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Attorneys for Intermountain Gas Company

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF INTERMOUNTAIN GAS COMPANY FOR AUTHORITY TO INCREASE ITS RATES AND CHARGES FOR NATURAL GAS SERVICE IN THE STATE OF IDAHO	)	**CASE NO. INT-G-22-07**

DIRECT TESTIMONY OF KIRSTI HOURIGAN

FOR INTERMOUNTAIN GAS COMPANY

December 1, 2022

Q. Please state your name and business address.

A. My name is Kirsti Hourigan, and my business address is 400 North 4th Street, Bismarck, ND 58506.

Q. Please describe your involvement in this proceeding.

A. I am the Human Resources Director responsible for the day-to-day human resource operations of the utility companies owned by MDU Resources Group, Inc. ("MDU Utilities Group"), including Intermountain Gas Company ("Intermountain" or "Company"). I work closely with the Human Resources Department at MDU Utilities Group with respect to employee compensation philosophy, benefit programs, and other corporate-wide programs and am responsible for implementation of that philosophy and those programs.

Q. Please describe your educational background and professional experiences.

A. I graduated from Cornell University in 1995 with a Bachelor of Science degree in Industrial and Labor Relations. In 2000 I graduated from Wake Forest University School of Law with a Juris Doctor degree, emphasizing labor and employment law. I have been licensed to practice law in the state of North Dakota since 2000.

I worked as an attorney in private practice in Fargo, North Dakota from 2000-2007. In 2007 I joined MDU Resources Group, Inc., and between 2007 and 2020 I was an attorney in the legal department focused on labor and employee relations, employee benefits, corporate compliance, uninsured litigation, and finance matters. During this time, I worked closely with the Human Resources Department of the MDU Utility Group to ensure compliance with federal and state law, as well as promoting the Company's culture of being an employer of choice. In 2020 I transferred from the legal department to my current position as Human Resources Director.

Q. Please describe your duties and responsibilities with the Company.

A. I oversee and develop strategy for implementation of all human resources functions for the Utility Group. These functions include the compensation philosophy outlined in the MDU Total Rewards Philosophy (including base pay and incentive pay), employee benefit offerings, and company culture.

Q. What is the purpose of your testimony?

A. My testimony explains the following: (1) the Company's Total Rewards Philosophy for its employees, including both base pay and incentive compensation; (2) the MDU medical plans available to employees and the premiums paid by the employee and Company for each plan; (3) the reorganization of functions and personnel undertaken in 2018 to comply with newly enacted industry rules and regulations while simultaneously increasing the efficiency of operations throughout the Company; (4) the increase in wages and benefits since the Company's last general rate case; and (5) test year and pro forma adjustments for salaries for both bargained and non-bargained employees for 2022 and 2023.

Q. Please describe the Total Rewards Philosophy and general approach to managing employees' total compensation.

A. The Company's approach to employee compensation is designed to minimize costs while allowing it to attract and retain the qualified employees necessary to deliver safe and reliable service to its customers. To do this, the Company applies three basic principles:

First, the Company has adopted a Total Rewards philosophy, which provides employees with a Total Rewards package. The Total Rewards package includes both total cash compensation and benefits. For non-bargained employees, the two key components of total cash compensation are base pay and incentive compensation. Intermountain's bargained employees do not receive incentive compensation.

Second, the Company 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. However, the Company has found the market for employees with the skills and experience required is very competitive in the industry, and therefore Intermountain must provide the same general pay levels and benefits as are included in the packages provided by the Company's competitors for labor.

Third, the Company believes that a certain percentage of each non-bargained employee's market compensation should be "at-risk" to encourage employee engagement and reward employees for their role in effectively operating the business. Accordingly, employees have the opportunity to receive total cash compensation at the market average under the MDU Utility Group incentive plan. However, that 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 for the base pay and pay-at-risk components of total cash compensation.

A. The Company researches and obtains industry salary data when market pricing individual positions. This data comes from many sources, including the American Gas Association, Mercer, EAP Data Information Solutions, Empsight, World at Work, Willis Towers

Watson, and Kenexa Compensation Analyst, among others. Specifically, the Company analyzes the median base pay and target incentive compensation from these sources to determine an appropriate market wage.

Q. How does the Company determine annual base pay increases?

A. The Company allocates a share of its annual salary budget for merit-based compensation increases. Managers and supervisors are provided guidelines by Human Resources for how to allocate individual employee salary increases, taking into consideration performance appraisals, pay equity, retention concerns and other factors. Each November, the Company's Vice President of Human Resources publishes guidelines for the MDU Utility Group to follow in allocating the following year's pay increases for non-bargained employees. Managers and supervisors are responsible for allocating this budget in accordance with the guidelines.

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

A. In addition to the internal market review described above, approximately once every five years the Company retains an outside independent consultant to review its compensation practices and programs. In 2022 the Company contracted with Mercer to conduct a robust competitive market study on multiple aspects of the Company's compensation program. This review assures that reasonable and appropriate compensation packages are implemented to attract and retain quality employees, who in turn allow the Company to continue providing safe and reliable service to its customers.

The Company's pay philosophy is to pay employees at the 50th percentile for base salary and total cash compensation, but Mercer's study found the Company is positioned between the 25th and 50th percentiles. Mercer also found that the Company's pay levels are within a competitive market range of +/- 10% for base salary and +/- 15% for total cash compensation.

The Company is continuing to analyze options to position a more favorable compensation package to current and potential employees, as the talent market continues to be very competitive, and extremely competitive for certain positions.

Q. Please explain how the Company determined Intermountain's 2022 non-bargained compensation.

A. In the second quarter of each year, the Company creates a budget for non-bargained employee pay increases. MDUR's Vice President of Human Resources provides a recommendation for the subsequent calendar year, subject to approval by the President and CEO of each business unit. This salary budget recommendation considers competitive pay, economics, and industry-specific salary budget projections. The recommendation is presented as an all-inclusive percentage that includes merit increases for performance, equity and competitive pay adjustments, and promotions.

In November of 2021, the Vice President of Human Resources published guidelines for the Company's officers to follow in allocating 2022 pay increases for non-bargained employees. The guidelines provided managers a 3% merit-based wage increase budget plus an additional 1.5% to be used during 2022 to address pay equity, wage compression, and promotions through a mid-year salary increase process. Managers who exceed the 3% in the first half of the year, will have the .5% mid-year budget reduced by an equal amount. Company President, Nicole Kivisto, approved 2022 salary recommendations submitted by officers for non-bargained employees effective on December 20, 2021, which resulted in a total increase of approximately 3.8%.

Q. Please explain the rationale for Intermountain's compensation for bargained employees.

A. For bargained employees, hourly pay rates and total compensation make up one portion of the collective bargaining agreement ("CBA"). The Company and the Plumbers and Pipefitters Union's ("Union") current CBA has been effective since November 11, 2019 and will be renegotiated in the first quarter of 2023. On April 11, 2022, the Company and Union executed a Memorandum of Agreement to increase the wages for Temporary Summer Help from $11.50/hour to $15.00/hour; this wage increase was necessary to attract qualified individuals to accept these temporary positions. While annual wage increases are normally within the range of 2.5% to 3.5%, the cost of labor has increased slightly during 2021 and 2022 for individuals with the skills utilized in bargained roles.

Q. Does Intermountain propose to include allocated wage increases from affiliate companies to Intermountain's overall wage expenses?

A. Yes. Since 2018, the Company has been consolidating functions within its three utility companies to become more efficient at providing safe, reliable and cost-effective service to customers. This consolidation resulted in many positions transferring from Intermountain's headcount to an affiliate's headcount. A percentage of these positions continue to service Intermountain's business either directly or indirectly through activities that simultaneously benefit Intermountain and the other utilities.

Q. Has the consolidation of operation functions with affiliate companies resulted in a decrease in headcount at Intermountain?

A. No. The headcount at Intermountain has remained relatively consistent over the last five years despite the fact that some roles were transferred from Intermountain's headcount to an affiliate's headcount. The reason for this consistency is that a number of roles have been added to Intermountain's headcount that didn't exist five years ago. Examples of these new roles include field positions to service areas with significant customer growth, environmental positions, and positions to ensure regulatory compliance and pipeline safety.

Q. Please explain why it is appropriate to allocate wage increases from affiliate companies to Intermountain.

A. Wage increases at Intermountain's affiliates follow the same total rewards philosophy as Intermountain, and wages for Intermountain and its affiliates are determined in the same manner. Wage increases for employees at affiliates of Intermountain who have a portion of their time allocated to Intermountain increase the total cost of said time that is allocated to Intermountain. As such it is appropriate to allocate a percentage of those increased costs to Intermountain.

Q. Did Intermountain's affiliate companies experience labor market price increases in 2021 and 2022?

A. Yes. MDU has experienced labor market increases across its service territory in 2021 and 2022.

Q. Please describe the Company's medical plan benefits for its employees.

A. All Utility Group companies utilize the same medical plan package. This package includes a health savings account ("HSA") coupled with a choice of two high-deductible medical plans, a company contribution to employees' HSA accounts, dental insurance, vision insurance, supplemental life and AD&D insurance, flexible spending plans, and more.

All Utility Group companies pay the same percentage of the premium for their employees' medical, dental, and vision insurance premiums, and provide their employees with the same contributions to the employees' HSA accounts.

Q. Please describe the Company's retirement plan benefits for its employees.

A. All Utility Group companies utilize the same retirement plan package for its non-bargained employees. This package includes a 401(k) plan with employer match equal to 50% of an employee's salary deferrals with the maximum match being 3% of an employee's salary. Additionally, non-bargained employees receive an annual contribution to their 401(k) accounts equal to 5% of their salary.

Bargained employees at Intermountain do not receive an employer match to their 401(k) accounts. However, they do receive monthly contributions to a multi-employer pension plan associated with their local union. These monthly contributions have been increasing based on the total number of employee hours worked per month and the contribution rate negotiated between Intermountain and the union.

Q. Please describe the Company's incentive pay plan for its employees.

A. All Utility Group companies utilize the same Employee Incentive Compensation Plan ("Plan"). The Plan is available to all non-bargained employees who are classified as full-time or part-time employees and is structured to provide incentive compensation to those employees with satisfactory performance.

A payout under the Plan is provided when the Company meets pre-established financial targets and operational goals, with the percentage of target incentive compensation ranging from 0%-150% of that target for most employees. If the Company meets the initial financial target, then the payout is further increased or decreased depending upon the Company's performance with respect to Operations and Maintenance Expense, Operational/Customer Service, and Cyber Security goals. If the initial financial target is not met, then no payouts will be made to any employees.

Q. How does the Plan benefit the Company's customers?

A. The Operations and Maintenance Expense factor encourages employees to proactively seek efficiencies and manage costs. This factor accounts for 40% of the Plan's total payout. Another 40% of the payout is determined by the Company's performance with respect to customer satisfaction (including direct activities and support services). The final 20% of the total payout is determined by the Company's overall phishing click rate and each employee's individual completion of assigned cyber-security training; each sub-category accounts for 10% of each employee's payout. These elements to the Plan benefit customers by incentivizing employees to improve efficiencies, manage costs, provide high-quality customer service, and maintain the security of customer information.

Q. Has the COVID-19 pandemic affected Intermountain's decision to apply wage increases?

A. Intermountain takes the impact of a rate increase on its customers very seriously and has considered the economic conditions created by the COVID-19 pandemic before submitting the wage increases described in this proceeding. However, the pandemic has not decreased the Company's need to attract and retain qualified individuals. The Company provides an essential service to its customers, and must maintain high-quality, safe, and reliable service to its customers regardless of the economics existing in the industry or labor market. The Company continues its goal to attract and retain highly-qualified employees despite the current economic conditions, and continues to significantly invest in their training and development. The wage increases submitted in this proceeding are the minimum amount necessary to maintain a highly-qualified workforce that can ensure a safe and reliable gas system.

Q. How has the current labor market impacted the Company's goal to hire qualified employees?

A. Similar to other organizations in the country, the current labor market has provided challenges for the Company to hire qualified employees. Due to the COVID-19 pandemic, Intermountain has seen a significant rise in the number of organizations providing telecommuting options for their employees. Intermountain is competing with local organizations for talent and also other employers from other states that attempt to hire employees that live in Idaho with no requirement to relocate. This has forced the Company to create job offers that are higher in the salary range when compared to 2016. Additionally, many more of the qualified applicants who apply for positions with the Company either have competing offers at other companies or receive counter offers at their current employer. Finally, the Company has experienced a significant increase in sign-on bonuses and additional vacation offered by competitor companies to successful applicants, which has caused Intermountain to increase the frequency and dollar amount of bonuses and vacation it offers to new hires, including some bargained positions, to remain competitive in the market.

Q. Please explain the Company's increased costs to provide its total compensation and benefits package to its employees since its last general rate case in 2016?

A. The cost of the Company's total cash compensation package that it provides to employees has increased approximately 4.5% each year since 2016. This number includes approximately 3.5% for annual merit increases plus 1% for additions to total headcount. There are many reasons for this increase, including increased headcount in districts with rapidly-growing markets, the provision of temporary COVID-19 benefits, increasing labor market pressures, and positions added to comply with newly-enacted environmental and other industry-specific regulations. Increased costs of wages results in additional increases to the costs of the potential incentive plan payouts and the employer 401(k) matching contributions.

The costs to the Company of its medical plan package has increased approximately 4.2% annually each of the last 5 years, which is less than the national average of approximately 6.5% - 7.5% annually. These costs are the result of a combination of many factors, including new specialty drugs being made available for various conditions that recently had no treatment option and general inflation of medical care in general. The Company has successfully implemented various programs to slow this cost increase, including enacting a high-deductible health care plan with health care savings plan, providing options for video doctor and therapist visits, on-demand on-line therapy options, a program to help employees prevent diabetes and heart disease, and a program for employees with sudden and severe medical conditions to assist them with finding specialists, second opinions and alternative treatment options. The Company has also slowly begun to shift a larger percentage of the increases in the cost of the medical program to employees; for example, in 2022 employees paid approximately 8% of the total premium for medical coverage and in 2023 they will pay approximately 9% of the total premium.

Q. Does the Company account for potential offsetting costs as part of its budgeting process for wage increases?

A. Intermountain's budgeting process for wage increases is a comprehensive process that accounts for factors that both increase and decrease wage-related costs. For example, managers are instructed to account for employees who are ineligible for pay increases because they were recently hired, recently promoted, or received another type of wage adjustment. Moreover, employees who receive a marginal or unacceptable performance score on their annual reviews are ineligible for wage increases the following year. Finally, salary recovery through attrition offsets the costs for wage adjustments.

Q. How does the Company's total cash compensation package benefit customers?

A. The Company's base compensation benefits customers by effectively meeting the need to compensate employees fairly and competitively to assure the retention of a qualified workforce to provide safe and reliable service to all its customers.

Additionally, the Company's incentive compensation plan benefits customers by creating incentives for employees to focus on key objectives, including cybersecurity, operational efficiency, and high-quality customer service. Using incentive compensation as a component of total cash compensation also allows the Company to be competitive in the labor market with lower fixed costs in the form of base pay. Finally, utilizing both base pay and incentive compensation encourages employees to focus on the key metrics that benefit its customers.

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

A. To adjust test year wages for this case, the Company made a pro forma wage adjustment that consists of two components. The first component normalizes the wages of incremental employees that began employment at some point during the test year. The second component calculates the impact of the 2023 wage increases for bargained and non-bargained employees. The bargained employee increase has not been negotiated yet, but the Company is currently including a 3.5% annual increase, which is within the average range of past increases negotiated in the 2019 – 2023 collective bargaining agreement. The non-bargained increase is currently 4.5%, which is the amount approved by Ms. Kivisto in November of 2022. Included in the non-bargained wage increase are increases associated with MDU Utilities Group and MDU Resources employees that are allocated to Intermountain rather than directly assigned. The result of this adjustment is discussed in more detail in the direct testimony of Company witness Mr. Darrington.

Q. Does the Company anticipate updating its proposed pro forma adjustments during this proceeding with respect to the estimated 2023 increases?

A. Yes, as items are approved, finalized and implemented for 2023 salaries, that information will be included in updated pro forma adjustments.

Q. Does this conclude your testimony?

A. Yes, it does.