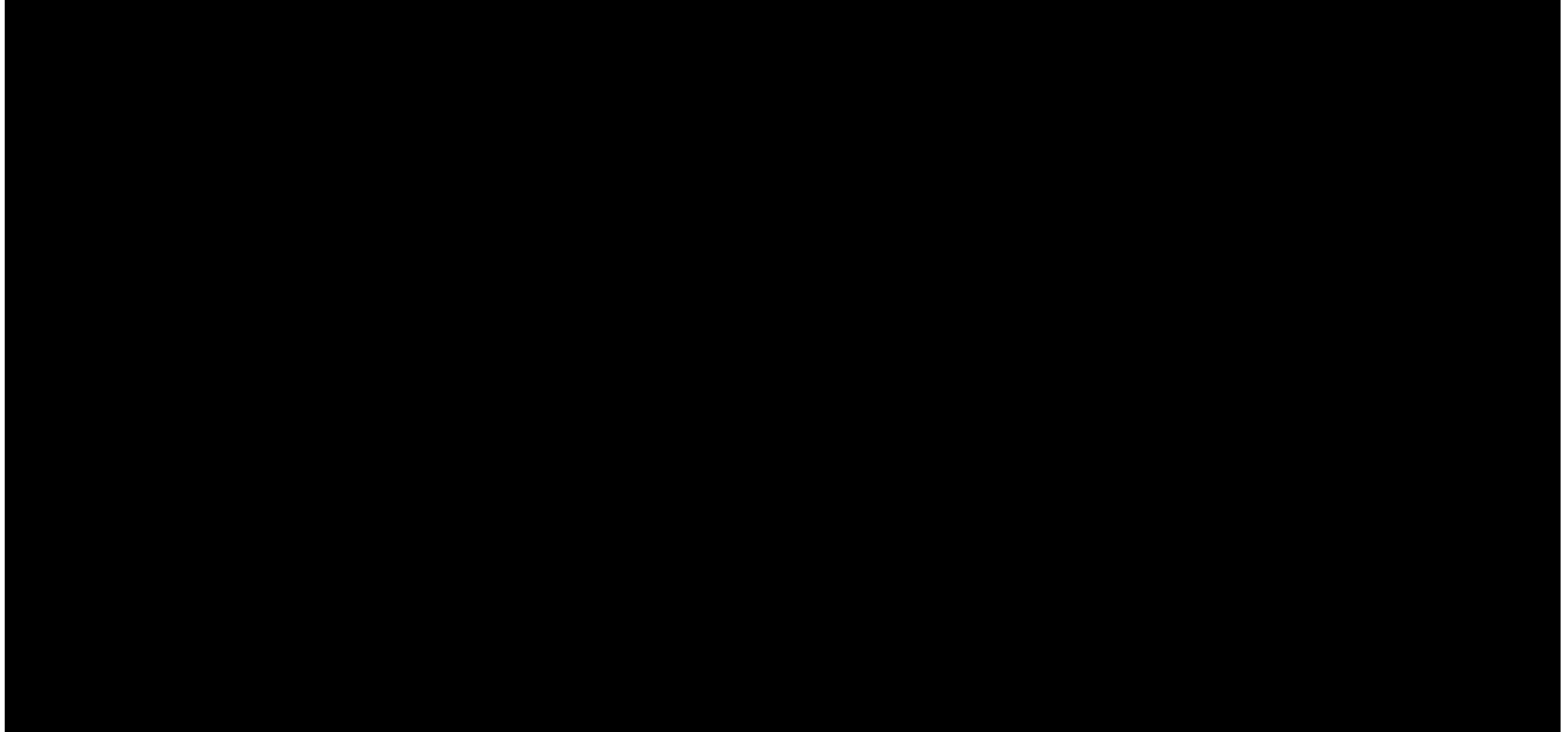




# MDU Utilities Group Competitive Positioning – By Job

Target Short-term Incentive (% of Base)

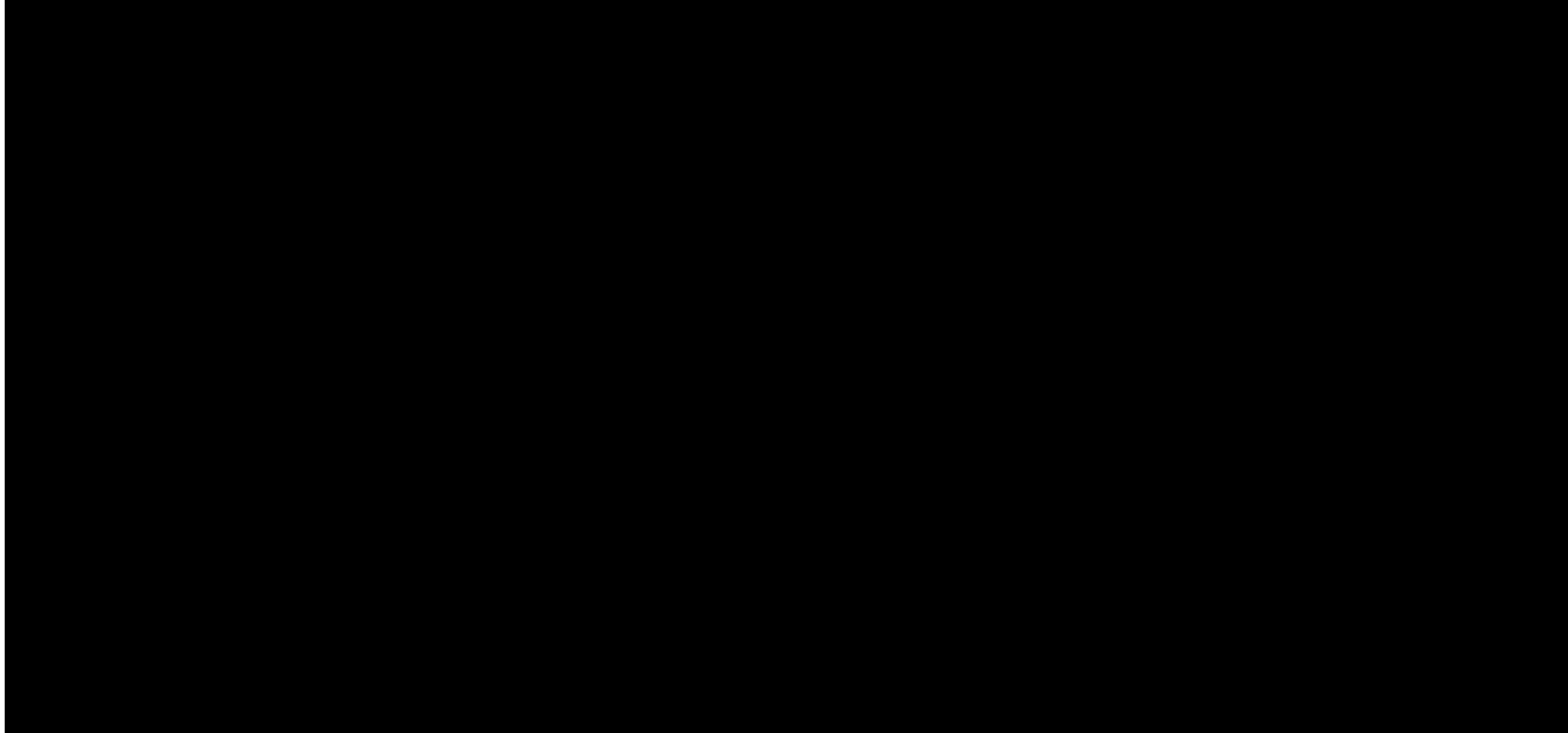
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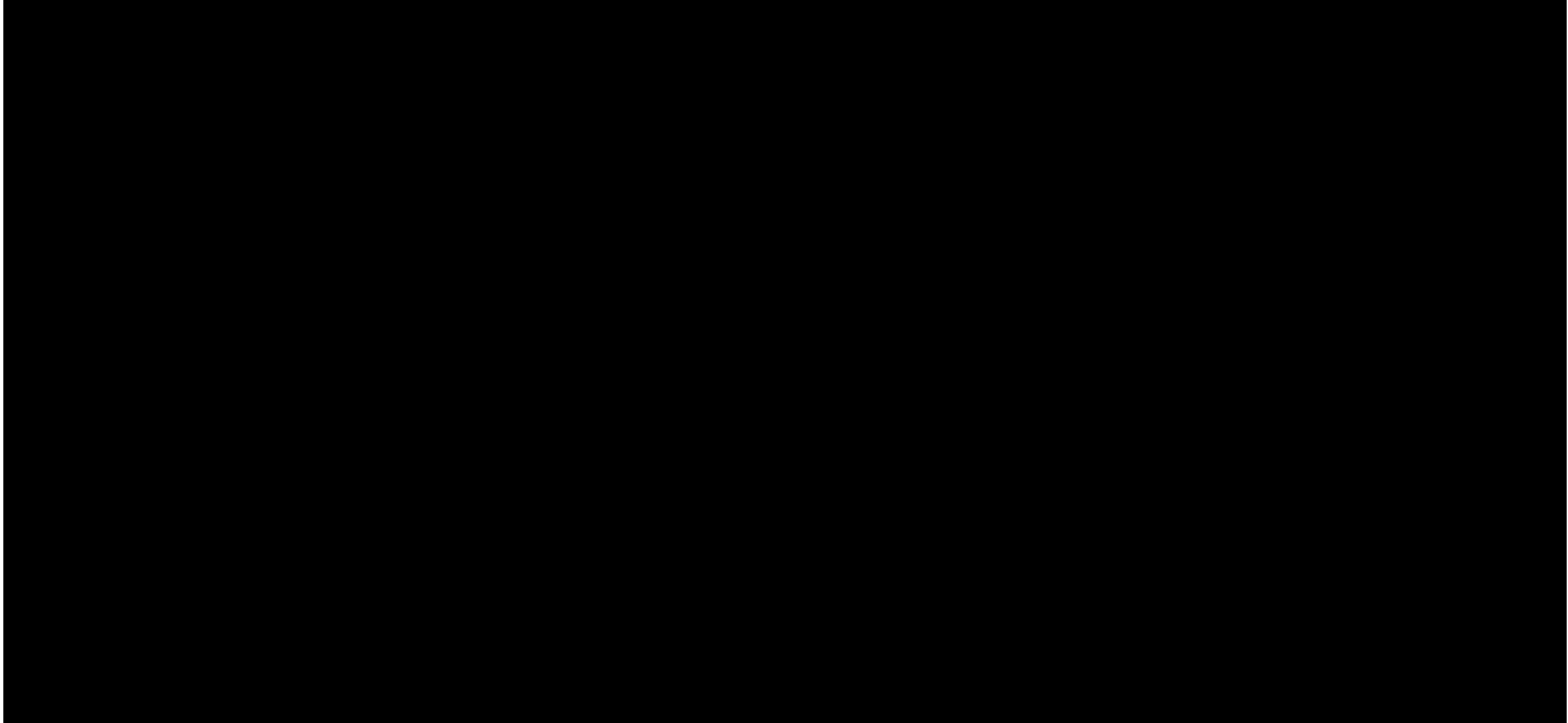
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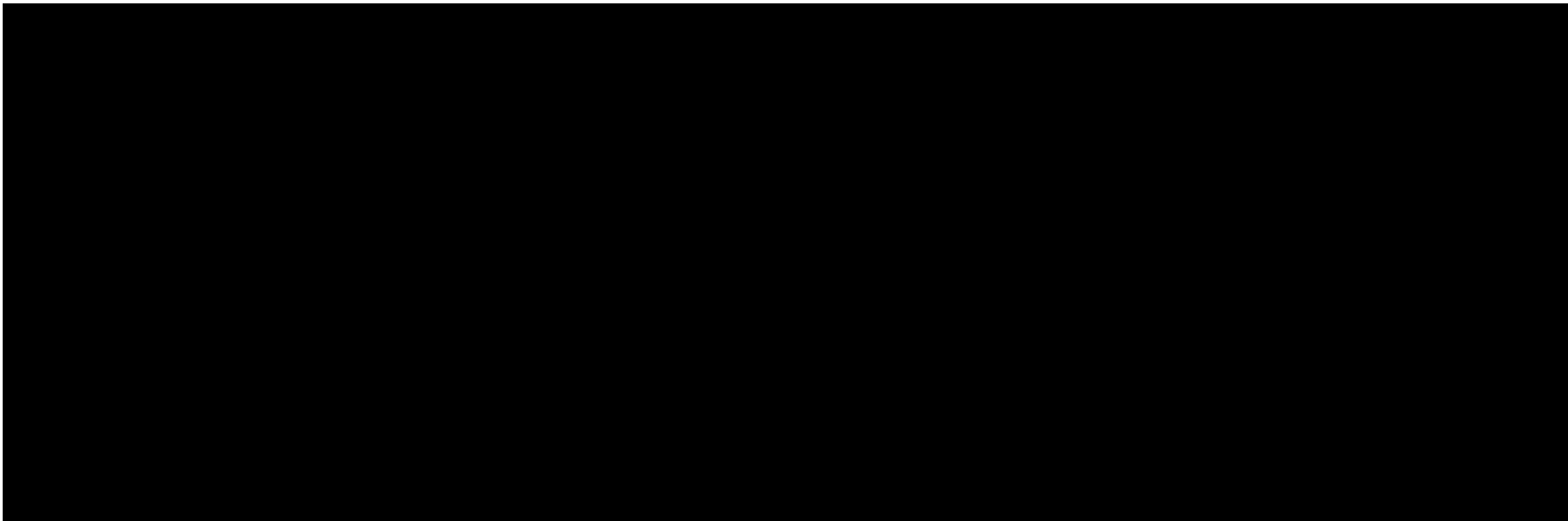
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# MDU Utilities Group Competitive Positioning – By Job

Target Short-term Incentive (% of Base)

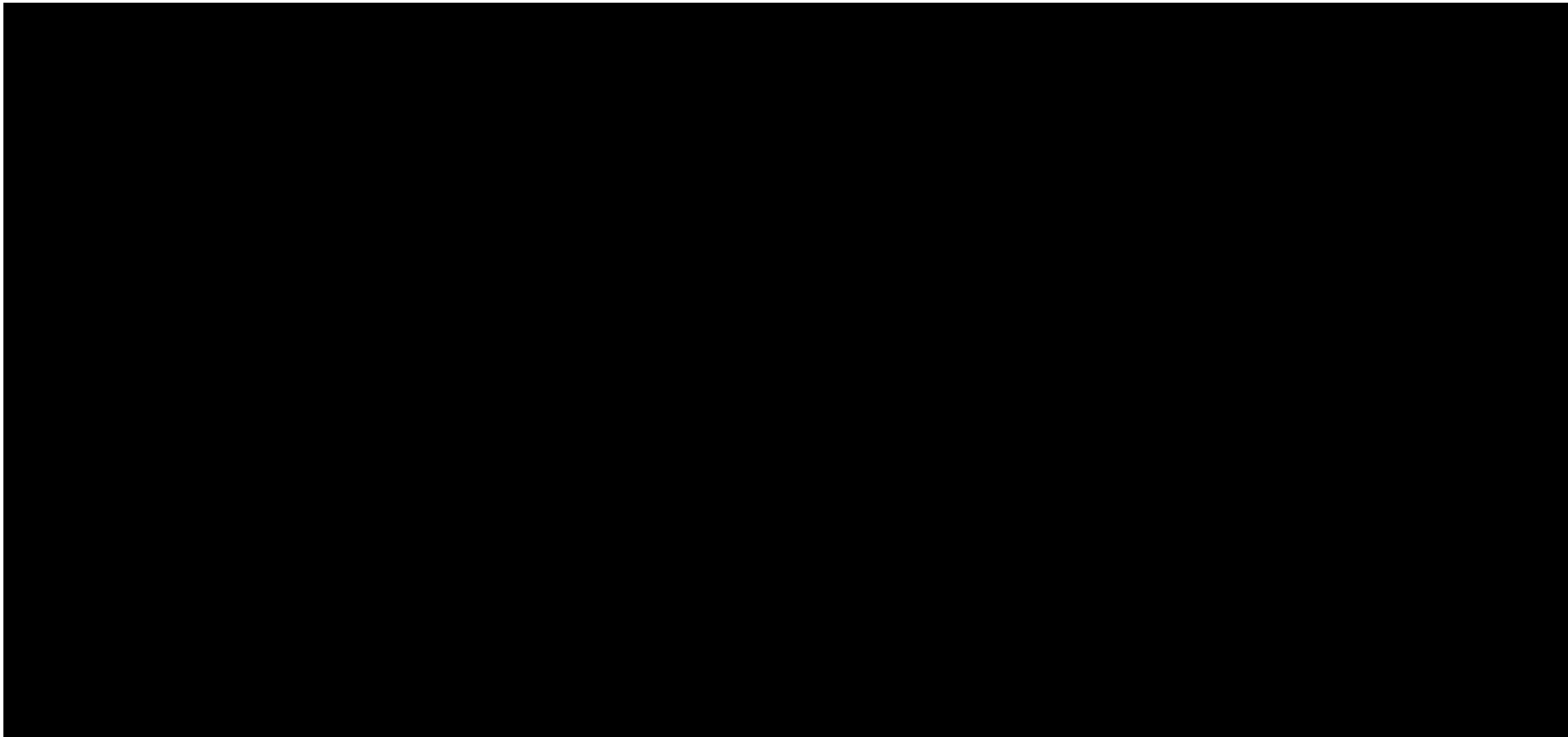
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# MDU Utilities Group Competitive Positioning – By Job

Target Total Cash Compensation (TCC)

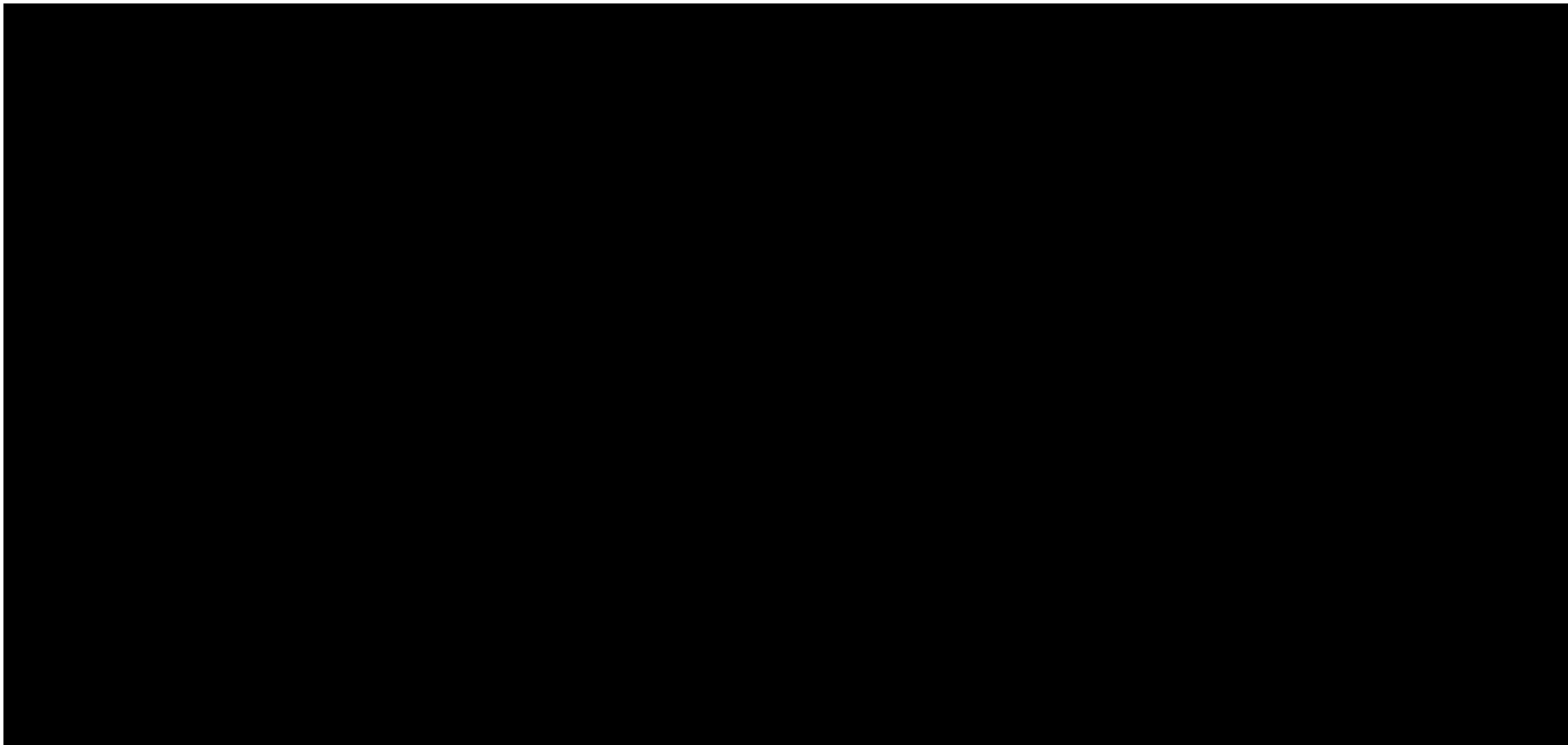
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# MDU Utilities Group Competitive Positioning – By Job

Target Total Cash Compensation (TCC)

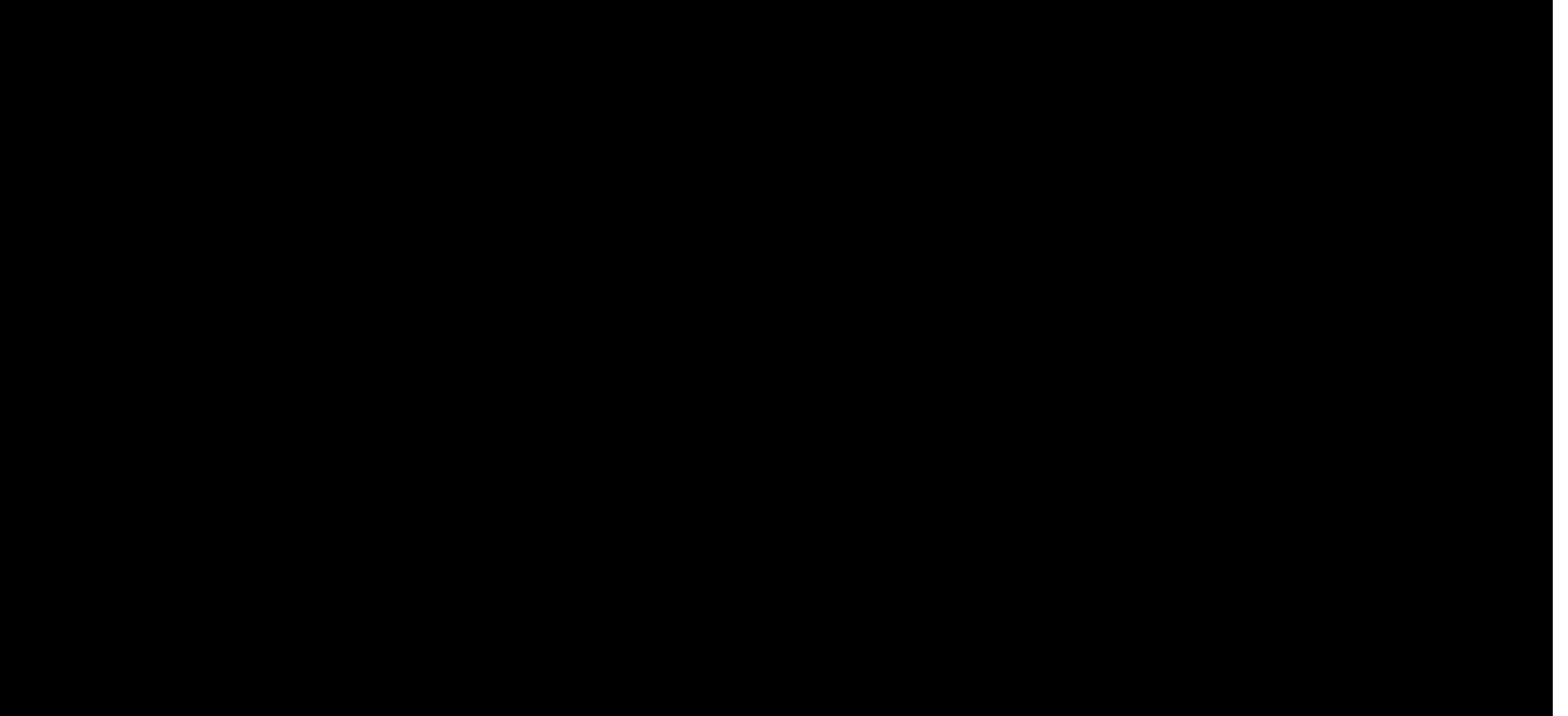
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# MDU Utilities Group Competitive Positioning – By Job

Target Total Cash Compensation (TCC)

REDACTED VERSION



# MDU Utilities Group Competitive Positioning – By Job

Target Total Cash Compensation (TCC)

REDACTED VERSION

