

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

**IN THE MATTER OF THE APPLICATION)
OF BLACK HILLS NEBRASKA GAS, LLC,)
D/B/A BLACK HILLS ENERGY, RAPID) APPLICATION NO. NG-109
CITY, SOUTH DAKOTA, SEEKING)
APPROVAL OF A GENERAL RATE)
INCREASE)**

REBUTTAL TESTIMONY AND EXHIBITS OF

KRISTI L. JOHNSON

Director of Total Rewards – Human Resources

ON BEHALF OF

BLACK HILLS NEBRASKA GAS, LLC.

October 13, 2020

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Exhibit No. KLJ-1	Statement of Qualifications
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1 **REBUTTAL TESTIMONY OF KRISTI JOHNSON**

2
3 **I. INTRODUCTION**

4 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

5 A. My name is Kristi Johnson. My business address is 7001 Mount Rushmore Road, P.O.
6 Box 1400, Rapid City, SD 57702-8752.

7 **Q. BY WHOM ARE YOU EMPLOYEE AND IN WHAT CAPACITY?**

8 A. I am employed by Black Hills Service Company, LLC. ("BHSC" or "the Company"), d/b/a
9 Black Hills Energy. I am the Director of Total Rewards and Human Resources. BHSC is
10 a wholly owned subsidiary of Black Hills Corporation ("BHC").

11 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

12 A. I am testifying on behalf of Black Hills Nebraska Gas, LLC d/b/a Black Hills Energy ("BH
13 Nebraska Gas"). BH Nebraska Gas is the natural gas utility resulting from the recent
14 consolidation of the Nebraska gas utility assets and operations of BHC's two former
15 Nebraska gas utility distribution subsidiaries, Black Hills/Nebraska Gas Utility Company,
16 LLC. ("BH Gas Utility") and Black Hills Gas Distribution, LLC ("BH Gas Distribution").
17 BH Nebraska Gas is a wholly owned subsidiary of Black Hills Utility Holdings, Inc.
18 ("BHUH"). BHUH is a wholly owned subsidiary of Black Hills Corporation ("BHC").

19 **II. STATEMENT OF QUALIFICATIONS**

20 **Q. WHAT ARE THE DUTIES AND RESPONSIBILITIES IN YOUR CURRENT**
21 **POSITION?**

22 A. I am responsible for the leading and managing the total rewards function and providing
23 direction and leadership for the strategy, design, development, administration and
24 management of all benefit and compensation programs. In addition, I am responsible for

1 the HR regulatory strategy, testimony and execution of data request for all rate reviews.
2 My responsibilities support all employees within the entire BHC organization.

3 **Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES RELATED TO BH NEBRASKA**
4 **GAS OPERATIONS.**

5 A. BH Nebraska Gas and BHSC employees are included within the responsibilities and duties
6 described above.

7 **Q. PLEASE OUTLINE YOUR EDUCATIONAL AND PROFESSIONAL**
8 **BACKGROUND.**

9 A. My education, employment history and professional experience is provided in Exhibit No.
10 KLJ – 1 – Statement of Qualifications.

11 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

12 A. No. However, I have testified on compensation and benefits issues on behalf of Black Hills
13 Colorado Gas, LLC before the Colorado Public Utilities Commission and on behalf of
14 Black Hills Wyoming Gas, LLC before the Wyoming Public Service Commission.

15 **III. PURPOSE OF TESTIMONY**

16 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

17 A. The purpose of my rebuttal testimony is to respond to testimony submitted by Public
18 Advocate witness, Ms. Mullinax, wherein Ms. Mullinax recommends, among other things,
19 that the Commission disallow recovery of a significant portion of the Company's prudently
20 incurred employee payroll expenses, associated required employee payroll taxes, and the
21 legitimate ongoing costs for supplemental executive retirement plan (SERP)¹.

¹ Direct Testimony of Donna H. Mullinax at pages 41-47.

1 Specifically, Ms. Mullinax recommends that the Commission disallow (a) one-third
2 of the Company's Annual Incentive Plan costs in the amount of \$834,353, (b) one-third of
3 the Company's Short Term Incentive Plan costs in the amount of \$243,357, and 100
4 percent of the Company's Long Term Incentive Plan costs in the amount of \$463,989. Ms.
5 Mullinax also recommends disallowing recovery of payroll taxes associated with the
6 employee incentive compensation.

7 In total, Ms. Mullinax recommends an incentive compensation and the associated
8 adjustments to payroll tax to increase jurisdictional operating income, net of income taxes,
9 by \$1,175,696.

10 In addition to the incentive compensation and payroll tax disallowance, Ms.
11 Mullinax also recommends that the Commission disallow recovery of \$401,607 incurred
12 by the Company for SERP payments.

13 Finally, my rebuttal testimony supports the direct testimony of Mr. Amdor on the
14 topics of employee benefit and compensation costs included in the revenue requirement for
15 the Test Year and the compensation-related adjustments that are included in the Company's
16 rate review application.

17 My rebuttal testimony reaffirms that the costs included the BH Nebraska Gas rate
18 review application are representative of the actual costs to provide its employees market-
19 competitive benefit and compensation programs. My testimony recommends that the
20 Commission reject the Public Advocate's incentive compensation, employee incentive
21 compensation payroll tax, and SERP recommendations in their entirety.

22 **Q. ARE YOU SPONSORING ANY EXHIBITS?**

23 **A.** Yes. I am sponsoring the following attachment(s):

Exhibit No. KLJ-1	Statement of Qualifications
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Q. HAVE THE TESTIMONY AND EXHIBITS THAT YOU ARE SPONSORING BEEN PREPARED BY YOU OR UNDER YOUR SUPERVISION?

A. Yes.

IV. EMPLOYEE COMPENSATION

Q. DID BH NEBRASKA GAS PROVIDE EVIDENCE OF THE BENEFIT PLANS THAT BHC PROVIDES TO ITS EMPLOYEES IN ITS DIRECT TESTIMONY?

A. Yes. As Mr. Amdor’s direct testimony demonstrated that BHC offers a combination of company-provided and voluntary benefits to its employees, including employees of BH Nebraska Gas. Employees are enrolled in certain company-provided benefits such as short-term and long-term disability and life insurance. Employees choose to participate in the voluntary benefits and pay a portion or all of the associated costs. These company-provided and voluntary benefit programs consist of: (1) medical, dental, and vision plans; (2) flexible spending accounts and Health Savings Accounts; (3) life insurance and accidental death and dismemberment insurance; (4) paid time off; (5) retirement (for example, 401k); and (6) other benefits including educational assistance, holiday pay, business travel accident insurance, rewards and recognition programs, additional short and long-term disability coverage, employee assistance program, long-term care insurance, and wellness programs.

1 **Q. DID BH NEBRASKA GAS PROVIDE EVIDENCE ON ITS BHC'S GENERAL**
2 **COMPENSATION PHILOSOPHY IN ITS DIRECT TESTIMONY?**

3 A. Yes. Again, Mr. Amdor's direct testimony accurately states that BHC's general
4 compensation program is structured to support operations and customer service and is
5 based on principles designed to:

- 6 • attract, motivate, retain, and encourage personal and professional development of
7 qualified employees;
- 8 • provide compensation that is competitive;
- 9 • promote safe and reliable service;
- 10 • promote the relationship between pay and performance;
- 11 • promote overall performance; and
- 12 • appropriately recognize and reward individual performance.

13 All compensation programs are designed to be strategically aligned, externally
14 competitive, internally equitable, personally motivating, cost effective, and legally
15 compliant. All compensation programs apply to BHC's utility and support operations,
16 including BH Nebraska Gas and BHSC.

17 **Q. DID BH NEBRASKA GAS IDENTIFY THE COMPONENTS OF BHC'S**
18 **COMPENSATION PROGRAM IN ITS DIRECT TESTIMONY?**

19 A. Yes. As presented in Mr. Amdor's direct testimony, the primary components of BHC's
20 overall compensation program are:

21 Base Pay: Base pay represents the fixed portion of an employee's total cash compensation
22 opportunity; and

1 Variable Compensation: Variable compensation is pay that is not fixed or guaranteed.
2 Variable compensation is awarded based on performance or achievement against specific
3 performance-based goals. BHC’s variable compensation programs include Annual
4 Incentive Plan (“AIP”), Short-Term Incentive Plan (“STIP”), Recognition Programs, and
5 Long-Term Incentive Plan (“LTIP”).

6 **Q. WHY ARE AIP, STIP AND LTIP AN IMPORTANT PART OF BHC EMPLOYEE**
7 **COMPENSATION?**

8 A. The AIP and STIP are critical to ensure market competitive total cash compensation to
9 attract, retain and motivate employees. Total cash compensation is composed of base salary
10 and incentive that is market competitive for each position. An employee’s variable
11 compensation potential (AIP or STIP) depends on the achievement of operating and
12 strategic goals that are key to providing safe, reliable service for our customers. LTIP is a
13 component of the Executive level incentive compensation package.

14 **V. TOTAL EMPLOYEE COMPENSATION**

15 **Q. DID BH NEBRASKA GAS PROVIDE EVIDENCE IN ITS DIRECT TESTIMONY**
16 **ON THE ACTUAL ONGOING COSTS OF PAYING ITS EMPLOYEES?**

17 A. Yes. Mr. Amdor’s direct testimony explained annual base pay is intended to reflect the
18 median of the market for similar positions in similar companies. Mr. Amdor noted that
19 there are three pay structures; one for non-exempt positions (eligible for overtime), one for
20 exempt positions (not eligible for overtime), and one for executive level, i.e., Vice
21 Presidents and above.

22 As set forth in Mr. Amdor’s testimony, the BH Nebraska Gas and BHSC employee
23 job positions are assigned a pay grade using benchmark information from the external

1 marketplace for similar jobs. Each pay grade has a minimum, midpoint, and maximum pay
2 level and includes an incentive target. This ensures competitive targeted total cash
3 compensation (base pay and cash incentive) for non-exempt and exempt level employees,
4 those below the executive level. BHC's Human Resources Compensation team reviews
5 positions and compares to market survey data, including surveys reporting on actual
6 compensation paid to employees by position, in order to ensure that current compensation
7 is competitive.

8 Mr. Clevinger's direct testimony provides the representative costs (total pay)
9 expected to be incurred by BH Nebraska Gas and BHSC for each position. Mr. Clevinger
10 updates the number of employees and the revised employee payroll costs as part of his
11 rebuttal testimony.

12 **Q. DID BH NEBRASKA GAS PROVIDE EVIDENCE IN ITS DIRECT TESTIMONY**
13 **REGARDING THE STEPS THAT BHC TAKES TO ENSURE THAT ITS TOTAL**
14 **COMPENSATION PROGRAM IS REASONABLE AND MARKET**
15 **COMPETITIVE?**

16 A. Yes. Mr. Amdor explained that BHC's Human Resources Compensation team conducts an
17 annual review of its pay grade structure. In addition, BHC routinely monitors employee
18 compensation levels to avoid employee retention concerns and recruiting challenges. Mr.
19 Amdor's testimony also provided evidence, as required by Commission Application No.
20 NG-0061, that BHC relies upon various compensation experts and national compensation
21 and benefit surveys to evaluate the competitiveness of its programs.

22 These surveys provide base salary and incentive compensation and other data for
23 benchmark positions. The surveys allow BHC to match its positions to those that are most

1 similar to BHC's in terms of job responsibilities, company revenue and number of
 2 employees. The market information that these surveys provide is used to establish the
 3 market rate and pay grade for positions. This process ensures BHC's compensation is
 4 market competitive.

5 **Q. HOW DOES BHC'S COMPENSATION COMPARE TO THE MARKET?**

6 A. As of October 1, 2020, the average base pay for non-union employees of BH Nebraska Gas
 7 was 97.4% of the pay grade midpoint.

8 In addition, as of October 1, 2020, the average base pay for employees of BHSC was
 9 104.2% of the pay grade midpoint, which further indicates that base compensation for
 10 employees is competitive and reasonable. The company identifies that a range of 95%-
 11 105% is market competitive (5% below the 50th percentile to 5% above the 50th percentile
 12 of salary ranges). As employees mature in their career, they may exceed the market
 13 competitive range of 105% as these individuals are receiving compensation that aligns with
 14 their experience level. Generally, as employees mature in their career and years of
 15 experience increase, they move further into their salary range.

	Minimum	Midpoint			Maximum
Pay Grade	\$47,500	\$57,000	\$60,000	\$63,000	\$72,500
		95%	100%	105%	
		MARKET COMPETITIVE RANGE			
		95% - 105%			

16
 17 **Q. DID THE PUBLIC ADVOCATE'S TESTIMONY TAKE ISSUE WITH THE**
 18 **COMPANY'S USE AND ADMINISTRATION OF MARKET SURVEYS?**

19 A. No. The Public Advocate's testimony on compensation did not challenge the level of pay
 20 that BHC pays to its employees. The evidence of BHC regarding the amount paid by to
 21 BH Nebraska Gas and BHSC employees is uncontested. Rather the Public Advocate's

1 testimony focuses on BHC's use of goal and performance measures in company scorecards
2 as the basis for its recommendation to disallow recovery of one-third of the actual AIP and
3 STIP costs and 100% of the LTIP costs.

4 **VI. PUBLIC ADVOCATE VARIABLE COMPENSATION RECOMMENDATIONS**

5 **Q. DID BH NEBRASKA GAS PROVIDE EVIDENCE IN ITS DIRECT TESTIMONY**
6 **REGARDING THE VARIABLE COMPENSATION PROGRAMS BHC OFFERS?**

7 A. Yes. Mr. Amdor's direct testimony states that the BHC variable compensation programs
8 include the AIP, STIP, LTIP, and other employee recognition programs. Mr. Clevinger's
9 direct testimony and exhibits provided the actual ongoing representative costs of those
10 programs within the proposed revenue requirement study.

11 **Q. DID BH NEBRASKA GAS PROVIDE EVIDENCE IN ITS DIRECT TESTIMONY**
12 **DESCRIBING THE AIP, STIP, AND LTIP EMPLOYEE COMPENSATION PLANS**
13 **AND PROVIDE THE REPRESENTATIVE ONGOING COST OF THOSE PLANS?**

14 A. Yes. Mr. Amdor's direct testimony noted that AIP and STIP Plans are designed to: (1)
15 reward eligible employees who contribute to the success of BHC and their assigned
16 business unit; (2) reward employees who contribute to the quality of service provided to
17 customers; (3) motivate work performance and behavior that supports the financial and
18 non-financial goals of BHC and the employee's assigned business unit; and (4) increase
19 employees' understanding of business objectives and performance. Mr. Amdor clearly
20 stated that the employee AIP and STIP are important components of the total pay package
21 necessary to ensure that BHC and BH Nebraska Gas are competitive with market
22 practices.²

² Direct Testimony and Exhibits of Robert J. Amdor at pages 77 and 82.

1 As explained by Mr. Amdor, the amount of eligible AIP, STIP or LTIP depends on
2 the employee's salary grade. The AIP and STIP is a percent of eligible pay and was
3 established based on data provided in salary surveys and competitive positioning.³

4 The representative cost for the AIP, STIP and LTIP programs was provided in Mr.
5 Clevinger's direct testimony and exhibits. Mr. Clevinger updates the employee payroll cost
6 for the anticipated number of employees to be employed by BH Nebraska Gas and BHSC
7 in his rebuttal testimony.

8 Accordingly, the recommendation of the Public Advocate to deny recovery of one-
9 third of the AIP and STIP employee payroll costs and 100% of LTIP employee cost
10 inappropriately impacts the established compensation structure and compensation
11 philosophy of BHC.

12 AIP and STIP compensation components of employee payroll are critical for
13 keeping total compensation competitive. An employee's total cash compensation potential
14 is a combination of base salary plus AIP or STIP incentive. Base salary is dependent
15 initially, or upon hire, on the employee's experience, knowledge, skills and abilities. Base
16 salary may change during an employee's tenure for a variety of reasons such as promotion,
17 move to different position or individual performance resulting in merit increases. Variable
18 incentive pay opportunity is awarded for the achievement of key operating and strategic
19 goals.

20 The Public Advocate's use of scorecards as the reason to deny a legitimate utility
21 expense is an improper interference in BHC's management of its employee compensation
22 structure, philosophy and incentives provided to employees of BH Nebraska Gas and

³ The variable compensation for union employees is included in the collective bargaining agreement.

1 BHSC. The Public Advocate appears to recommend substituting its judgment in lieu of the
2 corporate managers for these prudently incurred payroll costs.

3 BHC should be permitted discretion in conducting its business affairs and in
4 incurring costs, such as AIP, STIP, LTIP and related employee payroll tax costs, necessary
5 to provide services to their customers. The Company disagrees with the Public Advocate's
6 testimony that draws an improper conclusion regarding the structure of BHC's performance
7 scorecards. The Public Advocate testimony on compensation states that performance
8 scorecards focus, in part, on corporate earnings, and therefore shareholders must bear one-
9 third of the AIP employee compensation costs.

10 The Public Advocate's testimony is directly contrary to the direct testimony of Mr.
11 Amdor who accurately explained in his direct testimony the AIP, and STIP are structured
12 to directly and indirectly benefit customers. This is true regardless of how the scorecards
13 are structured. All employee scorecards focus on the customer – even if some of those
14 goals provide incentive for corporate earnings that also benefit shareholders.

15 **Q. HOW DO THE VARIABLE COMPENSATION PROGRAMS BENEFIT**
16 **CUSTOMERS?**

17 **A.** As explained in Mr. Amdor's direct testimony, BHC's variable compensation programs
18 benefit customers because they allow BHC to hire and retain skilled employees, which
19 directly affects our ability to provide safe, reliable service to customers. Not offering a
20 competitive compensation package that includes an incentive, BHC would not only be
21 limited in its ability to hire skilled workers, but it could also risk losing employees to other
22 companies that do provide incentive pay as part of a total compensation package. Having
23 an unskilled or less-skilled workforce could leave BH Nebraska Gas vulnerable to

1 operational safety risks, customer service complaints, higher costs due to turnover and the
2 need to constantly recruit. Total compensation, which includes base pay and incentives,
3 would be significantly less competitive without the incentive plan component.
4 Competitive total compensation is equally important across all employee levels, including
5 executives, where variable and equity awards are a larger component (or percentage) of
6 overall pay.

7 **Q. DID BH NEBRASKA GAS EXPLAIN IN DIRECT TESTIMONY HOW THE AIP**
8 **AND STIP PROGRAMS ARE STRUCTURED?**

9 A. Yes. The Public Advocate’s testimony shows the witness understand that the AIP and STIP
10 have two measurement levels - corporate and business unit - both of which are applicable
11 to all employees. Each measurement level contains specific goals and performance
12 measures and associated performance levels. However, the Public Advocate takes issue
13 with BHC’s corporate financial objectives, and therefore recommends that one-third of the
14 cost incurred by BH Nebraska Gas for employee AIP and STIP be disallowed for recovery
15 by BH Nebraska Gas.

16 **Q. WHAT ARE THE SPECIFIC PERFORMANCE OBJECTIVES IN THE AIP AND**
17 **STIP PROGRAMS AT ISSUE IN THIS PROCEEDING?**

18 A. On pages 42-45 of the testimony of Ms. Mullinax, the Public Advocate presents its
19 interpretation of the AIP/STIP scorecards used by BH Nebraska Gas and BHSC.⁴ For
20 example, page 43 of the testimony of Ms. Mullinax contains the following table:

⁴ Mullinax Testimony provides various tables showing the scorecard and assigns a “Goal Focus” to each of those items.

1

Table 11: AIP/STIP Goals Focus 2018–2020

Goals and Performance Measures	2018 Weighting	2019 Weighting	2020 Weighting	Goal Focus
Earnings per Share-BKH	40.0%	15.0%	15.0%	Shareholder
BHE Consolidated Margin Growth	20.0%			Shareholder
Operating Income-BHE NEG(2019), NGU (2020)		30.0%	35.0%	Shareholder
Customer Project Completion-NGU		15.0%		Customer
Net Promoter Score-BHE		10.0%	10.0%	Customer
Cost per Customer- BHE (2019–2020)	20.0%	10.0%	10.0%	Customer
Aggregate Safety (TCIR)-BHC (2018), BHE (2019–2020)	10.0%	10.0%	10.0%	Employee
Aggregate Safety (PMVI)-BHC (2018), BHE (2019–2020)	10.0%	10.0%	10.0%	Employee
Virgin Pulse-BHE			10.0%	Employee
Total	100.0%	100.0%	100.0%	

	2018 Weighting	2019 Weighting	2020 Weighting	Goal Focus
	60.0%	45.0%	50.0%	Shareholder
	20.0%	35.0%	20.0%	Customer
	20.0%	20.0%	30.0%	Employee
	100.0%	100.0%	100.0%	

2

3 **Q. DOES BH NEBRASKA GAS AGREE WITH THE ASSIGNMENT OF FOCUS AND**
 4 **INTERPRETATION OF THE PERFORMANCE SCORECARDS AS PRESENTED**
 5 **BY THE PUBLIC ADVOCATE?**

6 A. No. As Mr. Amdor explained in direct testimony, the corporate level performance
 7 objectives are related to financial performance, specifically, earnings per share and cost per
 8 customer. Mr. Amdor testified that having clear financial performance objectives engages
 9 employees in cost management to ensure efficient and effective use of capital and
 10 operations and maintenance dollars. These goals benefit customers directly by maintaining
 11 lower costs for customers. These financial measures are imperative for a viable, strong
 12 organization that can fund customer needs and pay employees competitively. Financial
 13 performance goals at both the corporate level and business unit level benefit customers by
 14 promoting efficiency, and customers benefit when they are being served by a financially
 15 secure utility that can provide service in an efficient and economical manner. The Public
 16 Advocate’s scorecard analysis appears to discount that strong financial earnings also lead
 17 to lower debt costs, will provide for more capital for investment in safety and customer

1 service projects, and attract and retain a highly competent employee workforce. Thus, for
2 the Public Advocate to recommend that shareholders should bear one-third of the cost of
3 the AIP and STIP program costs will inappropriately deny the Company of a legitimate
4 employee payroll expense.

5 **Q. WHY SHOULD THE COMMISSION REJECT THE PUBLIC ADVOCATE'S**
6 **RECOMMENDATION THAT SHAREHOLDERS BEAR ONE-THIRD OF AIP**
7 **AND STIP COSTS AND 100 PERCENT OF LTIP COSTS BASED ON THE FOCUS**
8 **ON CORPORATE AND BUSINESS UNIT EARNINGS?**

9 A. The Company exercises reasonable judgment in the efficient administration of employee
10 payroll costs. One of the practices used by the Company is whether an employee's
11 compensation package is reasonable. As Mr. Amdor notes in his direct testimony, the
12 Company relies upon compensation surveys to make sure it is comparable to market with
13 the compensation programs administered by other utilities and companies. In addition to
14 surveys, another indication of having market-competitive compensation packages is the
15 ability to attract applicants and hire talent.

16 The business unit performance objectives included in the scorecards are related to both
17 financial performance and operational goals. The Company disagrees with the Public
18 Advocate's focus on one component of the scorecard as the basis for disallowing legitimate
19 employee payroll costs that the Company will incur in the future.

20 As a whole, the goals are designed to ensure a strong financial company, maximize
21 customer satisfaction, minimize operational safety risks, and reduce costs. BH Nebraska
22 Gas and BHSC readily acknowledges that each performance objective is weighted and has
23 a threshold, target and maximum achievement level. The performance objectives are

1 scored by business unit and the threshold achievement level must be met in order for
2 employees to be eligible for any incentive compensation (AIP or STIP). As explained in
3 the direct testimony of Mr. Amdor, meeting the threshold level qualifies employees for 50%
4 of the incentive compensation associated with the performance objective. Meeting the
5 target level qualifies employees for 100% of the incentive compensation associated with
6 the specific performance objective, and meeting the maximum level qualifies employees
7 for 150%. To that end, the Company is only seeking to include the variable compensation
8 at the 100% target level. Thus, when the Company earns above target, shareholders are
9 funding that above-target amount.

10 **Q. HOW DOES BH NEBRASKA GAS RESPOND TO THE PUBLIC ADVOCATE'S**
11 **HYPOTHETICAL EXAMPLES OF HOW THE FOCUS ON EARNING COULD**
12 **HARM CUSTOMERS?**

13 A. Instead of relying upon speculative or hypothetical examples provided in the testimony of
14 the Public Advocate, the Commission should rely on the testimony submitted in this
15 proceeding by BH Nebraska Gas that demonstrates that the AIP, STIP, LTIP and related
16 payroll taxes are legitimate employee compensation and payroll costs incurred by the
17 Company in performing services to Nebraska customers. As noted previously, all the goals
18 within the company's annual scorecards support customers, employees and shareholders.
19 A balance and variety of goals are needed to support the company's annual strategy. The
20 fact that shareholders partially benefit is no reason to deny recovery of the cost of the
21 variable compensation.

22 In addition, in Commission Application No. NG-0061, the Commission rejected a similar
23 attack by the Public Advocate to deny Aquila, Inc. recovery of its Variable Compensation

1 at the time of that proceeding. In that proceeding, the Public Advocate recommends that
2 the Commission reject 100% of all variable compensation. The Commission rightfully
3 rejected the Public Advocate's recommendations and went further to guide the Company
4 on the type of evidence that it should file in support of its compensation in this proceeding.
5 As set forth in Mr. Amdor's testimony, the Company complied with that guidance and has
6 provided a significant amount of evidence in support of the prudent cost employees
7 compensation and benefits.

8 **Q. HOW ELSE DO THE ACHIEVEMENT OF PERFORMANCE OBJECTIVES BY**
9 **BH NEBRASKA GAS EMPLOYEES BENEFIT CUSTOMERS?**

10 A. BHC's variable compensation programs generally benefit customers because they allow
11 BHC to hire and retain skilled employees, which directly affects our ability to provide safe,
12 reliable service to customers.

13 The performance objectives specifically benefit customers in the following ways:

- 14 • **Financial performance objectives** at both the corporate level and business unit
15 level benefit customers by promoting efficiency, and customers benefit when they
16 are being served by a financially secure utility that can provide service in an
17 efficient and economical manner.
- 18 • **Wellness engagement objectives** (employee participation rate goal) are focused on
19 individual employee safety and wellness, and benefit customers because an
20 employee who is safety-conscious and healthy is better able to provide safe and
21 reliable service.

1 • **Aggregate safety objectives** benefit customers because they encourage employees
2 to work carefully and safely in order to avoid safety incidents that could result in
3 harm to employees, the public, or BH Nebraska Gas infrastructure.

4 • **Customer satisfaction objectives** are tied to the net promoter score given to BHC
5 by its utility customers, and benefits customers by motivating employees to provide
6 excellent service. The net promoter score is derived from surveys provided to
7 customers asking to rate technician service they were recently provided.
8 Controllable outages and customer project completion are also a components of
9 customer satisfaction that drive employee performance.

10 A performance threshold level must be met in order to be eligible for any incentive
11 compensation based on the specific performance goal. Meeting the threshold level
12 qualifies employees for 50% of the goal's weighted value. Meeting the target level
13 qualifies employees for 100%, and the maximum level qualifies employees for 150% or
14 200% of the goal's weighted value based on the achievement of the goal's performance
15 measure and depending on the employee's position.

16 **Q. THE PRIMARY CONCERN OF THE PUBLIC ADVOCATE APPEARS TO BE**
17 **WITH THE WEIGHTING OF THE CORPORATE AND BUSINESS UNIT GOAL.**
18 **PLEASE DESCRIBE HOW THE COMPANY'S ADOPTED GOAL WEIGHTING**
19 **BENEFITS CUSTOMERS?**

20 A. As stated previously, achievement of strong financial performance is a direct benefit to
21 customers, shareholders and employees. Earnings Per Share ("EPS") considers both
22 revenues and expense levels in measuring performance. Positive financial performance
23 requires the achievement of revenues while controlling expenses. As a result,

1 considerations such as employee productivity and retention, customer satisfaction,
2 adherence to safety and wellness, and operations efficiencies can assist in maximizing EPS
3 and directly benefits customers.

4 In addition, EPS and operating income are easily recognized benchmarks for
5 successful companies that are meeting their customers' needs. They provide company-wide
6 measures and should not be separated from customers interests. Customers benefit directly
7 when they are being serviced by a financially secure company which can meet their gas
8 utility needs safely, efficiently and economically. A company will not continue to be
9 efficient in the long term if the company does not attract and retain qualified and motivated
10 employees who focus on customer needs.

11 **Q. IF THE COMMISSION ADOPTS THE PUBLIC ADVOCATE'S**
12 **RECOMMENDATIONS, WHAT ARE POSSIBLE ACTIONS THAT THE**
13 **COMPANY COULD TAKE IN RESPONSE TO THAT DECISION?**

14 A. BH Nebraska Gas recommends that the Commission reject the Public Advocate's
15 employee variable pay and related payroll recommendations. That will eliminate the
16 problem of having one of the BHC utilities on a different pay structure compared to other
17 jurisdictions. However, if the Commission elects to follow the Public Advocate's
18 recommendation in conflict with most recent rate review approval, then BHC would need
19 to consider revising its compensation philosophy and compensation and benefits structure
20 to qualify those legitimate utility costs for recovery from customers.

21 In addition, if the Commission disallows recovery of employee payroll costs, then
22 the Company will have to consider whether it would need to change its pay structure. This

1 is not a simple or easy decision and could negatively impact the Company in its ability to
2 attract and retain employees.⁵

3 The Commission can and should rely upon the fact that the Human Resources
4 compensation experts exercise reasonable judgment in designing and administering
5 employee compensation packages, with review, scrutiny and approval from leadership.
6 The Company's proposed compensation and benefits packages are structured so the
7 Company can attract and retain the workforce needed to provide services to our Nebraska
8 customers. Those packages include the variable compensation components presented in
9 this rate review application. Mr. Amdor's direct testimony provided a significant amount
10 of support for approval of those compensation items.

11 The Public Advocate's testimony did not provide evidence that our employees are
12 overpaid. To the contrary, the evidence in the record supporting that BH Nebraska Gas and
13 BHSC employees are paid within acceptable market ranges is uncontested. Instead, the
14 Public Advocate only appears to challenge recovery of a portion of the employee variable
15 compensation and related payroll cost because in the judgment of the Public Advocate,
16 there is too great a focus on earnings. That judgment should be rejected.

17 **Q. DID BH NEBRASKA GAS PROVIDE EVIDENCE IN DIRECT TESTIMONY TO**
18 **DESCRIBE BHC'S LONG-TERM INCENTIVE PLAN.**

19 **A.** Yes. Mr. Amdor described that BHC's Long-Term Incentive Plan ("LTIP") is comprised of
20 several components for the purpose of rewarding, recognizing, and providing competitive
21 pay to Senior Leaders and Executives where stock-based compensation is a typical part of
22 their compensation package per market norms. The long-term incentives available under

⁵ As Mr. Amdor testified, 69% of the BH Nebraska Gas workforce is under a collective bargaining agreement. Thus, the compensation for those employees is not at issue in this proceeding.

1 the program for Vice Presidents and above include two forms of equity grants: (1) restricted
2 stock and (2) performance share awards. Generally, stock is a tool to retain key Executives,
3 and aligns those employees' total compensation packages with that of similar employers.

4 **Q. DID BH NEBRASKA GAS EXPLAIN THE PURPOSE OF OFFERING EQUITY**
5 **COMPENSATION UNDER THE LTIP?**

6 A. Yes. Mr. Amdor's direct testimony stated that both forms of equity grants under the long-
7 term incentive plan are intended to attract and retain Senior level leaders and Executives
8 with incentives for performance and to ensure competitive pay. Mr. Amdor's direct
9 testimony explained that those receiving restricted stock do not have immediate full rights
10 to that stock; it typically vests ratably over a three-year period. Therefore, employees who
11 receive restricted stock are provided an incentive to stay with the company for at least the
12 three-year period necessary for the stock to vest. The company benefits from this by
13 retaining the talent and knowledge the employee brings to the company for a longer period
14 of time. Furthermore, the program is intended to motivate employees to make significant
15 contributions to the success of company's key initiatives including operational goals.

16 **Q. PLEASE EXPLAIN AGAIN HOW THE LTIP BENEFIT BH NEBRASKA GAS**
17 **CUSTOMERS?**

18 A. As Mr. Amdor noted in direct testimony, the LTIP programs benefit BH Nebraska Gas
19 customers by establishing a framework providing an incentive for long-term operational
20 objectives by giving BHC tools to attract and retain quality senior leadership and highly
21 skilled and knowledgeable employees.

22 Beyond giving BHC the ability to attract and retain key senior leaders who help
23 shape the business, the LTIP encourages leaders to think and act like owners. When the

1 financial interests of employees are aligned with those of the utility, they will be more
2 invested in the operational objectives and reputation of the organization, including the
3 provision of safe and reliable service, operational efficiency, and customer service.

4 **Q. IS IT REASONABLE FOR BH NEBRASKA GAS TO RECOVER THE COSTS OF**
5 **EQUITY COMPENSATION PAID TO EMPLOYEES?**

6 A. Yes. For all the reasons set forth above for AIP and STIP, the same reasons, testimony
7 support, and related evidence can be relied upon for inclusion of LTIP. The payment of
8 equity compensation to qualifying employees is consistent with market practices for similar
9 positions in terms of knowledge, skills, abilities and scope of responsibilities. Equity
10 compensation is a common form of compensation for executive leadership positions in all
11 industries and is necessary to attract and retain talent. BHC's investment in its employees
12 for the long-term was made in the exercise of reasonable judgment. The overall employee
13 compensation requested by BH Nebraska Gas, including LTIP, is still within reasonable
14 market ranges with other companies.

15 The testimony of BH Nebraska Gas demonstrates that LTIP benefits customers, the
16 judgment of BHC is reasonable and consistent with other companies, the level of LTIP cost
17 is prudent, and the cost included in this proceeding are representative of the LTIP costs
18 going forward. These costs were approved in NG-0061 even though the Public Advocate
19 at the time recommended rejecting all of the Company's employee variable costs at the
20 time of that proceeding.

1 **Q. DO YOU DISAGREE WITH THE PUBLIC ADVOCATE’S RECOMMENDATION**
2 **THAT 100% OF COMPANY’S COST FOR LTIP SHOULD DENIED AND**
3 **SHIFTED TO SHAREHOLDERS?**

4 A. Yes, I disagree with the Public Advocate’s recommendation to disallow recovery of the
5 legitimate employee LTIP costs. The Public Advocate’s testimony incorrectly states that
6 only shareholders stand to benefit from equity compensation. As demonstrated in the direct
7 testimony of Mr. Amdor, and supported again with my rebuttal testimony, LTIP is another
8 critical component of attracting and retaining highly qualified employees that are in roles
9 to lead the strategy, operations, safety, customer service, compliance and financial strength
10 of the organization. The fact that shareholders may find some benefit from some
11 employees becoming owners of the Company is not a reason to disallow that legitimate
12 utility expense.

13 **Q. HOW DOES BH NEBRASKA GAS RESPOND TO THE PUBLIC**
14 **ADVOCATE’S REQUEST TO DISALLOW SUPPLEMENTAL EXECUTIVE**
15 **RETIREMENT PLAN (“SERP”) COSTS?**

16 A. BH Nebraska Gas recommends that the Commission reject this recommendation. The
17 Public Advocate’s testimony states that shareholders should bear the SERP costs for
18 Senior Executive, some long retired, based on an incorrect conclusion that the cost is
19 not necessary to the provision of utility service. BH Nebraska Gas disagrees with the
20 Public Advocate. Some of the SERP costs included in this case were inherited by
21 BHC, and then allocated to BH Nebraska Gas through various acquisitions of utility
22 assets. The costs of the executives under the SERP were utility employees at one time;
23 accordingly, the cost of these employees after retirement should be continued. Those

1 previous employees included in the SERP obviously don't provide any current service
2 to BH Nebraska Gas other than the company's requirement to pay its former employee
3 for retirement plans earned by those executives at the time they were actively working
4 with and for the utility. Current participation by active Executives is restricted to
5 officers nominated by the CEO and approved by the Board of Directors. At an officer
6 level, providing a SERP is a common component to total compensation. The SERP
7 costs have been included in prior, fully litigated, rate review proceedings without
8 contest. The inclusion of those same type of post-retirement former employee costs are
9 appropriate for recovery in this case.

10
11 **VII. CONCLUSION**

12 **Q. IS THE OVERALL LEVEL OF COMPENSATION INCLUDED IN THE REVENUE**
13 **REQUIREMENT STUDY REASONABLE?**

14 A. Yes, the level of total compensation included in the Revenue Requirement Study is
15 reasonable and necessary. The pay range midpoint and incentive target amounts are derived
16 from compensation surveys and assist BHC with attracting and retaining qualified
17 employees needed to provide safe and reliable service.

18 **Q. IS THE OVERALL LEVEL OF SERP COST INCLUDED IN THE REVENUE**
19 **REQUIREMENT STUDY REASONABLE?**

20 A. Yes. Some costs are inherited for former utility executives, current participation by active
21 Executives is restricted to officers nominated by the CEO and approved by the Board
22 of Directors of BHC. the SERP costs are reasonable, and these types of costs have been
23 routinely recovered through prior rate review. The Public Advocate's recommendation

1 provides no evidence to justify denying recovery of this prudently incurred employee
2 retirement cost.

3 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

4 A. Yes.

5

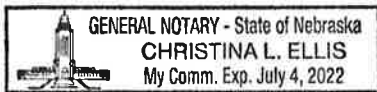
STATE OF NEBRASKA)
) SS
COUNTY OF LANCASTER)

I, Kristi L. Johnson, being first duly sworn on oath, depose and state that I am the witness identified in the foregoing prepared testimony and I am familiar with its contents, and that the facts set forth are true to the best of my knowledge, information and belief.

Kristi L. Johnson
Kristi L. Johnson

Subscribed and sworn to before me this 9 day of October, 2020.

(SEAL)



Christina L. Ellis
Notary Public

My Commission Expires:

July 4, 2022