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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO 891345-EI

REBUTTAL TESTIMONY
OF
R. H. JACKSON

 Gulf Power

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FPSC-RECORDS/REPORTING

1 ensuring that the Company complies with federal
2 and state regulations governing the various
3 Employee Relations functions.
4

5 Q. Please describe your educational and
6 professional background.
7

8 A. I graduated from the University of North Alabama
9 in 1963 with a Bachelor of Science degree in
10 Education. Following graduation from college, I
11 entered the U. S. Army where I served for
12 thirteen (13) years in various combat and
13 administrative positions in the United States and
14 Vietnam, attaining the rank of Major. In 1974, I
15 received a Master of Science degree in Education
16 from the University of Oklahoma. Following my
17 early retirement from the Army in 1976, I
18 attended the University of West Florida where I
19 received a Master of Science Degree in Business
20 Administration in 1979. I became an instructor
21 at the Pensacola Junior College until my
22 employment with Gulf Power Company in 1980 in the
23 Employee Relations Department, where I have held
24
25

1 various positions until I was named Director of
2 Employee Relations in 1985 which was changed to
3 General Manager in 1990.

4

5 Q. What is the purpose of your testimony?

6

7 A. The purpose of my testimony is to present and
8 justify Gulf Power's salary and benefit programs
9 and specifically rebut the testimony of Mr.
10 Schultz and the position taken by him with
11 respect to the Company's Productivity Improvement
12 Program, Performance Pay Plan, Relocation
13 Program, Fitness Program, Supplemental Benefit
14 Program, Development Program, and the Employee
15 Savings Plan.

16

17 Q. On page 45 of his direct testimony, Mr. Schultz
18 has recommended for ratemaking purposes,
19 disallowance of the entire \$464,177 budgeted for
20 the Productivity Improvement Program, further
21 stating that incentive compensation duplicates
22 salaries and wages. Is such an adjustment
23 reasonable and equitable?

24

25 A. No. First of all, Gulf's incentive compensation

1 does not duplicate salaries and wages. The
2 Productivity Improvement Program (PIP) is a part
3 of Gulf's management total compensation package
4 and should be recorded as an allowable O & M
5 expense for ratemaking purposes. Gulf's base
6 salaries are at or lower than the market median.
7 If Gulf's employees were only receiving their
8 present base salaries, they would be compensated
9 for their efforts much lower than the market
10 median for total direct compensation. Paying
11 only base salaries at this level will not
12 attract, motivate or retain the qualified top
13 management employees Gulf needs in order to
14 provide reliable electric service. Without both
15 our incentive programs, PIP and the Performance
16 Pay Plan, our base salaries would have to be
17 increased significantly in order to fairly
18 compensate our employees and to have any hope of
19 being able to compete for talented personnel in
20 the marketplace. Thus, the adjustment proposed
21 by Mr. Schultz is not in the best interest of our
22 customers.

23
24 Throughout American industry, placing part of
25 one's pay at risk has proven to be a substantial

1 management motivator. The Productivity
2 Improvement Program is designed to reward
3 productivity while forcing management to be
4 conscious of the potential long-term economic
5 impact on day-to-day decisions. PIP is a
6 long-term incentive plan, based on a four-year
7 average of Return on Common Equity compared to a
8 peer group of utilities. The median base
9 salaries, together with the PIP incentive
10 opportunity, leave management's total
11 compensation below our pay philosophy as approved
12 by our Board of Directors, which is to compensate
13 our employees at the 75th percentile of utilities.

14
15 By shifting compensation dollars from a
16 fixed-cost to a variable-cost, the design of our
17 pay system places reasonable restraints on base
18 salary dollars while offering potential
19 additional salary dollars that are paid only on
20 an incentive basis for achieving significant
21 functional area and corporate goals. If these
22 goals are not achieved, there is no payment under
23 PIP. Employees do not benefit from this
24 compensation in years in which the goals are not
25 met because it is not a continuing part of their

1 base salary, but is awarded strictly on a
2 year-to-year basis.

3
4 Q. What amount should be allowed as O & M expense for
5 the Productivity Improvement Program?

6
7 A. We agree with Mr. Schultz's recommendation to
8 reduce the allowance by \$358,209 because a major
9 change in the PIP plan design was implemented
10 after the budgeting process was completed.
11 However, the remaining \$105,968 should be allowed
12 as reasonable O & M salary expenses.

13
14 Q. On page 48 of Mr. Schultz's testimony, he
15 recommends that the test year O & M expense
16 amount of \$1,021,637 for the Performance Pay Plan
17 be disallowed. Do you agree with this
18 adjustment?

19
20 A. No. The Performance Pay Plan, like the
21 Productivity Improvement Plan, should be allowed
22 as a legitimate O & M expense along with salaries
23 and wages since it is also part of the employee's
24 total compensation.

25

1 In order to provide safe, reliable and reasonably
2 priced service to our customers, Gulf depends
3 largely on its experienced workforce. Therefore,
4 Gulf is very concerned that its employees are
5 paid in a reasonable manner, relative to the
6 marketplace. There is a definite trend toward
7 the adoption of annual award systems. Five years
8 ago, only 37 percent of the 71 utilities surveyed
9 had an annual award plan. As of May, 1989, 68
10 percent of these companies have implemented an
11 annual award plan. Base salaries at the median
12 of the market will allow Gulf to hire and retain
13 the majority of its employees. However, in order
14 to attract and retain highly productive employees
15 with unique and specialized skills, Gulf must
16 provide a pay delivery system for rewarding these
17 top performers in a demonstrable, significant and
18 equitable manner. The Company must channel the
19 efforts of employees through organization and
20 corporate goals which are aligned with individual
21 goals. Compensation is then tied to the
22 achievement of these goals, which creates a
23 sensitivity to goal accomplishment not found in
24 base salary-only type programs. Any goal
25 achievement that produces a cost savings or

1 productivity improvement will positively impact
2 the customer, as well as the continued overall
3 effort to attract and retain a highly motivated,
4 well-qualified workforce.

5
6 Q. On page 54 of Mr. Schultz's testimony, he
7 contends that the 22% of the relocation budget,
8 is for the cost of a realtor to sell the employee
9 home under the relocation program. Does the 22%
10 represent only a commission for selling the
11 house?

12
13 A. No. This cost (22%) is made up of all items that
14 are part of a relocation company placing an
15 employee's house in its inventory. Some of these
16 items include: Appraisals, inspections,
17 insurance, utilities, maintenance, interest on
18 equity, title insurance expense, closing costs,
19 mortgage charges, carrying cost, brokers expense
20 and commission. The relocation of our employees
21 is necessary in order to place the most qualified
22 employee in vacant positions, usually at the
23 supervisor level and above, which are created due
24 to retirements, promotions, job rotations, etc.

25

1 If the Company did not pay for the employee's
2 relocation expenses, a selected employee would be
3 hurt financially by accepting a position
4 involving a transfer. Due to the costs involved
5 with relocations, employees usually would not
6 move unless the expenses were paid by the Company
7 and, consequently, the best employee might not be
8 placed in a vacant position. Also, the
9 relocations are at the request of the Company and
10 in the Company's best interest; therefore, the
11 Company and not the employee should bear the cost
12 of the move.

13
14 Q. Mr. Schultz contends on page 58 and 59 that
15 Gulf's Fitness Program is just for "high level
16 employees". Is this program for the executives
17 only?

18
19 A. No. The fitness program covers approximately 167
20 employees from supervisors through executives.

21
22 Q. Is this program beneficial?

23
24 A. Yes. This program was designed to include
25 employees in whom the Company has invested

1 substantial time and money. This investment is
2 in training, experience, education, and these
3 employees are considered a company asset. The
4 program's preventive measures have proven most
5 effective in helping the employees maintain good
6 health and productive careers. This program has
7 proven instrumental in lowering days off due to
8 illness for these employees from 1983 to 1989,
9 producing an average of 2.69 days per year less
10 in time off for illness for participating
11 employees compared to the remainder of the
12 company for the same time period. Long term
13 benefits associated with the emphasis on wellness
14 are expected to continue due to this program.

15 Q. Mr. Schultz has recommended elimination of the
16 Supplemental Benefits budget. Is this
17 reasonable?
18

19 A. No. Mr. Schultz contends that the ratepayers do
20 not receive any benefit from this company
21 program. He is wrong. Our customers do benefit
22 from the talented personnel we are able to
23 attract and retain as top level managers at our
24 Company. The Supplemental Benefit plan is also
25 part of the Company's total compensation

1 package. Without the Supplement Benefit Plan
2 certain employees would be denied their pro rata
3 share of certain benefits which are based on the
4 amount of their direct compensation. The limit
5 set up by the IRS for fringe benefits would have
6 to be made up in additional direct compensation
7 were it not for the Supplemental Benefit Plan.
8 This type plan is not unique and is a common
9 benefit offered by most utilities. For example,
10 in a survey on Executive Compensation for 1989,
11 conducted by Edison Electric Institute, 75% of
12 the 106 companies surveyed had a comparable
13 Supplemental Benefit Plan. For the 1990 survey,
14 82% of the 103 companies surveyed had a
15 comparable supplemental plan. Clearly, the trend
16 towards this type of plan is prevalent and is
17 increasing each year. In order to effectively
18 compete for and retain top quality management
19 personnel, Gulf must meet the competition in the
20 market place by providing the Supplemental
21 Benefit Plan.

22
23 Q. Although he does not propose an adjustment to
24 the expenses related to the Employee Savings
25

1 Plan, Mr. Schultz does recommend consideration
2 of a cap on these costs. Is such a cap
3 advisable?

4
5 A. No, because it would fly in the face of the
6 program. The Employee Savings Plan was
7 implemented to encourage employee ownership in
8 the company and to supplement retirement income.
9 As with all of our benefits, the Employee
10 Savings Plan is part of the total compensation
11 package offered by Gulf in order to attract and
12 retain talented personnel. The 1988 EEI benefits
13 survey indicated that 92% of the 120 companies
14 surveyed had comparable savings plans. In 1989,
15 94% of the 130 companies surveyed had comparable
16 plans. This plan helps Gulf Power to recruit and
17 retain employees in a time when only minor
18 improvements have been made to our pension plan.

19
20 Q. On page 55, Mr. Schultz recommended the removal
21 of \$72,250 in development or training cost.
22 Should this cost be removed from the rate case?

23
24 A. No. These courses are a part of our on going
25 training for employees at this level.

1 Due to the many changes that are occurring in the
2 business community, it is important that
3 employees who are making crucial long-term
4 decisions be kept up-to-date on issues affecting
5 the business world. Without continued training
6 and developmental courses, Gulf's employees will
7 be making decisions for the 1990's based on
8 obsolete information of the 1980's. These costs
9 of continuing education are very small in
10 relation to the total investment and budget for
11 expenses that are managed by our employees.

12
13 Q. Do you have a summary of your testimony?

14
15 A. Yes. The compensation program, Supplemental
16 Benefit Plan, Relocation Plan, and Employee
17 Savings Plan are all part of the total package
18 that enables Gulf to be competitive in the market
19 place for talented personnel. Without all
20 component parts of the Company's compensation and
21 benefit package, Gulf will face great difficulty
22 attracting and retaining talented employees and
23 moving them to fill jobs where they are needed
24 best. It is also critical that we are able to
25 train and educate our employees on the many

1 changes occurring in the business world. All of
2 these considerations have at their foundation,
3 the best interests of Gulf's customers. It is
4 only by attracting and retaining talented
5 personnel, placing them in positions for which
6 they are best suited, and keeping them up to date
7 on the latest information in their field, that
8 Gulf will be able to continue to meet its
9 statutory obligation to serve our customers.

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11 Q. Does this conclude your testimony?

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13 A. Yes.

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AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)

Docket No. 891345-E1

Before me the undersigned authority, personally appeared
Robert H. Jackson, who being first duly sworn,
deposes and says that he/she is the General Manager of
Employee Relations of Gulf Power Company and that the
foregoing is true and correct to the best of his/her knowledge,
information and belief.

Robert H. Jackson

Sworn to and subscribed before me this 11th day of
May, 1990.

Candace Klingesmith
Notary Public, State of Florida at Large

My Commission Expires: MY COMMISSION EXPIRES MAY 18, 1991