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1 **I. INTRODUCTION**

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

3 A. My name is Kristi L. Johnson, and my business address is 7001 Mount Rushmore Road,
4 P.O. Box 1400, Rapid City, SD 57702-8752.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am employed by Black Hills Service Company, LLC. ("BHSC"). I am the Director of
7 Total Rewards. BHSC is a wholly-owned subsidiary of Black Hills Corporation ("BHC").

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

9 A. I am testifying on behalf of Black Hills Kansas Gas Utility Company, LLC d/b/a Black
10 Hills Energy ("Black Hills"). Black Hills is a wholly-owned subsidiary of Black Hills
11 Utility Holdings, Inc. ("BHUH"). BHUH is a wholly owned subsidiary of BHC.

12 **II. STATEMENT OF QUALIFICATIONS**

13 **Q. WHAT ARE THE DUTIES AND RESPONSIBILITIES IN YOUR CURRENT**
14 **POSITION?**

15 A. I am responsible for leading and managing the total rewards function and providing
16 direction and leadership for the design, development, administration and management of
17 all benefit and compensation programs. In addition, I provide direct oversight for the
18 BHC's compensation, HR regulatory, benefits and retirement services teams. I have a team
19 of nine employees: three within the compensation focus area and six that work with
20 employee benefits.

1 **Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES RELATED TO BLACK HILLS.**

2 A. Black Hills and BHSC employees are included within the responsibilities and duties
3 described above.

4 **Q. PLEASE OUTLINE YOUR EDUCATIONAL AND PROFESSIONAL**
5 **BACKGROUND.**

6 A. My education, employment history and professional experience is provided in KSG Direct
7 Exhibit KLJ-1.

8 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE KANSAS**
9 **CORPORATION COMMISSION (“COMMISSION”)?**

10 A. No, this will be the first time testifying before this Commission. I have testified on
11 compensation and benefits issues on behalf of Black Hills Colorado Gas, LLC before the
12 Colorado Public Utilities Commission, on behalf of Black Hills Wyoming Gas, LLC before
13 the Wyoming Public Service Commission and on behalf of Black Hills Nebraska Gas, LLC
14 before the Nebraska Public Service Commission.

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

16 A. Yes, I am sponsoring the following Direct Exhibit:

KSG Direct Exhibit KLJ-1	Education, Employment History, and Professional Experience
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17 **Q. HAVE THE TESTIMONY AND EXHIBITS THAT YOU ARE SPONSORING**
18 **BEEN PREPARED BY YOU OR UNDER YOUR SUPERVISION?**

19 A. Yes.

20

1 **III. PURPOSE OF TESTIMONY**

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

3 A. The purpose of my direct testimony is to support employee benefit and compensation costs
4 included in the revenue requirement for the Test Year and the compensation-related
5 adjustments that are included in this filing. In my direct testimony, I describe the overall
6 benefit and compensation programs for BHC employees, including employees of Black
7 Hills, as well as the steps undertaken by BHC to evaluate its overall compensation
8 programs.

9 My testimony addresses the Commission’s policy on incentive compensation as set
10 forth in Commission Docket No. 19-ATMG-525-RTS, Order on Atmos Energy
11 Corporation’s Application for a Rate Increase, Paragraph 46, Ordering Clause C (February
12 24, 2020) as it applies to the incentive compensation included in the rate application
13 submitted by Black Hills in this proceeding. This portion of my testimony describes how
14 incentive compensation metrics of Black Hills apply to the goals that directly and indirectly
15 impact customer safety, customer service, and long-term efficiencies. All compensation
16 goals benefit customers.

17 **IV. EMPLOYEE AND EXECUTIVE COMPENSATION AND BENEFITS**

18 **A. Employee Compensation and Benefits**

19 **Q. PLEASE DESCRIBE THE BENEFIT PLANS THAT BHC PROVIDES TO ITS**
20 **EMPLOYEES.**

21 A. BHC offers a combination of company-provided and voluntary benefits to employees.
22 Employees are automatically enrolled in certain company-provided benefits upon the start

1 of employment such as short-term and long-term disability and life insurance. Employees
2 can choose whether to participate in the voluntary benefits and pay a portion or all
3 associated costs. These company-provided and voluntary benefit programs consist of:
4 (1) medical, dental, and vision plans; (2) flexible spending accounts and Health Savings
5 Accounts; (3) life insurance and accidental death and dismemberment insurance; (4) paid
6 time off; (5) retirement (for example, 401k and pension); (6) short term and long term
7 disability; and (7) other benefits including educational assistance, holiday pay, business
8 travel accident insurance, rewards and recognition programs, additional short and long-
9 term disability coverage, employee assistance program, long-term care insurance, and
10 wellness programs.

11 **Q. WHAT IS BHC'S GENERAL COMPENSATION PHILOSOPHY?**

12 A. As a company focused on the long-term sustainability of its business, the BHC
13 compensation program is structured to support operations and customer service and is
14 based on principles designed to:

- 15 • attract, motivate, retain, and encourage personal and professional development of
16 qualified employees;
- 17 • provide compensation that is competitive;
- 18 • promote safe and reliable service by attracting and retaining skilled talent;
- 19 • promote the relationship between pay and performance;
- 20 • promote overall performance; and
- 21 • appropriately recognize and reward individual performance.

1 All compensation programs are designed to be externally competitive, internally
2 equitable, personally motivating, cost effective, and legally compliant. All compensation
3 programs apply to BHC legal organizations, including Black Hills and BHSC.

4 **Q. PLEASE IDENTIFY THE COMPONENTS OF BHC'S COMPENSATION**
5 **PROGRAM.**

6 A. The primary components of the overall BHC compensation program are:

- 7 • Base Pay: Base pay represents the fixed portion of an employee's total cash
8 compensation opportunity; and
- 9 • Variable Compensation: Variable compensation is pay that is not fixed or
10 guaranteed. Variable compensation is awarded based on performance or
11 achievement against specific performance-based goals. Variable compensation
12 programs include Annual Incentive Plan ("AIP"), Short-Term Incentive Plan
13 ("STIP"), and Long-Term Incentive Plan ("LTIP").

14 **B. Total Compensation Including Base Pay and Merit Increases**
15

16 **Q. PLEASE EXPLAIN BHC'S PHILOSOPHY ON BASE COMPENSATION.**

17 A. Annual base pay, which equals 2,080 hours worked per year for full-time employees, is
18 intended to reflect the median of the market for similar positions within and outside of the
19 industry, depending on the type of position. There are three pay structures: one for non-
20 exempt positions (eligible for overtime), one for exempt positions (not eligible for
21 overtime), and one for executive level, i.e., Vice Presidents and above.

22 Positions are assigned a pay grade using benchmark information from the external
23 surveys reflecting the market for similar jobs. Each pay grade has a minimum, midpoint,

1 and maximum pay level and includes an incentive target percentage. This ensures
2 competitive targeted total cash compensation (base pay and cash incentive) for non-exempt
3 and exempt level employees, for those below the executive level. Executive pay is
4 competitive as it relates to targeted total direct compensation (which includes base,
5 incentive, and equity compensation). The BHC Human Resources Compensation team
6 takes an approach to total compensation which includes a review process that compares
7 positions to market data obtained by third party surveys (utilizing actual compensation paid
8 to employees by position) in order to ensure that current compensation remains within the
9 competitive range.

10 **B1. Market Competitive Compensation**

11
12 **Q. WHAT STEPS DOES BHC TAKE TO ENSURE THAT ITS TOTAL CASH**
13 **COMPENSATION PROGRAM IS REASONABLE AND MARKET**
14 **COMPETITIVE?**

15 A. The BHC Human Resources Compensation team conducts an annual review of its overall
16 pay grade structure. In addition, employee compensation levels are monitored to avoid
17 employee retention concerns and recruiting challenges. BHC uses compensation surveys
18 to evaluate the competitiveness of its programs.

19 These surveys provide market-based salary and incentive pay. This allows BHC to
20 match positions to those in the salary surveys that are similar to BHC in terms of job
21 responsibilities, BHC's revenue and number of employees. The market information
22 provided by surveys is used to establish the pay grade for positions. The same market
23 information is used when creating new positions or when updating pay grades and incentive

1 structures to ensure compensation is competitive. BHC compares its benchmark positions
2 to the competitive market data, and jobs are then placed in the salary grade where the
3 midpoint of the range is closest to the average market rate for the job.

4 **Q. HOW WOULD AVERAGE BASE SALARIES BE AFFECTED IF VARIABLE**
5 **COMPENSATION AND EQUITY COMPENSATION IS ELIMINATED?**

6 A. If BHC provided a compensation package of only base pay, an increase would most-
7 likely result as changes to pay would be an annual fixed cost. Having a variable
8 (incentive) pay component encourages a focus on annual key performance
9 measurements and reduces overall fixed labor costs by avoiding the compounding effect
10 of annual base pay increases at a higher rate. A variable pay approach also removes
11 additional fixed costs to benefit-related expenses associated with base pay such as 401k
12 matches, life insurance premiums, long-term and short-term disability premiums, etc. If
13 compensation was base (cash) pay only, the additional fixed costs would increase
14 benefit-related expenses. This is another example of cost savings for customers that
15 results from designing a compensation program with both base and incentive
16 components, in addition to ensuring a compensation program that is competitive or
17 reflects the market (assisting the BHC with retention or lower turnover rates).

18 **Q. HOW DOES BHC'S COMPENSATION STRATEGY COMPARE TO THE**
19 **MARKET?**

20 A. As of March 1, 2021, the average base pay for non-union employees of Black Hills was
21 50.7% in range of the pay grade. The average base pay for employees of BHSC was 41.5%
22 in range of the pay grade. This is a "point in time" metric because the employee population

1 is not static (i.e., new hires and terminations change the population on a regular basis).
2 Employee pay varies between the minimum of a pay range to the maximum based on
3 factors such as time in position, skills, experience and degree/education.

4 **B2. Merit Increases and Wage Adjustments**

5
6 **Q. WERE THERE MERIT INCREASES TO BASE PAY IN 2020 AND 2021?**

7 A. Yes. The average 2021 merit increase awarded, based on 2020 individual performance, was
8 3% for all BHC eligible, non-bargaining unit employees. The average 2021 merit increase
9 awarded, based on 2020 individual performance, was 3.04% for employees of Black Hills.
10 Under the collective bargaining agreement, employees of Black Hills receive increases in
11 pay in accordance with the terms of that negotiated agreement.

12 **Q. HOW OFTEN DOES BHC PROVIDE WAGE INCREASES OUTSIDE OF THE**
13 **MERIT INCREASES?**

14 A. Non-merit wage increases may be provided to certain positions and employees as a part of
15 BHC's compensation strategy to maintain competitive pay and for retention purposes.

16 "Wage adjustments" (increase or decrease) may include any (or a combination) of the
17 following reasons for during any given year above/beyond annual merit increase
18 opportunity:

- 19 • Accepted posted position (new position/new pay)
- 20 • Adjustment (reasons may include career progression, reorganization, increase when
21 pay falls below range minimum change for retention/competitive reasons)
- 22 • Change in salary grade (position changed grade due to a market review/market
23 adjustment)

- 1 • Field Career Path Program Adjustment (annual promotion to next highest skill-
- 2 based level)
- 3 • Promotion
- 4 • Union Contract Increases (per collective bargaining agreement: annual,
- 5 progression/step progression)

6 **B3. Kansas Workforce and Unions**

7

8 **Q. PLEASE DESCRIBE THE BLACK HILLS WORKFORCE.**

9 A. Black Hills has a diverse workforce of bargaining unit and non-bargaining unit employees.

10 Approximately 13% of the workforce represents employees covered by one collective

11 bargaining agreement: IBEW Local Union No. 6407.

12 **Q: WHAT IS THE STATUS OF THE CURRENT COLLECTIVE BARGAINING**

13 **AGREEMENTS?**

14 A. The current collective bargaining agreement with IBEW Local Union No. 6407 expires

15 December 31, 2024. Under that agreement, the last wage increase for gas employees was

16 awarded on January 1, 2021 for the required general wage increase.

17 **Q: HOW ARE BARGAINING EMPLOYEE WAGE INCREASES DETERMINED?**

18 A. Wages for employees covered by a collective bargaining agreement are negotiated.

19 **C. Variable Compensation**

20 **Q. PLEASE LIST THE VARIABLE COMPENSATION PROGRAMS BHC OFFERS.**

21 A. As mentioned above and described in more detail below, BHC incentive compensation

22 programs include the Annual Incentive Plan ("AIP"), Short Term Incentive Plan ("STIP"),

23 Long Term Incentive Plan ("LTIP"), and recognition programs.

1 **Q. HOW DO THE VARIABLE COMPENSATION PROGRAMS BENEFIT**
2 **CUSTOMERS?**

3 A. Variable compensation programs benefit customers because they allow BHC to hire and
4 retain skilled employees, which directly affects its ability to provide safe, reliable service
5 to customers. Not offering a competitive compensation package that includes an incentive
6 would limit BHC's ability to hire skilled workers and would also increase the risk of losing
7 employees to other companies that do provide incentive pay. Having a less-skilled
8 workforce would make BHC vulnerable to operational safety risks, customer service
9 complaints, higher costs due to turnover and the need to constantly recruit. Total
10 compensation, which includes base pay and incentive, would be significantly less
11 competitive without the incentive plan component and not comparable to the market.

12 **C1. AIP**

13 **Q. PLEASE DESCRIBE THE ANNUAL INCENTIVE PLAN.**

14 A. The AIP provides eligible employees the opportunity to earn an annual incentive award
15 based upon established and objective performance criteria. The AIP is designed to create a
16 strong link between a non-Executive employee's efforts and accomplishments and BHC's
17 performance goals.

18 These employees include meter readers, customer call center representatives, and
19 the field personnel who connect gas service to customer homes and inspect the system to
20 ensure compliance with all regulatory and environmental requirements. Also included are
21 employees such as billing processing agents, employees who teach safety and other field-
22 related training programs, and employees engaged in community outreach programs.

1 Supervisors and managers who oversee day-to-day operations and who are held
2 accountable for the safe and efficient service provided to Kansas customers are also eligible
3 for AIP. In order to meet the performance goals of these incentive plans, all Black Hills
4 employees must perform their jobs well. This means that these employees must conduct
5 operations safely in order to ensure the safety of our customers and employee teams. It
6 means that Black Hills' employees must provide efficient and responsive customer service
7 in order to be the energy provider of choice for our customers and because its customers
8 provide the revenue that contributes to BHC's earnings. All of these activities benefit
9 customers because without these employees, the quality of service that Black Hills provides
10 its customers today would not be possible and would not result in the BHC having a sound
11 financial result.

12 The AIP plan : (1) rewards eligible employees who contribute to the success of
13 BHC and/or its subsidiary business units; (2) rewards employees who contribute to safe,
14 reliable and affordable service provided to customers; (3) motivates work performance and
15 behavior that supports the financial and non-financial goals; and (4) increases employees'
16 understanding of business goals and performance objectives. In addition, the AIP is an
17 important component of the total pay package that ensures BHC and Black Hills are
18 competitive with market practices. The AIP percentage amount is based on the employee's
19 salary grade. The AIP for union employees is included in the collective bargaining
20 agreement.

21 **Q. HOW IS THE AIP STRUCTURED?**

22 A. Employees with positions lower than Director level participate in the annual incentive

1 compensation plan (AIP). Through the AIP's performance goals and measurement process,
2 employees are rewarded for providing safe, reliable, and affordable customer service.
3 Additionally, employees are motivated to work efficiently and productively with
4 performance that satisfies both financial and non-financial goals of the organization.
5 Participation in the AIP also increases employee understanding of the overall corporate
6 direction of BHC and its business objectives. The safety related performance goals are also
7 connected to wellness, meaning that BHC encourages employees to not only focus on safe
8 practices at work, but also apply wellness and safety practices in their daily, personal lives.

9 **Q. WHAT ARE THE SPECIFIC PERFORMANCE OBJECTIVES IN THE AIP?**

10 A. The performance objectives are reviewed and updated annually to align with BHC and/or
11 business unit's strategy, but all align with four key goal areas. BHC has weighted its
12 employees' goals and performance measures for incentive compensation in favor of
13 benefiting customers. For example, the performance objectives include goal areas relating
14 to customer service, and safety related measurements. Customer focused measurements
15 includes cost per customer and customer satisfaction (net promoter score). Safety
16 measurements reflect aggregate safety goals for the organization for Total Case Incident
17 Rate (TCIR)¹, and Preventable Motor Vehicle Incidents (PMVI). There is a specific
18 weighting for employee personal wellness, which is intended to help reduce overall medical
19 costs. The operational goals are designed to maximize customer satisfaction, minimize
20 operational safety risks, and reduce costs.

¹ TCIR is defined by the Occupational Health and Safety Administration ("OSHA") as the number of work-related injuries per 100 full-time workers during a 1-year period. OSHA uses the TCIR to monitor high-risk industries.

1 Each performance objective is weighted and has an achievement level. The
 2 performance objectives are scored individually, and the threshold of each measurement
 3 must be met for employees to be eligible for the respective percent amount of that specific
 4 goal. Table KLJ-1 below shows the weighting applied to AIP.

<u>Table KLJ-1</u> <u>Goal and Performance Measures</u>			
	Black Hills Gas Utilities	BHSC	Customer Service
Net Promoter Score	10%	10%	10%
Cost Per Customer	10%	10%	10%
Aggregated Safety (TCIR)	10%	10%	10%
Aggregated Safety (PMVI)	10%	10%	10%
Employee Wellness	10%	10%	10%
Total Operating Income (Elec.)	-	10%	7.5%
Total Operating Income (Gas.)	35%	10%	7.5%
Earnings Per Share	15%	30%	15%
Total Weighting	100%	100%	100%

5
 6 As Table KLJ-1 demonstrates, BHC's incentive pay compensation is designed with
 7 goals that impact or relate to customer service focus, greater safety, lower costs, and
 8 increased revenues. Those goals account for 70% to 85% of the employees' incentive
 9 potential. Even the earnings per share component of 15% or 30% weighting is designed to
 10 attract financing so that investments in the Black Hills gas distribution system can continue
 11 into the future.

12 **Q. HAS THE COMMISSION PREVIOUSLY APPROVED RECOVERY OF AIP FOR**
 13 **BLACK HILLS OR ITS PREDECESSORS?**

14 A. Yes. The Commission first approved full recovery of AIP for Black Hills' predecessor,
 15 Aquila, Inc., in Docket Nos. 99-WPEE-818-RTS (Order dated January 17, 2000, page 18,

1 paragraph 39) and 04-AQLE-1065-RTS (Order dated January 28, 2005, page 11,
2 paragraphs 34-36), (Aquila Gas Rate Case, Docket No. 07-AQLG-431-RTS, Rebuttal
3 Testimony of Jerl L. Banning, April 2, 2007, pages 3-7). The Commission also allowed full
4 recovery of AIP as part of the approved settlement in Black Hills' last rate proceeding in
5 2014 in Docket No. 14-BHCG-502-RTS and this type of incentive compensation was
6 allowed to be recovered in rates under the Commission's Order in Docket No. 12-KCPE-
7 764-RTS and the Commission's precedential decision relating to incentive compensation
8 in Docket No. 19-ATMG-525-RTS.

9 **Q. WHY IS THE AIP AN IMPORTANT PART OF BHC EMPLOYEE**
10 **COMPENSATION?**

11 A. The AIP is critical for providing competitive total compensation for employees. An
12 employee's total cash compensation potential (base salary plus incentive) requires not only
13 competitive base pay, but also competitive incentive pay which is only awarded for the
14 achievement of key operating and strategic goals that benefit customers.

15 **Q. WHAT WAS THE PAYOUT FOR THE AIP RELATED TO 2020 PERFORMANCE?**

16 A. The actual 2020 AIP, paid in 2021, was 109.73% for Black Hills Natural Gas Utilities
17 Group (Black Hills) employees. The payout amount for BHSC employees supporting Black
18 Hills was 107.14%.

19 **Q. WHAT AMOUNT OF AIP IS BLACK HILLS REQUESTING TO RECOVER IN**
20 **THIS CASE?**

21 A. Black Hills included the actual 2020 AIP incentive amounts as adjusted in the revenue

1 requirement study provided with the direct testimony of Company witness, Ms. Rachel R.
2 Schuldt.

3 **C2. STIP**

4
5 **Q. PLEASE DESCRIBE BHC'S SHORT-TERM INCENTIVE PLAN.**

6 A. The Short-Term Incentive Plan ("STIP") is the incentive plan applicable to employees in
7 positions of Director and above and is a percent of annual base salary determined in part
8 by salary grade and market rates. Similar to the AIP, directors share the same goals and
9 scorecard of the employees they supervise. Performance goals vary by position and are
10 both financial and operational in nature.

11 **Q. WHAT ARE THE SPECIFIC PERFORMANCE OBJECTIVES IN THE STIP?**

12 A. Like the AIP described above, STIP participants are assigned the same goals that align with
13 our four key organizational goals of (1) Profitable Growth; (2) Valued Service; (3) Better
14 Every Day and (4) Great Workplace. Performance objectives include financial, customer
15 service and safety related measurements. Each performance goal is weighted and has a
16 threshold, target and maximum level. The performance goals are scored individually, and
17 a threshold level must be met in order to be eligible for any incentive compensation based
18 on the specific performance goal. The goals and performance measures shown on
19 Table KLJ-1 also apply to STIP participants.

20 **Q. HOW DOES THE ACHIEVEMENT OF THE STIP PERFORMANCE GOALS**
21 **BENEFIT CUSTOMERS?**

22 A. The performance objectives of the STIP are the same as the objectives of the AIP. Thus,
23

1 the benefits to customers under the STIP are similar to the performance objectives of the
2 AIP benefit to customers as noted above.

3 **Q. WHAT IS THE PURPOSE OF BHC'S STIP?**

4 A. Like the AIP, the STIP is an important component of the total pay package necessary to
5 ensure that BHC is competitive with employee pay market practices. STIP is designed to:
6 (1) reward eligible salaried exempt employees who contribute to the success of BHC and
7 their assigned business units; (2) reward employees who contribute to the leadership and
8 execution of BHC's strategy and strategic initiatives; (3) motivate work performance and
9 behavior that supports the financial and non-financial goals of BHC; and (4) promote the
10 successful execution of the overall annual objectives of Black Hills.

11 **C3. STIP PAYOUT DATA**

12
13 **Q. HOW IS THE STIP TARGET DEVELOPED?**

14 A. The STIP incentives are a percentage of annual base salary and is established based on total
15 compensation market data for similar positions.

16 **Q. HOW IS INCENTIVE COMPENSATION CALCULATED FOR EMPLOYEES?**

17 A. The formula for calculating incentive payouts is as follows: Eligible Employee's Earnings
18 for respective scorecard year X Bonus Target Percentage X Scorecard Result = Incentive
19 Award Amount.

20 Prorated payments may be paid to participants of both AIP and STIP. Types of
21 prorated payments include:

- 22 • Participants who are newly hired on or before September 30 of the Plan Year
- 23 • Participants who are promoted, transferred or demoted during the Plan Year

- 1 • Participants who are on an approved leave of absence during the Plan Year
- 2 • Participants who are on military leave during the Plan Year
- 3 • Participants who leave the BHC subsidiaries due to disability during the Plan
- 4 Year
- 5 • Participants who retire during the Plan Year
- 6 • Participant death during the Plan Year

7 **Q. WHAT AMOUNT OF STIP IS BLACK HILLS REQUESTING TO RECOVER IN**
8 **THIS CASE?**

9 A. Black Hills included the actual 2020 STIP incentive amounts incurred and paid to
10 employees as adjusted in the revenue requirement study provided with the testimony of
11 Ms. Schuldt.

12 **D. Employee Recognition Programs**

13
14 **Q. WHAT RECOGNITION PROGRAMS ARE OFFERED TO EMPLOYEES?**

15 A. BHC offers recognition programs designed to reward employees and recognize teamwork,
16 years of service, and exemplary performance. These programs promote teamwork and
17 enhance employee morale while creating focus on efficiencies, customer service
18 improvements, and employment longevity.

19 **D1. Energize!**

20 Energize! is a peer-to-peer recognition program in which employees can award points to
21 other employees that can be redeemed for various services and merchandise. Non-points-
22 based recognition is also awarded in the form of certificates of appreciation and thank you
23

1 notes.

2 **D2. Service Awards**

3
4 Service awards for reaching certain length-of-service milestones are provided
5 automatically to qualifying employees. Awards include plaques and gifts of varying
6 monetary value.

7 **D3. Project Bonuses**

8
9 Project bonuses are provided to employees who work on projects that provide substantial
10 savings to Black Hills or excellent service and process improvements that benefit
11 customers.

12 **Q. WHAT AMOUNT OF RECOGNITION PROGRAMS IS BLACK HILLS**
13 **REQUESTING TO RECOVER IN THIS CASE?**

14 A. Black Hills is requesting full recovery of the recognition programs.

15 **E. LTIP**

16
17 **Q. PLEASE DESCRIBE THE LONG-TERM INCENTIVE PLAN.**

18 A. The BHC Long-Term Incentive Plan ("LTIP") is comprised of several components for the
19 purpose of rewarding, recognizing, and providing competitive pay to certain employees
20 where equity-based pay is a regular part of their pay package. The long-term incentives for
21 Vice Presidents and above include two forms of equity grants: (1) restricted stock and
22 (2) performance share awards. (Although limited in use, restricted stock awards can be
23 offered to any employee for critical performance recognition and retention or for certain
24 new hires and/or as an attraction inducement to replace what the employee may forfeit by
25 leaving their prior employer to work for Black Hills.)

1 **Q. WHAT IS THE PURPOSE OF OFFERING EQUITY COMPENSATION UNDER**
2 **THE LTIP?**

3 A. Both forms of equity grants under the long-term incentive plan are intended to attract and
4 retain key employees with incentives for excellent performance and to ensure competitive
5 pay. Employees receiving stock do not have immediate rights to that stock; it typically
6 vests over a three-year period. Therefore, employees who receive restricted stock are
7 provided an incentive to stay with BHC subsidiaries for at least the three-year period
8 necessary for all the stock to vest. Black Hills and its customers benefit from this structure
9 by retaining the talent and knowledge the employee brings to BHC and its subsidiaries for
10 a longer period. In addition, equity grants provided through the LTIP are used to recognize
11 achievement of goals and overall individual performance. The program is intended to
12 motivate employees to make significant contributions to the success of Black Hills key
13 initiatives including operational goals.

14 **Q. HOW DOES THE LTIP BENEFIT BLACK HILLS CUSTOMERS?**

15 A. The LTIP links incentives to operational performance objectives and gives BHC tools to
16 attract and retain quality leadership and highly skilled employees, both impacting Black
17 Hills customers positively.

18 Beyond giving BHC the ability to attract and retain key employees who help shape
19 the business strategy, LTIP encourages employees to think like owners. When the financial
20 interests of the individual employees are aligned with those of the utility, the employees
21 will be more invested in the operational objectives and reputation of the organization,
22

1 including the provision of safe and reliable service, operational efficiency, and customer
2 service.

3 **Q. IS IT REASONABLE FOR BLACK HILLS TO RECOVER THE COSTS OF**
4 **EQUITY COMPENSATION PAID TO EMPLOYEES?**

5 A. Yes. The payment of equity compensation to employees is consistent with market practices
6 for similar positions in terms of scope of responsibilities and skills. Equity compensation
7 is a common form of compensation for executive leadership positions in the industry and
8 is necessary to attract, compete and retain talent.

9 **F. COMMISSION PRECEDENTIAL ORDER ON INCENTIVE**
10 **COMPENSATION**

11
12 **Q. ARE YOU AWARE OF THE COMMISSION'S PRECEDENTIAL ORDER**
13 **REGARDING INCENTIVE COMPENSATION?**

14 A. Yes. Specifically, I have reviewed the Commission's decision in Docket No. 19-
15 ATMG-525-RTS, Order on Atmos Energy Corporation's Application for a Rate Increase,
16 Paragraph 46, Ordering Clause C (February 24, 2020). I also reviewed the testimony and
17 Stipulated Settlement Agreement in Docket No. 14-BHCG-502-RTS from Black Hills' last
18 rate application proceeding in 2014.

19 **Q. WHAT TESTIMONY DOES BLACK HILLS PROVIDE REGARDING THE**
20 **COMMISSION'S INCENTIVE COMPENSATION FINDINGS AND**
21 **CONCLUSIONS OF LAW?**

22 A. Black Hills understands the findings and conclusions of law of the Commission as set
23 forth in the Commission's Incentive Compensation Precedential Order. However,
24

1 Black Hills presents facts that it believes the Commission should fully consider before
2 applying incentive compensation precedent in this proceeding.

3 **Q. PLEASE EXPLAIN.**

4 A. The vast majority of investor-owned gas distribution public utilities have adopted
5 incentive compensation plans as an integral element of their compensation programs.
6 Annual incentive plans like the Black Hills' AIP and short-term incentive plan for
7 management are prevalent throughout the gas utility industry.

8 Black Hills is one of eleven different regulated subsidiaries of BHC that provide
9 natural gas or electric services. Those BHC regulated utility subsidiaries are in
10 Arkansas, Colorado, Iowa, Kansas, Nebraska, South Dakota, Montana and Wyoming.
11 In addition, Black Hills has approximately 3,000 employees. My testimony affirms that
12 the costs included in the Black Hills' rate application are representative of the actual costs
13 to provide market-competitive total compensation programs to Black Hills and BHSC
14 employees. The structure and philosophy for compensation applied by BHC for employees
15 of Black Hills and BHSC are consistent between each of its jurisdictions.

16 If applied in this proceeding, the issues created by the Commission Incentive
17 Compensation Precedential Order is that BHC may be left with a choice between
18 (1) altering the incentive compensation performance goal for Black Hills and for
19 BHSC employees when providing support for Black Hills in a manner to permit full
20 recovery of the incentive compensation through non-variable or cash compensation
21 only, or (2) shifting the cost of payroll expenses from customers to shareholders, which
22 may lower the overall return realized by BHC.

1 Like other utilities confronting this issue of balancing competitive
2 compensation packages in order to attract and retain skilled employees, Black Hills
3 believes that the Commission should recognize the incentive compensation as a
4 legitimate utility expense. Labor costs paid to employees through the incentive pay
5 component are a significant part of the budget for Black Hills.

6 Requiring the utility to manage a separate compensation program for Kansas is
7 impractical and would create fairness and inconsistency issues throughout the entire
8 organization. By applying the Commission's precedential orders in this case and thereby
9 rejecting a legitimate utility compensation expense, the Commission will be limiting
10 BHC's management of its employee compensation structure, philosophy and incentives
11 provided to employees of Black Hills and BHSC. BHC and Black Hills management
12 should be permitted discretion in conducting its business affairs and in managing employee
13 costs, such as AIP, STIP, LTIP and related employee payroll tax costs, necessary to provide
14 services to their customers.

15 The incentive compensation program costs of Black Hills are structured to directly
16 and indirectly benefit customers. This is true regardless of how the personal employee
17 performance goals are structured. All employee scorecards focus on the customer – even
18 if some of those goals provide incentive for corporate earnings that also benefit
19 shareholders.

20 Similarly, for the Commission to deny legitimate employee payroll costs
21 because there may be a lack of evidence demonstrating whether shareholders are
22 willing to incur the cost of a legitimate utility employee payroll cost is improper.

1 Black Hills contends that it is reasonable to assume that most BHC shareholders would
2 permit BHC management to pay its employees as agreed to between a BHC subsidiary
3 and the employee.

4 If BHC does not offer a competitive compensation package that includes an
5 incentive, BHC may not only be limited in its ability to hire skilled workers, but it could
6 also risk losing employees or create perpetual turnover, to other companies that do provide
7 incentive pay as part of a total compensation package. Having an unskilled or less-skilled
8 workforce could leave Black Hills and BHSC more vulnerable to operational safety risks,
9 customer service complaints, higher costs due to turnover and the need to constantly
10 recruit.

11 The compensation surveys relied upon by BHC for its various subsidiaries
12 demonstrate that total employee compensation, which includes base pay and incentives,
13 would be significantly less competitive without the incentive plan component. Competitive
14 total compensation is equally important across all employee levels, including executives,
15 where variable and equity awards are a larger component (or percentage) of overall pay.

16 Accordingly, Black Hills seeks an exception to the Commission's application of its
17 Incentive Compensation precedence given the following:

18 Strong financial performance is a direct benefit to customers, shareholders and
19 employees; requires achievement of rate-based revenues while controlling expenses.
20 Variable incentives motivate, recognize and reward and are based on clearly-defined
21 metrics. Black Hills' compensation package is well-crafted and drives individual employee
22 performance, enhancing both the organization's financial strength and operating condition.

1 BHC is constantly evaluating compensation for market competitiveness. If incentive
2 compensation is disallowed, employee compensation would fall below median
3 compensation rates. By permitting recovery of this legitimate employee expense, the
4 overall cost to customers is fair, and the resulting rates are just and reasonable.

5 **V. CONCLUSION AND RECOMMENDATIONS**

6 **Q. WHAT ARE YOUR RECOMMENDATIONS?**

7 A. For the reasons set forth in this testimony, my recommendation is for the Commission to
8 permit recovery of the compensation expenses included in the revenue requirement model
9 submitted with the rate application of Black Hills.

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

11 A. Yes.

**Education, Employment History
and Professional Experience**

Kristi L. Johnson

I graduated from the Southwest Minnesota State University with a degree in Business Administration. Additionally, I received the Professional in Human Resources (PHR) certification in 1998, Senior Professional in Human Resources (SPHR) certification in 2009 and an SCP in 2015. I worked in the human resources field for more than 25 years, taking more progressively responsible roles, and served in a management capacity for more than 10 years.

I began my human resources career with Orion Enterprises in June 1992 as a personnel assistant. I held positions in human resources in areas of training, employee relations, recruitment, generalist and talent acquisition throughout my career. Organizations in which I held positions include Gateway, Avera McKennan, POET, Great Western Bank and Midco.

I began my employment with Black Hills Corporation in March 2016, as the Talent Acquisition Manager in Rapid City, SD. I moved to the Director of Talent Management and HR Regulatory role in 2018 and am currently the Director of Total Rewards. In this role I am responsible for leading and managing the total rewards function and providing direction and leadership for the design, development, administration and management of all benefit and compensation programs. I provide direct oversight for the BHC's compensation, HR regulatory, benefits and retirement services teams. In addition, I support regulatory requirements for BHC through preparation of testimony and data responses for various rate proceedings. I manage a team of nine employees: three within the compensation focus area and six that work with employee benefits.