



(850) 521-1706
bkeating@gunster.com

October 23, 2017

BY E-PORTAL

Ms. Carlotta Stauffer
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: DOCKET NO. 20170179-GU - Petition for rate increase and approval of depreciation study by Florida City Gas.

Dear Ms. Stauffer:

Attached, for electronic filing, please find the testimony of Florida City Gas's witness James Garvie. (Document 13 of 14)

Sincerely,

A handwritten signature in blue ink, appearing to read 'Beth Keating', written over a horizontal line.

Beth Keating
Gunster, Yoakley & Stewart, P.A.
215 South Monroe St., Suite 601
Tallahassee, FL 32301
(850) 521-1706

MEK

ATTACHMENTS

cc:// PSC (20 Hard copies)

Office of Public Counsel (Kelly)

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Before the Florida Public Service Commission

Docket No. 20170179-GU: Petition for rate increase by Florida City Gas.

Prepared Direct Testimony of James M. Garvie

Date of Filing: October 23, 2017

Q. Please state your name and business address.

A. My name is James Garvie. My business address is 30 Ivan Allen Jr. Boulevard, Atlanta, Georgia 30308.

Q. By whom are you employed?

A. I am employed by Southern Company Services (“SCS”) as Vice President Total Rewards & Corporate Human Resources.

Q. What are your responsibilities as Vice President Total Rewards & Corporate Human Resources for SCS?

A. I am responsible for leading the compensation, benefits, retirement, human resources operations, and corporate human resources delivery functions for Southern Company and its affiliates, including Southern Company Gas and Florida City Gas (“FCG” or the “Company”). I have held these responsibilities since I joined SCS in 2011 as Compensation and Benefits Director. Along with increasing responsibilities, my job title changed in August 2017 to Vice President Total Rewards & Corporate Human Resources.

Q. Please describe your prior work experience and responsibilities.

1 A. Prior to joining SCS, I was a Director with The Alexander Group, a
2 management consulting firm, where I advised management of Fortune
3 500 companies on a wide range of human resource issues. Before my
4 position with The Alexander Group, I worked at Blue Linx, a large building
5 products distribution company, in a leadership position managing all
6 aspects of sales, human resources, payroll and human resources
7 information systems. Prior to that employment, I worked at Georgia-Pacific
8 in increasing roles of responsibility in employee compensation and the
9 accounting/finance area.

10

11 Q. What is your educational background?

12 A. I have a Masters of Business Administration degree from Kellogg School
13 of Management at Northwestern University in Evanston, Illinois, and a
14 Bachelor of Finance degree from the University of Incarnate Word in San
15 Antonio, Texas. I am also a Certified Compensation Professional (“CCP”).

16

17 Q. Please describe your credentials as a compensation professional.

18 A. I have deep expertise and knowledge of compensation strategy, design
19 and competitiveness gained through:

- 20 • Approximately nineteen years of direct and related compensation
21 experience,
- 22 • Eight years in consulting across many industries, and
- 23 • Completion of a series of nine examinations to earn designation as a
24 CCP.

25

1 Q. What is the purpose of your testimony?

2 A. The Company's compensation and benefits programs for employees are
3 designed as a "total package" and set at the median of the market to
4 support our customers' need for safe and reliable service. The purpose of
5 my testimony is to outline FCG's customer-based fundamental beliefs on
6 compensation and benefits, describe the design and competitiveness of
7 FCG's total compensation and benefits programs, justify FCG's expense
8 budget for employee compensation and benefits, and demonstrate that
9 the level of compensation and benefit costs requested in this case is
10 reasonable, prudent, and necessary to enable FCG to continue to provide
11 safe and reliable service to our customers. The methodology described in
12 my testimony is consistent among all regulated subsidiaries of The
13 Southern Company and aligns with previous Florida Public Service
14 Commission decisions to allow recovery for reasonable and prudent costs
15 related to business operations.

16

17

I. FCG'S APPROACH TO

18

COMPENSATION AND BENEFITS

19 Q. What are FCG's fundamental beliefs regarding compensation and
20 benefits?

21 A. The Company fundamentally believes that the design of compensation
22 and benefit programs should support our customers' need for safe and
23 reliable service. FCG takes a holistic approach to designing and valuing its
24 compensation and benefit programs as a total package.

25

1 The Company has four fundamental beliefs which serve as the foundation
2 for the design and evaluation of our total rewards package. First, long-
3 term customer value is created through attracting, respecting, rewarding
4 and retaining the most talented energy professionals. Superior
5 organizational performance is gained through attracting talent for the long
6 term and placing value on the knowledge, skills, and experience gained
7 through longevity. Second, the health and total well-being of the workforce
8 improves productivity. A strong focus on total well-being benefits our
9 workforce and sustains employee commitment and top performance,
10 which positively affects productivity and customer satisfaction. Third,
11 linking pay to performance efficiently and economically aligns employee
12 and customer interests. Placing a portion of employee compensation at-
13 risk increases individual accountability and drives our employees to
14 achieve higher levels of performance, customer satisfaction, and
15 productivity. Fourth, compensation and benefits program competitiveness
16 is critical. We must continuously evaluate our programs to ensure a
17 balance between competitiveness and our ability to attract, engage, retain,
18 and motivate employees. We also ensure that the programs are effective
19 and financially sustainable for the long term.

20

21 Q. Please describe the benefits of evaluating FCG's compensation and
22 benefits as a total package.

23 A. Evaluating compensation and benefits as a total package has two primary
24 benefits. The first is cost efficiency. Evaluating compensation and benefits
25 as a whole allows FCG to maximize the efficient use of resources

1 essential to serving the customer and align resources with the most
2 important elements of employee attraction and retention. The second is
3 retention and attraction of employees. Evaluating compensation and
4 benefits holistically allows for the alignment of programs with FCG's need
5 to attract, engage, retain, and motivate its highly-skilled workforce.

6

7 Q. What are the components of FCG's total package of compensation and
8 benefits?

9 A. The compensation portion of FCG's total package consists of base pay
10 and at-risk pay. The benefits portion consists of health benefits, retirement
11 benefits, and other benefits such as life and disability insurance. FCG's
12 total package of compensation and benefits is aligned with its fundamental
13 beliefs.

14

15 Q. How does FCG measure the competitiveness of its compensation and
16 benefits programs against the external market?

17 A. FCG's total compensation and benefits program is managed to the
18 median of the external market. Median of the market represents the
19 middle of the market where half of the market is higher and half is lower.
20 By managing to the median, we provide competitive compensation and
21 benefits that will allow us to attract, engage, retain, and motivate qualified
22 employees while also managing costs. The Southern Company
23 ("Southern") utilizes recognized compensation and benefit market data
24 and consultants, such as Willis Towers Watson and Aon Hewitt, to

1 benchmark our compensation and benefit programs against the external
2 market.

3

4 Q. Since Southern acquisition, have there been any changes to the total
5 rewards package at FCG?

6 A. Yes. Southern is proud to have FCG as an affiliate company and a part of
7 the team. We believe, just as we have an obligation to serve our
8 customers, we have an obligation to provide our employees with
9 reasonable, market-competitive compensation and benefits. Southern
10 intentionally provides the same value proposition of compensation and
11 benefits to all employees. We provide market competitive compensation
12 and benefits in a cost-efficient way and we have managed to increase the
13 level of benefits at FCG by the scale and size of the organization. In doing
14 so, we offer employees a reasonable total rewards package, along with
15 the opportunity to develop and grow across the system, while remaining
16 cost neutral to FCG.

17

18 **II. TOTAL COMPENSATION**

19 Q. What is FCG's approach for designing employee compensation?

20 A. Our employee compensation is designed to provide total compensation
21 that will allow us to attract, engage, retain, motivate, and competitively
22 compensate employees based on individual and Company performance.
23 The total compensation an employee receives is provided in the form of
24 base pay and at-risk pay. The at-risk pay portion may be paid based on
25 the achievement of goals that benefit our customers. Providing total

1 compensation in this form, with a portion tied to performance, has allowed
2 the Company to develop a culture of individual, team, and customer
3 accountability.

4 Q. Please describe how FCG's total compensation of base pay and at-risk
5 pay is determined.

6 A. Annually, we go through a thorough and rigorous review to ensure that the
7 design and competitiveness of our total compensation is at the median of
8 the market and is aligned with our fundamental beliefs. The review has the
9 following steps:

10 1. Determine the market median total target compensation for each
11 position through the use of multiple compensation surveys
12 published by recognized third-party sources. Total target
13 compensation is comparable to what companies with whom we
14 compete for talent offer their employees performing similar jobs
15 with similar responsibilities and skill sets.

16 2. Subtract a portion, based on market trends, of each individual's
17 total compensation, and allocate the portion to at-risk pay that is
18 based on goals that benefit our customers and directly aligns
19 individual compensation with customers' interests. For positions
20 with a greater influence over Company performance have a greater
21 portion of total compensation that is allocated to at-risk pay.

22 3. Review the allocation of total compensation between base pay and
23 at-risk pay to ensure it aligns with our fundamental beliefs.

24 Q. Why has FCG chosen to provide total compensation in the form of base
25 pay and at-risk pay?

1 A. FCG has chosen to provide total compensation in the form of base pay
2 and at-risk pay to emphasize performance and to align the interests of our
3 employees with the interests of our customers. Providing total
4 compensation in the form of base pay only with no at-risk pay would not
5 be in the best interest of our customers. Base pay-only compensation
6 would result in higher fixed costs for our customers and would eliminate a
7 powerful tool that drives employees to put the customer at the center of all
8 we do while sustaining the financial integrity of the Company.

9

10 Q. Is the use of base pay and at-risk pay to form an employee's total
11 compensation unique to FCG?

12 A. Not at all. Providing total compensation in this manner is consistent with
13 how utilities and general industry compensate their employees. We have
14 found that having total compensation provided in this manner has allowed
15 FCG to develop a culture where our employees are consistently engaged
16 with their work, focused on the customer, focused on the success of the
17 Company, and driven to deliver the highest levels of customer service.

18

19 Q. Do all employees have compensation that is provided in the form of at-risk
20 pay?

21 A. Yes. All employees have some portion of their total compensation that is
22 at-risk and tied to the achievement of annual goals. Depending on the
23 achievement level of the annual goals, the at-risk portion of their pay may
24 be paid after the end of the year. It is not guaranteed to be paid each year.
25 Employees with a greater influence over the long-term success of the

1 Company have a larger portion of their total compensation at-risk, some of
2 which is tied to the achievement of long-term goals. Depending on the
3 achievement level of the long-term goals, the at-risk portion of their pay
4 may be paid after the end of three years. It also is not guaranteed to be
5 paid each year. Lower goal achievement results in lower at-risk pay, and
6 higher goal achievement results in higher at-risk pay. An employee's total
7 compensation, which includes base pay and at-risk pay, will vary from
8 year to year based on employee and Company performance.

9

10 Q. What are the annual goals for the at-risk portion of total compensation?

11 A. The Company's at-risk pay goals are all performance-based and designed
12 to align the employees' interest with the customers' interest. The annual
13 goals include three categories that all serve to enhance FCG's service to
14 customers – Southern Company Gas's operational performance, Southern
15 Company Gas's net income performance, and Southern's earnings per
16 share performance. Each of the at-risk pay goals is designed to focus
17 employees on providing safe and reliable service to our customers. The
18 goals and the achievement of the goals at the Southern Company and
19 Southern Company Gas level represent an immense benefit of FCG's
20 connection to the broader company. The benefit for FCG is that we can
21 provide a broader, more robust platform for long-term success. In addition,
22 FCG is better positioned to serve our customers because we have
23 increased access to capital, which helps keep costs lower, shared
24 resources, which help with prudent operations, and other similar benefits.

25

1 Southern Company Gas's operational goals focus employees on
2 continually improving the Company's operational performance for our
3 customers. The goals focus employees' attention on safety, customer
4 satisfaction, miles of main, leak response, and company culture. Safety is
5 measured to ensure the protection of employees, customers and
6 communities. Customer satisfaction is important to ensure that our
7 customers are satisfied with the level of service we provide and that our
8 employees are continually striving to improve the customer experience.
9 Miles of main are assessed to ensure that we are improving and
10 increasing our assets to safely and reliably meet customer demand, and
11 leak response times are measured to ensure safe, reliable service, and
12 timely responses to serve our customers. Culture is measured to ensure
13 that we are diversifying our workforce to reflect our customer base and
14 developing our employees so that they may reach their full potential in an
15 atmosphere of customer service and safety.

16
17 Southern Company Gas's net income goal focuses employees on being
18 efficient with Company resources and continually looking for ways to
19 improve the Company's overall business. Employees working to keep
20 expenses down, whether through efficient purchasing practices, budget
21 management, or effective use of personnel resources, reduces costs that
22 are recovered through rates to FCG's customers. Employees working on
23 economic development efforts in the community benefit customers
24 through economic growth, community stability, and improving FCG's
25 financial performance.

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The earnings per share goal focuses employees on running the Company efficiently, not only as a stand-alone utility, but also as part of Southern. This goal is a testament to the advantage of FCG being a part of Southern. In their normal course of business, FCG employees have access to specialized expertise and bulk purchasing leverages due to FCG's relationship with Southern. If FCG had to purchase or hire this expertise as a stand-alone utility, these costs would likely be greater. FCG employees' ready access to this expertise and purchasing leverage helps better provide safe and reliable service to our customers.

- Q. Please describe the long-term goals for FCG's at-risk compensation program.
- A. The long-term goals are designed to encourage managers with a greater influence over the long-term success of the Company to take a whole-company approach to their area of responsibility. These goals focus employees on planning and managing Company resources efficiently in the short and long term by analyzing total shareholder return, earnings per share, and return on equity for Southern Company, among other things. It is in our customers' best interest to drive our employees to achieve long-term goals. Well-executed, long-term planning, budgeting, and implementation benefit our customers through better reliability, efficiency, and value, both now and in the future.

1 Q. How do at-risk pay goals that include both operational and financial goals
2 benefit customers?

3 A. A well-designed total compensation program using sound compensation
4 practice and principles provides a balance between operational focus and
5 financial focus for both the short term and longer term to drive employee
6 behavior in ways that balance the interests of customers and shareholders
7 alike. A compensation plan that contains only operational goals might
8 inappropriately drive employees to use more financial resources than
9 necessary to achieve operational success, while a plan that contains only
10 financial goals might inappropriately drive employees to make decisions
11 that adversely impact operational success. As noted earlier in my
12 testimony, operational goals focus employees on continually improving the
13 Company's operational performance for our customers. Financial goals
14 similarly benefit customers by focusing employees on improving the
15 Company's financial health. Goals based on financial performance are
16 essential to ensure cost-effective operational performance and are
17 appropriate to recognize the importance of meeting our investors'
18 expectations to sustain high-quality service for our customers into the
19 future. Financial goals help ensure that decisions made by employees are
20 optimized not just for short-term benefits, but to sustain the Company in
21 the long run. This is particularly true in the utility industry, where decisions
22 related to infrastructure and major projects have long-lasting financial
23 consequences to all stakeholders, especially customers. The design of the
24 Company's at-risk portion of total compensation to include both
25 operational and financial goals that are measured annually and in the

1 longer term, provides an appropriate balance where employees are driven
2 to deliver safe and reliable service to our customers in a manner that is
3 economically efficient both now and in the years to follow.

4

5 Q. Has FCG's total compensation program been effective in attracting,
6 engaging, retaining, and motivating the workforce?

7 A. Yes. The design of our total compensation program provided in the form of
8 base pay and at-risk pay has been effective in allowing us to attract,
9 engage, retain, and motivate our highly qualified workforce. It has enabled
10 us to develop a culture where the customer is at the center of everything
11 our employees do. Our employees are held accountable and know that
12 the total compensation they receive depends on their performance in
13 achieving goals that are focused on our customers. If the goals are
14 achieved, then they will be compensated appropriately. If the goals are not
15 met, their total compensation will be less, which is also appropriate.

16

17 Q. Is there a company commitment to employing a diverse workforce?

18 A. FCG is committed to a diverse and inclusive workforce. We believe that
19 we better serve our customers when we demonstrate our focus on
20 diversity. Embracing a diverse workforce allows FCG to make our
21 communities better off because we are there. And, fostering inclusiveness,
22 both in our demographics and our ways of thinking, helps all employees to
23 feel valued and respected for their contributions to the business. One of
24 the core values of Southern expresses our commitment to the success of

1 our employees, our customers, our shareholders and our communities
2 because we fully embrace and respect our differences and diversity.

3

4 Q. What are some of the workforce challenges that FCG faces?

5 A. An ongoing challenge for FCG and the utility industry overall is an aging
6 workforce. The average age of our employee at FCG is 45 years old, with
7 13 years of service. Twenty percent of our employees are eligible to retire
8 today. Our workforce has maintained and operated our business at high
9 levels and has continually and actively worked to maintain a high level of
10 customer satisfaction. These are also the highly skilled and trained
11 employees who help train and transfer their knowledge to our less
12 experienced employees to ensure continued reliable service to our
13 customers into the future. With such a large portion of our workforce
14 eligible to retire now, our total rewards package is crucial for FCG to retain
15 its current qualified employees. The total rewards package is also critical
16 for FCG to be competitive in the job market. In order to recruit and hire for
17 FCG, we must maintain our competitive total rewards package to attract
18 new employees.

19

20 To meet these challenges, it is essential that adequate funds be available
21 to support our total rewards package so that we can continue to attract,
22 engage, retain, and motivate employees who continue to provide high
23 levels of customer service and satisfaction today and into the future.

24

25 Q. What is FCG's total projected compensation expense for 2018?

1 A. As shown on MFR G-2, FCG's 2018 projected total compensation
2 expense is \$14,329,625.

3

4 Q. How does FCG's total compensation of base pay and at-risk pay compare
5 to the external market?

6 A. FCG annually reviews its total compensation of base pay and at-risk pay
7 to ensure that it is appropriately aligned with the external market. We use
8 compensation data from multiple external survey sources to benchmark
9 our total compensation to the external market. These surveys are
10 conducted by recognized third-party consulting firms, such as Willis
11 Towers Watson and Mercer, who collect compensation data from survey
12 participants, aggregate the data and provide participants with summary
13 comparative data. By maintaining total compensation relative to the
14 median of the external market, FCG helps ensure that it remains
15 competitive while keeping compensation expense at reasonable levels.

16

17 Q. Are FCG's projected compensation of \$14,329,625 for 2018 and projected
18 compensation charge reasonable and prudent?

19 A. Yes. The compensation portion of FCG's total rewards package is
20 reasonable and prudent. These expenses and expenditures are necessary
21 to continue our efforts to attract, engage, retain and motivate a highly-
22 trained and skilled workforce with a focus on our customers.

23

24

IV. TOTAL BENEFITS

1 Q. Turning to the benefits portion of FCG's total rewards package, what is
2 FCG's approach for designing its employee benefits program?

3 A. The benefits program is an integral portion of our total rewards package.
4 Similar to our compensation program, FCG's benefits program is designed
5 to align with our fundamental beliefs, specifically our beliefs that long-term
6 value to the customer is created through retaining employees, that the
7 health and total well-being of the workforce makes a difference to
8 productivity and customer satisfaction, and that maintaining program
9 competitiveness is critical to attract, engage, retain, and motivate our
10 workforce. Like our compensation program, we annually go through a
11 rigorous review of our benefits program to ensure that we are offering a
12 competitive, but cost-efficient, benefit program to help us attract and retain
13 our highly-skilled workforce. Our benefits program, including retirement
14 and welfare plans, is designed to be valued at the median of the external
15 market. We have intentionally designed a flexible benefits program that
16 allows employees to choose those benefits that meet their individual
17 needs. This approach provides the advantage of having the cost of many
18 of the programs shared between the Company and our employees.

19

20 Q. What are FCG's projected benefit costs for the test year?

21 A. Total Benefit costs are projected to be \$2,586,409 in 2018. The
22 components are:

23 Health and Welfare benefits \$ 918,999

24 Retirement Benefits

25 Pension Plan \$ 468,183

1	Post-employment benefits	\$ 46,976	
2	Employee Savings Plan	\$ 518,341	
3	Total Retirement Benefits		\$ 1,033,500
4	Benefits Required by Law		\$ 572,493
5	Other Benefits		\$ 61,417

6 Benefits required by law include social security tax, federal and state
7 unemployment taxes, and worker's compensation.

8

9 Q. Are FCG's 2018 total benefits costs of \$2,586,409 reasonable and
10 prudent?

11 A. Yes. The benefits costs of FCG's benefits package are reasonable and
12 prudent, and necessary to continue our efforts to attract, engage, retain,
13 and motivate qualified employees with a focus on customer
14 service.

15

V. PENSION

16 Q. Does FCG provide a pension plan benefit for employees?

17 A. Yes. Providing the pension benefits to our employees enables our total
18 benefits program to be competitive with other utilities. As such, effective
19 January 1, 2018, all FCG employees will be eligible for the pension
20 program. FCG employees hired after January 1, 2018, will accrue pension
21 benefit under a cash balance formula.

22

23 As discussed previously in my testimony, our benefit program is at the
24 median of the market, and the pension program is a key component in the
25 total benefits program. The pension plan is needed to retain our highly-

1 skilled workforce and the investment we have made in training our
2 employees. The pension plan is an economically-efficient way to provide a
3 retirement benefit which allows us to attract and retain the talent needed
4 to provide the reliable and efficient service our customers expect and
5 deserve.

6

7

VI. SUMMARY

8 Q. Please summarize your testimony.

9 A. FCG's total rewards package benefits our customers by allowing us to
10 attract, engage, retain and motivate a highly-trained, skilled, and
11 customer-focused workforce that delivers safe and reliable service. The
12 design of our total rewards programs, including both short-term and long-
13 term at-risk pay, is aligned with the median of the market. The costs of our
14 compensation and benefit programs are both reasonable and prudent
15 based on market comparisons and should be included in the rates paid by
16 customers.

17

18 Q. Is FCG's total rewards package approach consistent with previous
19 practices and methodologies before the Florida Public Service
20 Commission?

21 A. Yes. FCG's total rewards package approach is consistent with practices
22 and methodologies of other companies. Cost recovery for the market
23 median total compensation and benefits package has been allowed by the
24 Florida Public Service Commission.

25

- 1 Q. Does this conclude your testimony?
- 2 A. Yes.