Redacted_Exhibit No. __ (JEK-1CT)
Docket No. UG-200568
Witness: James E. Kaiser

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION, Complainant, v. CASCADE NATURAL GAS CORPORATION, Respondent.	DOCKET UG-200568

CASCADE NATURAL GAS CORPORATION

REBUTTAL TESTIMONY OF JAMES E. KAISER

January 8, 2021

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is James E. Kaiser. My business address is 400 N. Fourth St. Bismarck, ND 58501.

Q. By whom are you employed and in what capacity?

A. I am employed by Cascade Natural Gas Corporation ("Cascade" or "Company"), Intermountain Gas Company, and Montana-Dakota Utilities Co. ("Montana-Dakota"), all subsidiaries of MDU Resources Group, Inc. ("MDU Resources"), as well as Great Plains Natural Gas Company, a division of Montana-Dakota, (collectively, "MDU Utilities Group") as the Director of Human Resources ("HR").

Q. What are your duties and responsibilities?

A. I am responsible for HR strategy and business support for the MDU Utilities Group. The HR department is responsible for compensation and benefits, talent acquisition and development, employee and labor relations, as well as governmental compliance with employment and employee relations laws.

Q. How long have you been employed by MDU Utilities Group or one of its subsidiaries?

A. I have been employed by MDU Utilities Group or one of its subsidiaries since 2002.

Q. What are your educational and professional qualifications?

A. I have worked in HR in the utility industry for more than 35 years and have held a variety of positions of increasing responsibility since joining the Company in 2002. I have been employed by MDU Utilities Group as the Director of Human Resources since 2013, before which I served as Manager of Human Resources. I have a

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Bachelor's degree in Business Administration with an emphasis in Human Resources from the University of North Dakota. I have been certified as a Senior Human Resource Professional since 1992, and by the Society for Human Resource Management as a Senior Certified Professional since 2015.

II. SCOPE AND SUMMARY OF TESTIMONY

Q. What is the purpose of your Rebuttal Testimony?

A. My Rebuttal Testimony explains the Company's process for setting total compensation for its employees, including both base pay and incentive compensation (or "pay-at-risk"). In addition, I respond to proposals made by Staff of the Washington Utilities and Transportation Commission ("Staff"), the Washington State Office of the Attorney General, Public Counsel Unit, ("Public Counsel") and the Alliance of Western Energy Consumers ("AWEC") to disallow portions of the Company's proposed pro forma adjustments concerning 2020 and 2021 wage increases, AWEC's proposal to disallow affiliate-related cost increases, and proposals from Public Counsel and AWEC to limit recovery of incentive compensation.

Q. Please summarize the key changes to revenue requirement proposed in your Rebuttal Testimony.

A. Cascade has reduced its compensation-related revenue requirement by eliminating its 2021 union wage increase and by lowering its 2021 and 2020 non-union wage increases. Even though it is a virtual certainty that there will be an increase to union wages in 2021, the actual amount of that increase remains unknown; therefore, Cascade has removed it from the case. In addition, Cascade moderated 2020 wage increases from 4.0 percent to 3.55 percent, which reflects actions taken in light of COVID-19-

related economic conditions, and reduced its requested 2021 non-union wage increase from its 3.5 percent budgeted amount to the 3.0 percent that has already been incorporated into employee wages. In total, Cascade has reduced its wage-related revenue requirement request in this case by $627,696.

Q. Are you sponsoring any exhibits in this proceeding?

A. Yes. I am sponsoring the following exhibits, which are described later in my testimony:

- Confidential Exhibit No. __ (JEK-2C) Pearl Meyer Compensation Program Review (October 2018)
- Confidential Exhibit No. __ (JEK-3C) Excerpt from EAP Data Information Solutions, LLC 2020 Energy Technical Craft Clerical Survey (October 2020)
- Exhibit No. __ (JEK-4) 2020 Payroll Cost Increases
- Confidential Exhibit No. __ (JEK-5C) Excerpt from Willis Towers Watson 2020 Salary Budget and Economic Data, North America

III. CASCADE'S COMPENSATION PHILOSOPHY

Q. Please describe Cascade's general approach to setting total compensation for employees—including available incentive compensation.

A. There are three basic principles underlying Cascade's approach to employee compensation—all designed to minimize costs while allowing the Company to attract and retain the qualified employees necessary to deliver safe and reliable service to our customers.

First, Cascade has adopted a Total Rewards philosophy, which provides our employees with a Total Rewards package. The Total Rewards package includes both

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total cash compensation and benefits. For non-union employees, the two key components of total cash compensation are base pay and incentive compensation.[1]

Second, Cascade compares its wages and at-risk incentive compensation with the relevant labor market, and seeks to set total cash compensation at the market average for comparable jobs. That said, we have found that the market for employees with the skills and experience we require is very competitive in the industry, and we must nonetheless provide the same general pay levels and benefits as are included in the packages provided by the Company's competitors for labor.

***Third*,** Cascade believes that, in order to encourage employee engagement and to help employees better understand the importance of operating our business effectively, a certain percentage of each non-union employee's market compensation should be "at-risk." Accordingly, under Cascade's incentive plan, employees have the opportunity to receive total cash compensation at the market average. Importantly, however, our program is structured such that total compensation for all employees is aligned with the market average in a typical year.

Q. Please explain how the Company determines the market average when it sets the base pay and incentive compensation components of total cash compensation.

A. When market pricing a position within the organization, we pull data from a variety of sources for industry salary surveys, including the American Gas Association, Mercer, EAP Data Information Solutions, Willis Towers Watson, World at Work, and Kenexa

[1] Union employees do not receive incentive compensation.

Compensation Analyst, among others. We then analyze the median base pay and target incentive compensation data to determine a market average.

Q. How does the Company allocate base compensation increases?

A. Cascade allocates a share of its annual budget for compensation increases. Managers and supervisors are responsible for allocating this budget based on a consistent set of guidelines. These guidelines account for merit-based increases tied to specific performance appraisals, pay equity concerns, and other factors. For instance, certain positions that are particularly challenging to fill and may face employee retention concerns could be considered for a higher wage increase.

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

A. Yes. Approximately every five years, the Company contracts with an outside independent consultant to review compensation programs and practices. For instance, in 2018, the Company contracted with Pearl Meyer to provide a third-party review of base and incentive compensation. This independent review is scheduled to be done again in 2023 to assure that reasonable and appropriate compensation packages are available to attract and retain quality employees, who in turn allow us to continue to provide safe and reliable service to our customers.

Q. What was the result of the 2018 Pearl Meyer Review?

A. The Pearl Meyer Compensation Program Review indicated that Cascade's compensation programs, including incentive compensation, are well designed and utilize adequate external survey sources to establish reasonable salary ranges.

However, Pearl Meyer noted that Cascade's compensation targets remain conservative and generally lag behind median market levels. Similarly, Pearl Meyer found that employees' eligibility for incentive pay is consistent with other utilities, but that the incentive compensation opportunity is lower than competitive market levels.[2] The report that Pearl Meyer prepared in 2018 is included as Confidential Exhibit JEK-2C.

Q. Has COVID-19 impacted the Company's compensation approach for 2020 and 2021?

A. Yes. As a result of COVID-19, the Company decided to suspend mid-year pay increases except for a few instances involving extreme equity concerns. Also, Cascade delayed filling positions when possible for a short time and implemented an additional justification process before vacated positions were approved to be filled. Each year Cascade supplements the workforce with temporary employees and these positions were not filled in 2020. These interim cost-saving measures have since been lifted and open positions have been filled.

Going forward, the Company also responded to the economic impacts of COVID-19 by reducing the planned salary budget for 2021 by one half percent.

IV. BASE PAY

Q. Please summarize the Company's proposed adjustments to Test Year wages included in the revenue requirement in this case.

A. To adjust test year wages for this case, the Company made the following adjustments:

[2] Kaiser, Exh. No. ___ (JEK-2C) at 5.

- Restate Wages Adjustment (R-5): This adjustment annualized wage increases for union employees for 2019, reducing net operating income by $68,514.[3]
- Pro Forma Wage Adjustment (P-2): This adjustment included the following changes for both 2020 and 2021:[4]
  - 2020: union employee wage increase of 3 percent and non-union employee wage increase of 4 percent.
  - 2021: union employee wage increase of 3 percent and non-union employee wage increase of 4 percent.[5]

Q. Does Cascade have any updates to its proposed pro forma wage adjustments in this case?

A. Yes. Cascade proposes to update its costs for non-union wage increases to reflect actual 2020 compensation, yielding a 3.55 percent (as opposed to 4 percent) increase. Cascade also proposes to adjust its costs for 2021 non-union wage increases to 3 percent, and to remove the costs associated with 2021 union wage increases. These adjustments result in a reduction in revenue requirement of $627,696 from the Company's previous filing,[6] and are discussed in more detail below.

Q. Do any parties object to Cascade's proposed salary increases as a general matter?

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[3] Direct Testimony of Maryalice C. Peters, Exh. MCP-1T at 6.
[4] Peters, Exh. MCP-1T at 6-7.
[5] Peters, Exh. MCP-1T at 6-7.
[6] Gresham, Exh. MCG-11T at 3 (Table 1).

A. Yes. Staff, Public Counsel, and AWEC all cite the current economic conditions resulting from the COVID-19 pandemic as a basis to deny costs associated with wage increases in both 2020 and 2021.[7]

Q. Do you agree that the current economic conditions do not support wage increases for Cascade employees?

A. No, for several reasons. First, the current economic conditions have not lessened Cascade's need for qualified personnel. Cascade provides an essential service to its customers, and has therefore needed to maintain its high-quality, safe, and reliable service despite the broader economic circumstances—an effort that requires adequate staffing by qualified employees.

Second, even in a challenging economic climate, Cascade must provide employees with fair and reasonable market-level compensation. Cascade's employees have worked hard to ensure the continuity of essential natural gas service despite this year's challenges and risks, and should not be penalized through a salary freeze.

Third, the economic conditions have not reduced competition for qualified employees. Indeed, recent evidence from reputable survey sources and regulatory proceedings suggests that Cascade's competitors are continuing to provide baseline salary increases similar to those included in this case. In Avista's recent rate case filing, that company indicated that it expects a preliminary minimum salary increase of

[7] AWEC Response Testimony of Bradley G. Mullins, Exh. BGM-1T at 38; Public Counsel Response Testimony of Mark E. Garrett, Exh. MEG-1T at 7; Staff Testimony of Joanna Huang, Exh. JH-1T at 7.

3 percent for 2021 for both union and non-union employees.[8] Similarly, a third-party survey developed by EAP Data Information Solutions, LLC, included as Confidential Exhibit __ (JEK-3C), indicates that [redacted].[9]

A. 2020 Wages Pro Forma Adjustments

Q. Please explain the basis for the Company's proposed pro forma adjustment for 2020 wages, as originally presented in this case.

A. Cascade originally proposed to include a 4 percent non-union wage increase and a 3 percent union wage increase because these amounts reflect budgeted and negotiated wages increases, respectively.

Q. What is Cascade's updated cost recovery request for 2020 wages?

A. Cascade's updated cost recovery request for 2020 wages is to approve the agreed-upon 3.0 percent union wage increase, and the actual 3.55 percent non-union wage increase.

Q. Does any party object to the Company's proposed 2020 pro forma adjustment for union and non-union wage increases?

A. Yes. In addition to the general objection related to current economic conditions, noted above, Staff, Public Counsel, and AWEC object to the Company's 2020 pro forma adjustment for the non-union wage increase, and AWEC also objects to the union wage increase.[10]

Q. Please summarize Staff's objection and rationale.

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[8] *Washington Utilities and Transportation Commission v. Avista Corp. dba Avista Utilities*, Dockets UE-200900 and UG-200901 (consolidated), Exh. EMA-1T at 56-58 (Oct. 30, 2020).
[9] Kaiser, Exh. No. ___ (JEK-3C) at 3.
[10] Huang, Exh. JH-1T at 7; Public Counsel, Exh. MEG-1T at 7; Mullins, BGM-1T at 38-39.

A. Staff objects that the non-union wage increase in 2020 should be limited to 3 percent, on the basis that the additional 1 percent of costs "only applied to a fraction of employees," and because the cost was discretionary and should have been omitted given the broader economic circumstances.[11]

Q. How do you respond to Staff's objection?

A. Staff's objection appears to be based, in part, on some inadvertent confusion caused by one of Cascade's data request responses, which set forth how much of the 4 percent budget was held back for mid-year assignment. In Cascade's initial response to Staff Data Request 13, Cascade indicated that the approved budget for non-union wage increases in 2020 was 4 percent, and that managers were "given 3 percent of the budget to work with," while "[t]he remaining 1 percent [was] used to address compression, equity issues, affirmative action items and promotions, as well as the 2020 mid-year review."[12] On December 11, 2020, Cascade provided a supplemental response to Staff Data Request 13, clarifying that, while managers were given 3 percent of the budget to work with, they were also permitted to work with their respective officers and with HR to allocate a larger share of the original 4 percent, where justified—up to approximately an additional 0.5 percent. Thus, while 3 percent was the initial baseline budget, managers were ultimately allowed to allocate approximately 3.5 percent of the 4 percent budget. Through this process, in December 2019, 3.55 percent of the 4 percent budget was actually allocated, with 0.45 percent held back for the mid-year review process and subject to further discretionary allocation.

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[11] Huang, Exh. JH-1T at 7.
[12] Huang, Exh. JH-4.

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Q. Was the remaining 0.45 percent actually allocated?

A. Not entirely, no. Cascade and its affiliates responded to the broader economic circumstances by limiting disbursement of the final 0.45 percent to those instances that required immediate action, such as clear pay equity issues (e.g., high performing employees not receiving equal pay). Indeed, this conduct was consistent with Staff's recommendation in this case—namely, to limit discretionary wage increases during this year, where possible.[13] As a result of this conservative approach, the mid-year review resulted in disbursement of only $27,000 across the MDU Utilities Group, rather than the budgeted amount of approximately $300,000.

Q. Does Cascade therefore accept Staff's adjustment?

A. In part. Cascade accepts the principle of Staff's adjustment, which I understand as seeking to limit the non-union wage increase for 2020 to truly essential wage increases. However, in light of the update I provide above, Cascade proposes to align this adjustment with the actual efforts to limit 2020 cost increases. As a result, Cascade proposes a downward adjustment limiting 2020 non-union wage increases to 3.55 percent, rather than 4 percent.

Q. Please summarize Public Counsel's objections and adjustment to the 2020 non-union wage increase.

A. Public Counsel objects that non-union wages actually increased by only 2.6 percent for exempt and 2.2 percent for non-exempt employees.[14] Public Counsel also objects that Cascade did not account for potentially offsetting events, such as employee turnover,

[13] Huang, Exh. JH-1T at 7.
[14] Garret, Exh. MEG-1T at 14.

as part of proposing the 2020 pro forma wage adjustments.[15] Public Counsel therefore recommends limiting 2020 non-union wage increases to 3 percent.[16] Public Counsel does not object to the Company's 3 percent wage increase in 2020 for union employees.[17]

Q. Do you agree with Public Counsel's proposed adjustment?

A. No. Public Counsel's calculation of 2020 non-union wage increases is incorrect for several reasons. First, Public Counsel failed to include the first pay period in 2020, reducing the overall 2020 costs used as a comparison. Second, in comparing 2019 base pay for exempt employees, Public Counsel incorrectly included a non-base pay value.[18] Finally, and most significantly, Public Counsel's analysis fails to account for cross-charged and allocated costs from affiliates. When accounting for the missed pay period, removing the non-base pay error, and accounting for cross-charged costs, Cascade's 2020 actual costs for non-union labor increased by more than 5 percent.[19] However, Cascade continues to propose applying its actual wage escalation rate of 3.55 percent as a conservative adjustment to Test Year costs.

Q. Do you agree that Cascade failed to account for potential offsetting costs as part of the 2020 pro forma wage adjustment?

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[15] Garret, Exh. MEG-1T at 12.
[16] Garret, Exh. MEG-1T at 14.
[17] Garret, Exh. MEG-1T at 14.
[18] Public Counsel's error was based on a coding issue in the underlying Data Request response. In Cascade's response to Public Counsel Data Request 52, the entry for July 1, 2019, in the amount of $82,000, was incorrectly coded to a base pay account when it should have been coded as "other" because the amount was a severance payment paid due to a separation. This error was corrected in a Supplemental Response to Public Counsel Data Request 52 on January 6, 2020.
[19] Kaiser, Exh. No. ___ (JEK-4). Note, this calculation does not account for changes to allocated costs, which requires significant manual review.

A. No. Cascade's budgeting process for wage increases accounts for factors that both increase and decrease wage-related costs. Importantly, Public Counsel's assumption that employee turnover will necessarily result in reduced costs is incorrect because, while turnover can in some instances reduce costs, it can also increase costs as a higher salary may be necessary to attract a qualified new employee. In addition, because of the highly technical nature of our industry, projected or actual employee turnover can also require replacement personnel to overlap with departing employees in order to ensure adequate training. Cascade continues to believe that the 2020 non-union pro forma adjustment should be tied to actual 2020 wage increases.

Q. Please summarize AWEC's objections and adjustments to the 2020 union and non-union wage increases.

A. AWEC presents two objections to Cascade's proposed 2020 wage increase. First, AWEC argues that it is inappropriate to allocate affiliate wage increases to Cascade because "[t]he actual amount of inter-corporate charges allocated to Cascade is not necessarily dependent on the wage levels of its affiliates," and recommends that all wage escalation associated with Cascade's affiliates should be eliminated.[20] Second, based on the current economic conditions, AWEC recommends capping the 2020 wage increase for both union and non-union employees at 2 percent, which AWEC describes as a proxy for inflation.[21]

Q. Do you agree with AWEC's adjustment removing affiliate wage increases?

[20] Mullins, Exh. BGM-1T at 35, 37.

[21] Mullins, Exh. BGM-1T at 35 ("I recommend that wage escalation for Cascade non-union employees be limited to 2% in 2020[.]"); *id.* at 39 ("I also recommend capping the 2020 wage increase for union employees at 2%, which is the approximate rate of inflation.").

A. No. Wage increases at Cascade's affiliates necessarily increase the cost of affiliate employee time that is allocated to Cascade. Wage increases at Cascade's affiliates follow the same total rewards philosophy and wages are determined in the same manner as at Cascade. Therefore, it is appropriate to maintain the same allocation level for these increased costs.

Q. Do you agree with AWEC's adjustment capping 2020 wage increases?

A. No. Failing to increase wages would place Cascade at an increasing competitive disadvantage in attracting and retaining employees—particularly given that the third-party compensation review, referenced above, described the Company's median compensation as conservative when compared with our industry competitors. As noted above, the current economic conditions do not reduce Cascade's need for reasonable, market-based wage increases. Indeed, AWEC ignores the fact that the Company's 3 percent wage increase to union employees was the result of collective bargaining, and is a necessary cost of providing service. It is wholly inappropriate to deny recovery of such a known and measurable wage increase. Finally, it would be unfair to limit union employees to an inflation-based increase, when the evidence demonstrates that bargained-for wage increases were in fact higher.

Cascade continues to support an adjustment for 2020 compensation using actual 2020 wage increases of 3 percent for union and 3.55 percent for non-union employees.

B. 2021 Wages Pro Forma Adjustments

Q. Please explain the basis for the Company's proposed pro forma adjustment for 2021 wages, as originally presented in this case.

A. Cascade originally proposed including 2021 wage increases of 3 percent for union and 4 percent for non-union employees. These amounts reflected the Company's budget for 2021 wages.

Q. Has Cascade since updated its anticipated 2021 wage increases?

A. Yes. As noted above, Cascade has finalized its non-union wage increases for 2021, which will consist of a 3.5 percent budgeted increase—0.5 percent of which is held back for mid-year increases. Therefore, Cascade has reduced its pro forma adjustment for 2021 non-union wages to 3 percent, as this amount is known and measurable.

In addition, Cascade has agreed to withdraw its anticipated 2021 union wage increase. While some negotiated wage increase is certainly expected, the final amount is not yet measurable and therefore has been excluded from the Company's revenue requirement request.

Q. Is the Company's 2021 wage increase subject to decrease?

A. No. While the Company's 2021 wages may increase, they will not decrease. Each year, non-union wages are set in December for the following year, meaning that the initial 3.0 percent non-union wage increase for 2021 has already been incorporated into employee paychecks. While this amount will likely increase as the additional 0.5 percent held back for mid-year review is allocated, Cascade accepts the need to restrict pro forma adjustments to items that are known and measurable when rates take effect—which will be prior to the mid-year review process.

Q. Have any parties objected to including 2021 wage increases as a pro forma adjustment?

A. Yes. Staff, Public Counsel, and AWEC oppose including 2021 wage increases in the Company's pro forma adjustment. In part, and as noted above, these parties point to the broader economic conditions as a basis not to include 2021 wage increases in rates.[22] Public Counsel also states that 2021 wage increases constitute "piecemeal or single-issue ratemaking."[23] As a result, Staff, Public Counsel, and AWEC propose eliminating all wage escalation for 2021.

Q. Do you agree that it is appropriate to remove 2021 wage increases entirely?

A. No. As noted above, the Company remains obligated to continue providing safe and reliable service to customers, which continues to require the same high-quality employee support as in other years. The need to account for known and measurable cost increases is no different in 2021 than for 2020. Moreover, far from "aggressively" increasing wages, as Staff describes,[24] Cascade is simply attempting to provide competitive levels of compensation to its employees. Cascade's recommended salary increases for 2021 are in line with a recent third-party survey, which indicates that 2021 salaries are expected to [redacted]. The survey was conducted by Willis Towers Watson and an excerpt is provided as Confidential Exhibit No. ___ (JEK-5C).

Q. Do you agree with Public Counsel that the Company's proposed pro forma adjustment providing for 2021 wage increases constitutes single-issue ratemaking?

[22] Huang, Exh. JH-1T at 8; Mullins, Exh. BGM-1T at 39.
[23] Garrett, Exh. MEG-1T at 12-13.
[24] Huang, Exh. JH-1T at 8.

A. No. While Public Counsel is correct that this Commission continues to rely on a historical test year in setting rates, my understanding is that the Commission has also identified policies and procedures for updating those components of the Company's costs that can be known and measurable. Here, Cascade has identified those wage increases that are firm and verifiable, allowing the Commission to reasonably account for known and measurable salary increases and provide an opportunity to recover the Company's prudently incurred costs. These pro forma adjustments are an appropriate part of the Commission's comprehensive ratemaking process as they better match the Company's actual anticipated costs when rates are in effect.

V. INCENTIVE COMPENSATION

Q. Please provide an overview of Cascade's incentive compensation plan.

A. All employees of the companies within the MDU Utilities Group—which includes Cascade, Montana-Dakota, Great Plains Natural Gas Co., and Intermountain Gas Company—are covered by the same Employee Incentive Compensation Plan ("Plan").[25] The Plan is available to all non-bargaining-unit employees who are classified as regular full- or part-time employees, and is structured to provide incentive compensation to employees performing satisfactorily across multiple measures. These measures include individual job performance, managing costs, providing excellent customer service, and ensuring secure cyber operations. After total payout under the Plan is determined for each year, employees are awarded a portion based on three separate performance goals: Operations and Maintenance ("O&M") Expense,

[25] Garrett, Exh. MEG-19C.

Operational/Customer Service, and Cyber Security. Total available payout is determined based on the Company's achievement of financial performance goals, with the percentage of target incentive compensation ranging from 0 to 150 percent of the target for the majority of employees, depending on achievement of those goals. Therefore, while the total amount of incentive compensation available to be spent depends on the Company's financial performance, the amount actually paid depends on the extent to which the three performance goals are achieved. A copy of the 2019 Employee Incentive Plan was attached as Exhibit MEG-19C.

Q. Please describe the rationale for each of the three performance goals.

A. First, the O&M expense goal is designed to encourage employees to proactively seek efficiencies and manage costs. This goal accounts for 40 percent of the Plan's payout. Second, the Operational goal is tied to customer satisfaction, including direct customer interactions and support services. This goal accounts for 40 percent of the Plan's payout. Third, the Cyber Security Goal is split into two sections, dedicated to reducing the phishing click rate and completing assigned trainings on cybersecurity-related issues. This goal accounts for 20 percent of the Plan's payout (with each of the two sections comprising 10 percent of this goal).

Q. What amount of incentive compensation was included in the Company's 2019 Test Year revenue requirement in this case?

A. As revised in response to Public Counsel Data Request 43, Cascade's Test Year incentive compensation (not including executive incentive pay) was $1,727,638.[26]

[26] Garrett, Exh. MEG-1T at 19.

Q. Does any party propose adjustments to this expense item?

A. Yes. Public Counsel and AWEC each propose adjustments related to incentive compensation.

Q. Please summarize Public Counsel's adjustment and rationale.

A. Public Counsel proposes a $625,669 "normalization" adjustment to reduce the Company's 2019 incentive compensation expense to approximately the 5-year average between 2014 and 2018. Public Counsel notes that the Company's actual 2019 incentive compensation expenses were significantly higher than the amounts awarded in prior years, and that the average incentive compensation during this period is comparable to the Company's target short-term incentive compensation for 2019—which was $1,101,969. Therefore, Public Counsel proposes using the Company's target incentive compensation for purposes of the Test Year revenue requirement.[27]

Q. Does Cascade support Public Counsel's proposed adjustment?

A. No. As I note above, the amount of incentive compensation awarded in 2019 reflects superior performance on three measures—all of which are tied to achieving customer benefits. Indeed, a major factor in the amount of incentive compensation paid is employees' ability to successfully control O&M costs. Cascade believes that it is appropriate to use the Test Year "snapshot" for this expense as accurately reflecting the Company's actual costs.

In the alternative, if the Commission is inclined to normalize incentive compensation, Cascade would propose using a three-year rolling average. This

[27] Garrett, Exh. MEG-1T at 19.

approach minimizes the impact of inflation and better reflects the Company's recently incurred costs.

Q. Please summarize AWEC's adjustment and rationale.

A. AWEC recommends removing the cost of incentive compensation that is allocated from affiliates because: (1) Cascade has been unable to demonstrate that these "bonuses" benefit Washington customers; and (2) the Commission has no jurisdiction over affiliate employees. On these bases, AWEC proposes a downward adjustment of $784,983 to remove affiliate incentive compensation, "after consideration of revenue sensitive costs."[28]

Q. Do you agree with AWEC's proposed adjustment?

A. No. As an initial matter, AWEC inappropriately refers to incentive compensation as "bonus payments."[29] My understanding is that this Commission has previously recognized that incentive compensation is not a bonus, but is a portion of reasonable compensation placed at-risk to motivate superior employee performance.[30]

Nor are AWEC's specific concerns regarding the allocation of affiliate incentive compensation justified. As explained above, affiliate incentive compensation is paid out under the same Plan used for all MDU Utilities Group companies. To be clear, Cascade customers benefit from the allocation of labor from affiliates in the form of significant synergies, such as a reduction in the number of operations management

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[28] Mullins, Exh. BGM-1T at 36.

[29] Mullins, Exh. BGM-1T at 36.

[30] *Washington Utilities & Transportation Commission v. PacifiCorp dba Pacific Power & Light Co.*, Docket UE-100749, Order 06 at ¶ 248 (Mar. 25, 2011) ("By its very definition, incentive compensation is not a bonus or a level of pay in excess of the maximum compensation for a position. It is simply motivation for an employee to strive for the total compensation for his or her position by achieving certain individual and group goals.").

positions required in various centralized functions (e.g., measurement, corrosion, engineering), as well as the skill and oversight of the corporate parent. Certainly, to the extent that baseline compensation paid to affiliate employees is recoverable in rates, then pay-at-risk—an integral part of market-level compensation—should be recoverable as well.

Finally, AWEC's argument concerning this Commission's jurisdiction is simply baseless. While I am not a lawyer, my understanding is that RCW 80.16.030 specifically provides that "payment or compensation" made to affiliates may be recoverable in rates if the amounts are "reasonable." Indeed, the Commission has repeatedly recognized that affiliate costs and compensation may be appropriately allocated to the regulated entity, where those amounts are reasonable.[31]

Q. Does this conclude your Rebuttal Testimony?

A. Yes.

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[31] *Washington Utilities & Transportation Commission v. Waste Control, Inc.*, Docket TG-140560, Order 13 ¶ 19 (Aug. 6, 2015) (stating "[i]t is reasonable to use measures of each affiliates' total number of employees, total revenues, and total assets to develop an allocation factor that . . . reasonably approximates the demands each affiliate places on any shared facilities"); *see also In the Matter of the Application of Avista Corporation dba Avista Utilities for an Order Approving a Corporate Reorganization to Create a Holding Company, AVA Formation Corp.*, Docket UE-060273, Order 03 ¶ 11 (Feb. 28, 2007) (allowing for recovery of affiliate transaction costs where the Commission was able "to ensure that the allocations are reasonable and prudent").