

BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

CASCADE NATURAL GAS
CORPORATION,

Respondent.

DOCKET UG-21_____

CASCADE NATURAL GAS CORPORATION

DIRECT TESTIMONY OF JAMES E. KAISER

September 30, 2021

TABLE OF CONTENTS

I.	INTRODUCTION	1
II.	SCOPE AND SUMMARY OF TESTIMONY	2
III.	CASCADE’S COMPENSATION PHILOSOPHY	3
IV.	BASE PAY	8
V.	INCENTIVE COMPENSATION	11
VI.	CONCLUSION.....	12

LIST OF EXHIBITS

1. Exh. JEK-2C 2018 Pearl Meyer Market Review Report
2. Exh. JEK-3C Exhibits from 2018 and 2021 Collective Bargaining Agreements
3. Exh. JEK-4 Memorandum regarding 2021 non-union employee increases
4. Exh. JEK-5C Excerpt from Empsight 2021 Policies, Practices & Merit Survey

I. INTRODUCTION

1 **Q. Please state your name and business address.**

2 A. My name is James E. Kaiser. My business address is 400 N. Fourth St. Bismarck, ND
3 58501.

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

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

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

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

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

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

18 **Q. What are your educational and professional qualifications?**

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

1 since 2013, before which I served as Manager of Human Resources. I have a
2 Bachelor's degree in Business Administration with an emphasis in Human Resources
3 from the University of North Dakota. I have been certified as a Senior Human
4 Resource Professional since 1992, and by the Society for Human Resource
5 Management as a Senior Certified Professional since 2015.

II. SCOPE AND SUMMARY OF TESTIMONY

6 **Q. What is the purpose of your Direct Testimony?**

7 A. My Direct Testimony explains the Company's process for setting total compensation
8 for its employees, including both base pay and incentive compensation (or "pay-at-
9 risk"). In addition, I will support the Company's proposed restating adjustment of
10 2020 wages for union employees, as well as the Company's proposed pro forma
11 adjustment of 2021 wage increases for union and non-union employees, as presented
12 in the direct testimony of Company witness Maryalice Gresham, Exh. MCG-1T.
13 Finally, I will support the Company's proposed restating adjustment for 2020
14 incentive compensation as presented in Exh. MCG-1T.

15 **Q. Please summarize your testimony.**

16 A. In my testimony, I describe the elements of Cascade's pay philosophy, including pay
17 and benefits compensation, and I explain the steps Cascade has taken to control wage
18 and benefit costs while competing for skilled employees in a challenging labor
19 market. As stated above, I will also support the increases in revenue requirement
20 resulting from the proposed restating adjustment of 2020 wages for union employees,

1 the proposed pro forma adjustment for 2021 union and non-union wage increases, and
2 the proposed restating adjustment for 2020 incentive compensation.

3 **Q. Are you sponsoring any exhibits in this proceeding?**

4 A. Yes. I am sponsoring the following exhibits, which will be described later in my
5 testimony:

6 Exh. JEK-2C 2018 Pearl Meyer Market Review Report

7 Exh. JEK-3C Exhibits from 2018 and 2021 Collective Bargaining Agreements

8 Exh. JEK-4 Memorandum regarding 2021 non-union employee increases

9 Exh. JEK-5C Excerpt from Empsight 2021 Policies, Practices & Merit Survey

III. CASCADE'S COMPENSATION PHILOSOPHY

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

12 A. Cascade's approach to employee compensation is designed to minimize costs while
13 allowing the Company to attract and retain the qualified employees necessary to
14 deliver safe and reliable service to customers. In doing this, the Company applies
15 three basic principles:

16 *First*, Cascade has adopted a Total Rewards philosophy, which provides
17 Company employees with a Total Rewards package. The Total Rewards package
18 includes both total cash compensation and benefits. For non-union employees, the
19 two key components of total cash compensation are base pay and incentive
20 compensation.¹

¹ Union employees do not receive incentive compensation.

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

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

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

16 A. When market pricing a position within the organization, the Company obtains
17 industry salary data from a variety of sources, including the American Gas
18 Association, Mercer, EAP Data Information Solutions, Empsight, World at Work,
19 and Kenexa Compensation Analyst, among others. Cascade then analyzes the median
20 base pay and target incentive compensation data to determine a market average.

21 **Q. How does the Company allocate base compensation increases?**

22 A. Cascade allocates a share of its annual salary budget for merit-based compensation
23 increases. Managers and supervisors are provided guidelines and are responsible for

1 allocating this budget accordingly. These guidelines account for merit-based increases
2 tied to specific performance appraisals, pay equity concerns, and other factors. For
3 instance, certain positions that are particularly challenging to fill and may face
4 employee retention concerns could be considered for a higher wage increase.

5 In November 2020, the Vice President of Human Resources published the
6 guidelines for the utility officers to follow in allocating 2021 pay increases for non-
7 bargained employees. These guidelines are provided as Exh. JEK-4.

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

10 A. In addition to the internal market review described above, approximately every five
11 years the Company contracts with an outside independent consultant to review
12 compensation programs and practices. In 2018 the Company contracted with Pearl
13 Meyer to provide a third-party review of base and incentive compensation. This
14 independent review is scheduled to be done again in 2023 to assure that reasonable
15 and appropriate compensation packages are available to attract and retain quality
16 employees, who in turn allow Cascade to continue to provide safe and reliable service
17 to its customers.

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

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

22 However, Pearl Meyer noted that Cascade's compensation targets remain
23 conservative and generally lag behind median market levels. Similarly, Pearl Meyer

1 found that employees' eligibility for incentive pay is consistent with other utilities,
2 but that the incentive compensation opportunity is lower than competitive market
3 levels.² The report that Pearl Meyer prepared in 2018 is included as Exh. JEK-2C.

4 **Q. Please explain how Company management determined Cascade's 2021 non-union**
5 **compensation.**

6 A. In the second quarter of each year, as part of the normal budget cycle, the Company
7 creates a budget for non-union employee pay increases. MDUR's Vice President of
8 Human Resources provides a recommendation, which requires approval by the
9 President and CEOs of the business units for the next calendar year. The Company-
10 approved salary budget considers competitive pay, economics, and industry-specific
11 salary budget projections. The salary budget recommendation is presented as an all-
12 inclusive percentage considering all pay adjustments for the year, such as pay for
13 performance merit increases, equity and competitive pay adjustments, salary
14 recovery, and promotions.

15 As stated above, in November 2020, the Vice President of Human Resources
16 published guidelines for the utility officers to follow in allocating 2021 pay increases
17 for non-bargained employees. The guidelines provided managers a three percent
18 merit-based wage increase budget and up to one half of one percent to be used at their
19 discretion during 2021 to address pay equity, wage compression, and promotions. If
20 managers go over three percent in the first half of the year, their mid-year increase
21 budget of 0.50 percent referenced in the guidelines is reduced by that amount.

² See Kaiser, Exh. JEK-2C at 5.

1 Cascade President, Nicole Kivisto, approved 2021 salary recommendations submitted
2 by officers for non-bargained employees effective on December 21, 2020, which
3 totaled, 3.31 percent, as shown on page six of Exh. JEK-4.

4 **Q. Please explain how the Company determined Cascade's union compensation.**

5 A. For union employees, hourly pay rates and total compensation make up one portion of
6 the collective bargaining agreement. Following negotiations, Cascade and the
7 International Chemical Workers Union reached a new three-year agreement in
8 April 2021. A three percent wage increase for union employees became effective on
9 May 10, 2021. A \$150 sign-on bonus was also provided to all union employees in
10 lieu of calculating back pay for the period between April 1, 2021, and May 10, 2021,
11 the period from when the agreement was executed until it became effective. Wage
12 schedules listing the 2020 and 2021 wage increases are provided in Exh. JEK-3C.

13 **Q. Has COVID-19 impacted the Company's compensation approach for 2020 and**
14 **2021?**

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

22 In 2021, the Company responded to the economic impacts of COVID-19 by
23 reducing the salary budget planned for 2021 by one-half percent.

IV. BASE PAY

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

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

4 • Restate Wages Adjustment (R-4): This adjustment annualizes the test year
5 wages for the 3.0 percent increase approved for union employees on April 1,
6 2020. The test year only includes the impact of nine months of the April 1,
7 2020 increase. Therefore, this adjustment is necessary to reflect the full year
8 impact of the union contract. This adjustment reduces net operating income by
9 \$59,453.³

10 • Pro Forma Wage Adjustment (P-3): This adjustment shows the impact of the
11 2021 actual wage increases for union and non-union employees. The 2021
12 union increase is 3 percent, and the 2021 non-union increase is 3.31 percent.
13 Included in the 2021 non-union wage increase are increases associated with
14 MDU utilities group and MDU Resources employees that are allocated to
15 Cascade rather than directly assigned. The result is a decrease in net income of
16 \$605,074.⁴

17 **Q. Please explain the basis for the Company's proposed base pay pro forma**
18 **adjustment.**

19 A. The proposed pro forma adjustment for union wage increases are the result of a new
20 three-year collective bargaining agreement between Cascade and the International

³ Direct Testimony of Maryalice C. Gresham, Exh. MCG-1T at 6.

⁴ Exh. MCG-1T at 7.

1 Chemical Workers. This agreement was ratified in April 2021 and it secures a 3
2 percent wage increase for union employees, effective on May 10, 2021. See
3 Exh. JEK-3C for the list of wage increases.

4 Regarding the proposed pro forma adjustment for non-union wage increases,
5 each year, non-union wages are set in December for the following year. On December
6 12, 2020, the President and CEO of Cascade approved a 3.31 percent non-union wage
7 increase with an effective date of December 21, 2020. These pay increases were
8 entered into the payroll system and have been incorporated into employees' 2021
9 paychecks.

10 Cascade's salary increases for 2021 are reasonable and in line with the
11 market, as supported by a recent third-party survey. This labor survey indicates that
12 average 2021 general industry merit salary increases were expected to increase by
13 approximately 3.0 percent over 2020 salaries and an additional 0.50 percent for
14 promotional increases. The survey was conducted by Empsight and an excerpt is
15 provided as Exh. JEK-5C.

16 **Q. Has Cascade accounted for potential offsetting costs as part of its 2021 pro forma**
17 **wage adjustment?**

18 A. Yes. Cascade's budgeting process for wage increases is a comprehensive process that
19 accounts for factors that both increase and decrease wage-related costs. For example,
20 managers are instructed to account for employees who are ineligible for pay increases
21 due to a recent promotion, being a new hire, or having received another form of pay
22 adjustment. Employees promoted or hired after July 1, 2021 are ineligible for a 2021
23 year-end increase, and employees receiving marginal or unacceptable performance

1 scores are not eligible for pay increases. Further, salary recovery through attrition
2 offsets costs for the wage adjustment.

3 **Q. Please explain why it is appropriate to allocate affiliate wage increases to Cascade.**

4 A Wage increases at Cascade’s affiliates necessarily increase the cost of affiliate
5 employee time that is allocated to Cascade. Wage increases at Cascade’s affiliates
6 follow the same total rewards philosophy and wages are determined in the same
7 manner as at Cascade. Therefore, it is appropriate to maintain the same allocation
8 level for these increased costs.

9 **Q. Does the Company anticipate updating its proposed pro forma adjustments**
10 **during this proceeding to include any estimated 2022 wage increases?**

11 A. No. The Company does not expect to propose any updates in this limited-issue
12 proceeding. Accordingly, the Company’s pro forma wage adjustments include only
13 known and measurable increases that have been management-approved and are
14 already incorporated into the payroll system and reflected in bi-weekly paychecks.

15 **Q. How has the COVID-19 pandemic affected Cascade’s decision to apply wage**
16 **increases?**

17 A. Cascade takes very seriously the impact a rate increase has on its customers, and the
18 Company considered the economic conditions created by the COVID-19 pandemic
19 before applying the wage increases described in this proceeding.

20 COVID-19 has not decreased Cascade’s need to retain and attract qualified
21 personnel. Cascade provides an essential service to its customers, and has therefore
22 needed to maintain its high-quality, safe, and reliable service despite the broader
23 economic circumstances—an effort that requires retention of highly qualified

1 employees who are critical infrastructure workers that Cascade has made a significant
2 investment into training. Please see the Direct Testimony of Company witness Nicole
3 Kivisto, Exh. NAK-1T, for more information about steps Cascade has taken to
4 mitigate the financial impacts of COVID-19.

5 Cascade is confident that the wage increases are the minimum necessary to
6 maintain a highly qualified workforce to ensure a safe and reliable gas system.

V. INCENTIVE COMPENSATION

7 **Q. Please provide an overview of Cascade’s incentive compensation plan.**

8 A. All employees of the companies within the MDU Utilities Group—which includes
9 Cascade, Montana-Dakota, Great Plains Natural Gas Co., and Intermountain Gas
10 Company—are covered by the same Employee Incentive Compensation Plan
11 (“Plan”). The Plan is available to all non-bargaining-unit employees who are
12 classified as regular full- or part-time employees, and it is structured to provide
13 incentive compensation to employees performing satisfactorily across multiple
14 measures. These measures include individual job performance, managing costs,
15 providing excellent customer service, and ensuring secure cyber operations. After
16 total payout under the Plan is determined for each year, employees are awarded a
17 portion based on three separate performance goals: Operations and Maintenance
18 (“O&M”) Expense, Operational/Customer Service, and Cyber Security. Total
19 available payout is determined based on the Company’s achievement of financial
20 performance goals, with the percentage of target incentive compensation ranging
21 from 0 to 150 percent of the target for the majority of employees, depending on

1 achievement of those goals. Therefore, while the total amount of incentive
2 compensation available to be spent depends on the Company's financial performance,
3 the amount actually paid depends on the extent to which the three performance goals
4 are achieved.

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

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

14 **Q. How did the Company account for incentive compensation in this case?**

15 A. Cascade applied a five-year rolling average to normalize non-executive incentive
16 compensation pursuant to the methodology approved in Order 05 of Docket UG-
17 200568. Cascade is not seeking recovery for Executive Incentive Compensation.

VI. CONCLUSION

18 **Q. How does Cascade's compensation benefit customers?**

19 A. As stated above, Cascade's base compensation benefits customers by effectively
20 balancing the need to compensate employees fairly and competitively to assure

1 retention of a highly trained workforce required to provide safe and reliable service to
2 customers.

3 With regard to incentive compensation, Cascade's incentive compensation
4 plan benefits customers by creating incentives for employees that reflect key
5 objectives and goals of the Company, including safety, reliability, operational
6 efficiency, and a high quality customer experience. These goals are directly aligned to
7 benefit customers and improve customer service. Also, using incentive compensation
8 as a component of total cash compensation lowers fixed costs in the form of base pay.
9 Finally, having a reasonable balance of base pay and incentive (at-risk) pay helps the
10 Company remain competitive in the labor market while focusing employees on
11 metrics that benefit customers and still control costs.

12 **Q. Does this conclude your testimony?**

13 A. Yes.